North Bay (Espanola) Acquisition Inc.
MAAD's Application (EB-2019-0015)
Donald D. Rennick Interrogatories
April 11, 2019

Page 16 – 4 through Page 17 – 8 – DDR – 1

The indication in this section of the application is that it will be *"demonstrated in this Application, the proposed transaction passes the "no-harm" test* and is followed by a conclusion that the *"Applicant submits that the proposed transaction meets the Board's "No Harm" test."* The statements contained in this section do not appear to address the "no harm" test from the point of view of the customers of NBHDL.

As indicated below at Page 25 – 13 – DDR – 5 which demonstrates that no OM&A benefits will accrue to NBHDL customers and at Page 28 – 16 – DDR – 9 which indicates that NBHDL customers will be paying for the need for infrastructure upgrades at EHRDC over the next 10 years and Page 37 – 6 – DDR – 17 which demonstrates the funds required from NBHDL customers to service the $8 million debt there is real evidence and concern for harm to NBHDL customers. Based on these facts, please indicate how the transaction proposed in this application has passed the OEB "no-harm" test.

"The proposed transaction is forecasted to positively impact the customers of NBHDL and ERHDC with respect to price, adequacy, reliability, and quality of electricity service due to the efficiencies expected to be generated from the transaction;" . Please provide specific details of the suggested positive impacts on NBHDL consumers regarding price and quality of electricity service that this amalgamation will produce.

"The transaction will also result in the sharing of engineering and operational expertise between ERHDC and NBHDL, which will lead to higher quality operations and maintenance plans that will benefit customers of both NBHDL and ERHDC;". Please indicate the engineering and operational expertise that is lacking or not available to NBHDL that will be supplied by ERDHC as a result of this amalgamation.

Page 23 – 17 – DDR – 2

Please detail the amount of time given to board members to examine the Securities Purchase Agreement before voting on Resolution No. 2018 - 12?

Did the board members of NBHHL base their approval of the transaction on the "no harm" test? If not, what was the approval based on?

Page 24 - 12 - DDR – 3

Please provide details of the assumptions made and amounts used in arriving at the expense reductions ranging from $572,000 to $686,000 per year.

Page 24 - 16 - DDR – 4

"*Following the completion of the Phase 1 Transaction, there will be no impact with respect to price or underlying costs due to the continuation of the PUC Services Agreement.*"

Currently, the citizens of Espanola and Sables-Spanish Rivers own ERHDC. Following Phase 1, being the sale to NBEAI, the delivery charges paid by them will be used make payments on the $8 million loan on the books of NBEAI. These payments will commence immediately after amalgamation. While technically the principal payments are not "costs", interest payments are a cost and the total loan payments are a cash drain on customers and on ERHDC.

Based on these facts, please explain the statement that "there will be no impact with respect to prices and underlying costs."

Page 25 – 13 – DDR – 5

Table 7-1 forecasts the savings that will result following Phase 2 of the transaction. Schedule A, shown below, using current customer counts, calculates the year by year OM&A costs per customer for both ERH and NBH. Examination of the figures reveals that the 2026 cost per customer experienced by NBH without amalgamation would be $358 per customer. Following amalgamation, the 2026 cost per customer experienced by NBH would be virtually unchanged at $357.

Synergy is an interaction that produces a combined effect that is greater than the sum of individual efforts. The figures in Schedule A illustrate that NBH customers will receive no benefits that they could not realize on their own and that any benefits from amalgamation will accrue to current ERH customers.

Schedule A

Table 7 - 1 (Page 25 of Application)

Espanola Amalagmation - Projected OM&A costs 2019 - 2026 (Millions)

	2019	2020	2021	2022	2023	2024	2025	2026
ERH	$1,556	$1,594	$1,633	$1,673	$1,714	$1,756	$1,799	$1,843
NBH	$7,234	$7,411	$7,628	$7,818	$8,014	$8,214	$8,417	$8,624
	$8,790	$9,005	$9,261	$9,491	$9,728	$9,970	$10,216	$10,467
Synergies			$76	-$572	-$657	-$667	-$676	-$686
OM&A Forecast	$8,790	$9,005	$9,337	$8,919	$9,071	$9,303	$9,540	$9,781

OM&A per customer before amalgamation

ERH	$473	$485	$497	$509	$521	$534	$547	$561	
NBH	$300	$307	$316	$324	$332	$341	$349	$358	***

	2018 Customers	Customer %	Apportion 2026 Costs	OM&A per Customer after Phase 2	
ERH	3,288	12.00%	$1,174	$357	
NBH	24,117	88.00%	$8,607	$357	***
	27,405	100.00%	$9,781		

***NOTE: OM&A per customer virtually unchanged before and after amalgamation

Page 26 – 21 – DDR – 6

"NBEAI's proposed two-phase transaction is necessary and appropriate"

Please explain how the fact that ERHDC has been less than well-organized in its rate rebasing filings makes this NBEAI purchase "necessary and appropriate" and how failing to complete this purchase would in any way hinder ERDHC from bringing its filings up to date.

Page 27 – 15 – DDR – 7

Please confirm that the statement *"significant OM&A cost savings and efficiency gains can be made through the consolidation of administrative practices and economies of scale."* refers to savings by EDHRC customers only and that EDHRC is bringing nothing to the table regarding savings on behalf of NBHDL customers.

Page 28 – 16 – DDR - 8

"However, the substantial infrastructure requirements of ERHDC over the next 10 years are primarily related to substation rebuilds"

Please explain to current NBHDL customers how asking them to pay for the major portion of needed infrastructure requirements of ERHDC over the next 10 years will not be money out of their pockets and harmful to them.

Page 28 – 25 – DDR – 9

What solace should NBHDL customers take from the statement that *"the proposed transaction is expected to deliver sustainable reductions to the underlying cost structure of ERHDC customers, with those savings ultimately being passed on to the ratepayer eight (8) years following the anticipated completion of the initial purchase by NBEAI"* given the fact that no reductions are forecast for NBHDL customers even after eight years and following that length of time who will remember this promise and if it is not realized what will be the penalty or what is their recourse?

Page 34 – 3 – DDR - 10

"Although the majority of the operational benefit of the acquisition flows to the customers of ERHDC, NBHDL looks forward to the collaboration and distribution operation experience it will gain through the retention of ERHDC staff and the formation of best operational practices through the creation of New NBHDL."

Please detail the facts gathered that support the idea that the new NBHDL will gain operational experience through the retention of ERHDC staff and that this amalgamation would not result in the net loss of experience for the combined operations.

Page 35 – 1 – DDR – 11

"With the proposal of a full cost of service application during Phase 1, 1 NBEAI is addressing the immediate need for ERHDC to realign rates and deal with a declining ROE. It is not financially viable, prudent or sustainable for ERHDC to continue to sit outside of the rate setting environment, operating under what could be considered an indefinite rate freeze. The rate setting process allows an LDC to address its operational and infrastructure needs within the context of just and reasonable rates that take into account the impact on customers. ERHDC does not have the financial ability to continue executing its operational plans without a rate adjustment"

NBHDL is not an investment corporation. NBHDL's mandate is to deliver electricity to its customers in North Bay. This amalgamation is not in sync with that mandate. NBHDL's duties do not include being a benefactor to other MEU's regardless of what they perceive their operational superiorities to be or the shortcomings of others. This is especially true when any and all risks are being borne by NBHDL customers. What was the thought process that initiated this plan and presumed that this would be an idea with any merit? Please explain how allocating NBHDL resources to ERHDC's needs would not be harmful to NBHDL customers.

Page 35 – 12 – DDR – 12

"Incremental one-time transaction and transition costs are expected to be approximately $600k. These costs will not be included in the revenue requirement of NBEAI, NBHDL or New NBHDL and thus will not be funded by ratepayers."

Please confirm that all costs to operate are obtained through the delivery rates paid by customers and any increases represent a cost and harm to ratepayers.

Page 35 – 23 – DDR – 13

"NBHHL and the Applicant retained its own independent legal and financial advisors. Such costs are borne by each of the parties and will not carry into the new entity, or into distribution rates."

Please confirm that all costs to operate are obtained through the delivery rates paid by customers and any increases represent a cost and harm to ratepayers.

Page 36 – 15 – DDR – 14

"The purchase price valuation was based on ERHDC's 2016 rate base of $6,128,438"

The company valuation and base purchase price of $6,128,438 is calculated using a return on equity method. However, the addition of the value of the shareholder notes and other items brings the final investment to $7,989,530 and reduces that return on investment.

Please explain the reasoning and calculations made to arrive at the final purchase price?

Page 37 – 4 – DDR – 15

"Once amalgamated, New NBHDL will have strong liquidity and debt service ratios as well as more optimal debt to equity ratios with financial capacity for necessary borrowing."

Handbook page 8 - Specifically, the OEB will test the financial ratios and borrowing capacity of the resulting entity, as the improvement in financial strength is one of the expected underlying benefits of consolidation.

Please indicate the figures used to calculate the liquidity, debt service and debt to equity ratios for the new NBHDL before and after amalgamation and detail the resulting improvement in financial strength.

Page 37 – 6 – DDR – 16

"Details of the financing of the proposed transaction"

Schedule B, shown below, assumes a loan repayment term of 20 year @ 2.5%. Principal and interest payments over the 20 years would total $10,160,820 including $2,171,290 in interest. Return on equity, using 2019 current rates, over the term of the loan would be $7,375,698. After deducting interest expense, the PIL's payable would amount to $1,118,948 at current rates leaving a cash balance of $4,085,460 to cover the principal and interest payments. This would amount to a shortage of funds amounting to $6,075,360 over 20 years. Based on current customer ratios, NBHDL customers will be providing funds to pay approximately 88% of this shortage. It has already been shown in Schedule A that there is no advantage to NBHDL customers in lower OM&A expenses resulting from the amalgamation.

Based on this fact, please explain how this cash shortage is not harmful to the current customers of NBHDL.

Schedule B

Principal and interest payments on loan				
Purchase Price (TD Loan)		$7,989,530		
Total payments to retire loan in 20 years		$10,160,820		
Interest		$2,171,290		
Retrun On Equity				
OEB - ROE rates for 2019		8.98%		
- LT Rate		4.13%		
- ST Rate		2.82%		
				Annual Return
2016 Rate Base - ERHDC		$6,128,438		
	LT debt - 56%	$3,431,925	4.13%	$141,739
	ST debt - 4%	$245,138	2.82%	$6,913
		$3,677,063		$148,651
	Equity - 40%	$2,451,375	8.98%	$220,133
2016 Rate Base - ERHDC		$6,128,438		$368,785
		20 year Amortization		
	ROE for 20 years	$7,375,698		
	Less: Interest	$2,171,290		
	Taxable Income	$5,204,408		
	PILS - 21.5%	$1,118,948		
Net cash from ROE over 20 years		$4,085,460		
Principal and interest loan payments		$10,160,820		
Add'l cash required over 20 years		$6,075,360		

This transaction will result in an $8 million liability being assumed by North Bay taxpayers who are the owners of NBHDL. At an interest rate of 2.5%, discharging this liability will require payments in excess of $500,000 per year for 20 years. This will, without a doubt, result in an increase in prices since current ERHDC customers and eventually NBHDL customers will be the supplying the funds to make these loan payments. This transaction will also require contributions from NBHDL customers to pay for a major portion of any improvements to the distribution system of Espanola and Spanish Rivers.

Based on these facts, please explain how this transaction passes the OEB's "no harm" test.

Page 37 – 11 – DDR – 17

"Pro forma financial statements"

Please provide a breakdown of the $10,765,944 shown as long term debt on the pro-forma Balance Sheet. Please provide details of the $139,381 as cash provided by financing activities shown on the pro-forma Statement of Cash Flows.

Summary

It is clear that this amalgamation is in line with the OEB's stated policy to reduce the number of LDC's. It will also benefit Espanola and Sables-Spanish Rivers who will have $8 million in their bank accounts as well as being relieved of the responsibility of delivering electricity to citizens.

This is not the case for customers of NBHDL. This transaction is not a natural fit for the two organizations. The physical separation between the two distribution systems is large and NBHDL will be less efficient as a result of this amalgamation. The technology exists which allows electronic communication and instantaneous contact but the lack of physical presence will remove the day to day supervision required to ensure worry free operations. Having the technology to record the results of operations does not guarantee the quality of those operations.

I can think if no other field of human endeavour where the deciding factor for pursuing a course of action is simply because it may not cause any harm. Comparing the positive assumed outcomes with any assumed negative outcomes is ordinarily the method used for deciding on a course of action. NBHDL customers will not fare well since this amalgamation provides no demonstrable benefits to them. This amalgamation is made more risky because shares which include all the history of the organization are being purchased rather than assets.