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Borden Ladner Gervais

April 29, 2019

Delivered by Email, RESS & Courier

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
Suite 2701
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: North Bay (Espanola) Acquisition Inc. ("NBEAI")
Application for approval for North Bay (Espanola) Acquisition Inc. to purchase Espanola Regional Hydro Holdings Corporation and Espanola Regional Hydro Distribution Corporation, amalgamate them, and operate the amalgamated company under the name of Espanola Regional Hydro Distribution Corporation
OEB File Number: EB-2019-0015
NBEAI Interrogatory Responses

In accordance with Procedural Order No. 1, please find attached NBEAI's Interrogatory Responses for the above proceeding.

Yours very truly,

BORDEN LADNER GERVAIS LLP

Per:

Original signed by John A.D. Vellone

John A.D. Vellone
Encl.

cc: Intervenors of Record for EB-2019-0015

North Bay (Espanola) Acquisition Inc.

EB-2019-0015

Responses to Interrogatories

Filed: April 29, 2019

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NORTH BAY (ESPANOLA) ACQUISITION INC.
INTERROGATORY RESPONSES

Ontario Energy Board Staff Interrogatories

Staff - 1

Reference: Application, Cover Letter, Page 3
Application, Pages 8, 16, 25

Preamble:

Page 8 of the Application states "[…] ERHDC is party to a Services Agreement with PUC Services Inc. 1 ("PUC")" and that "the term of the PUC Services Agreement continues until February 28, 2022".

Cover letter page 3 of the Application states "No synergies are possible until the PUC Services Agreement expires".

Page 8 of the Application states "this Application to the OEB is limited to the approvals required to affect the purchase by NBEAI of ERHHC and the subsequent amalgamation of NBEAI, ERHHC and ERHDC (the "Phase 1 Transaction")."

Page 16 of the Application states "Although the consolidation will result in transaction and transition costs, these will be offset by the cost synergies and operational efficiencies that will be realized in the underlying OM&A costs once the Phase 2 Transaction is completed".

Page 25 of the Application states "Following the completion of these two rebasing applications, and once the PUC Services Agreement ends, NBEAI will apply to the Board for approval of the Phase 2 Transaction" and that "the operational synergies associated with this transaction are not forecasted to arise until after approval of the Phase 2 Transaction".

Table 7-1 on page 25 of the Application shows projected synergies between years 1 and years 8 of the proposed transaction. No cost savings are identified for Phase 1 of the proposed transaction, but a cost of $75,000 is identified for year three – 2021. As a result, Phase 1 of the proposed transaction is projected by the Applicant to result in a net cost.

Questions:

(a) Please explain the $75,000 net cost projected for Phase 1.

(b) Why does the $75,000 appear only in the "Synergies" section of Table 7-1 and not also in the "Status Quo" section: is it not common to both scenarios? Please explain.

(c) How much of the $75,000 is related to Phase 1 of the proposed transaction and how much is related to Phase 2?

(d) Please clarify who will pay for the cost and where the money will come from.

  a. For example: is it a cost to be recovered from ratepayers of Espanola and/or North Bay? If the cost will not be recovered from ratepayers, how will it be funded?

(e) Is it necessary to incur the cost in Phase 1? Could the cost be deferred to Phase 2? Please explain.

Response:

(a) Incremental transition costs of approx. $150k are expected as a result of Phase 2 of this transaction and include, but are not limited to information technology, legal and professional advisory services. It is anticipated that 50% of these costs will be incurred in 2021 as the company begins to execute the implementation plan for amalgamation.

(b) These costs are incremental and would not be incurred in the status quo scenario.

(c) Please see response to a) above.

(d) These costs are not, and will not, be recovered from ratepayers through underlying OM&A cost structures; funding is through company residual earnings.

(e) The costs are necessary to incur in the final year of Phase 1 as the company undertakes the work necessary to end the PUC agreement and execute amalgamation in 2022. IT systems work, the transition of customer billing history, parallel billing for testing purposes and administrative work will be done in advance of the transition date to ensure a smooth and efficient transition process for all involved, including customers. As noted above, these costs will not be recovered from ratepayers. They will be funded through company residual earnings.

Staff - 2

Reference: Application, Pages 35-37

Preamble:

Page 35 of the Application states "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."

Questions:

(a) Please explain the nature of the projected $600,000 one-time transaction and transition costs (for example: what are they for?)

(b) Please clarify who will pay the costs and where the money will come from.

(c) Please clarify how much of the costs are related to Phase 1 of the proposed transaction and how much are related to Phase 2. If any of the costs relate to both Phase 1 and Phase 2, please provide an estimated apportionment.

(d) Why are any transaction and/or transition costs necessary during Phase 1?

(e) If any of the costs in Phase 1 are related to Phase 2, please comment on whether it is necessary to incur those costs during Phase 1, given that the Applicant has not yet submitted an application seeking approvals for Phase 2.

(f) Please comment on the linkage, if any, between the $600,000 one-time transaction and transition costs and the "[…] significant increases" in NBEAI's debt to equity ratios and reduction in ratios tied to liquidity anticipated during Phase 1.

(g) Please comment on the linkage, if any, between the $600,000 one-time transaction and transition costs and the $75,000 net cost projected for Phase 1.

Response:

(a) The projected one-time transaction costs are estimated at $450k and include but are not limited to: costs related to the bid process (completed), due diligence on the part of all parties (completed), the costs associated with negotiating the terms of the purchase (completed), costs associated with all regulatory, legal and statutory reviews in order to receive necessary regulatory approvals (in progress) and internal resources (in progress). As explained in Staff – 1 transition costs are anticipated to be approximately $150k and include but are not limited to: information technology, legal and professional advisory services.

(b) These costs are not, and will not, be recovered from ratepayers through underlying OM&A cost structures; funding is through company residual earnings.

(c) Phase 1 costs include $450k in transaction costs and $75k in transition costs. Phase 2 includes $75k in transition costs.

(d) Phase 1 includes the bulk of the costs as these are necessary to facilitate the bid process, the due diligence on the part of all parties, the costs associated with negotiating the terms of the purchase, and the costs associated with all regulatory, legal and statutory reviews in order to receive necessary regulatory approvals.

(e) Please see the response to Staff – 1 e).

(f) There is no linkage. The $600k in costs related to the transaction and transition are being funded out of retained earnings which reduces overall equity. The primary driver of changes to NBEAI's debt to equity and liquidity ratios is the transitional acquisition financing structure. It is important to recognize that NBEAI is a new, special purpose entity created solely to acquire ERHDC. As noted in response to Staff-3 below, if the Board approves the Phase 1 transaction, NBHDL will guarantee the financing for NBEAI.

(g) The $75k costs projected in Phase 1 are a component of the overall $600k costs, not in addition to the $600k costs. Please see also the response to Staff-1 and Staff-2 a) above.

<u>Staff - 3</u>

<u>Reference</u>: Application, Page 37, Section 8.5 “Details of the financing of the proposed transaction”

<u>Preamble:</u>

The Applicant states that “the proposed transaction will be 100% financed by new term debt from Toronto Dominion Bank” and that “NBEAI has negotiated financial terms with its lender that recognize the circumstances of ERHDC and the intention to amalgamate in 2022.”

<u>Questions:</u>

(a) Please confirm that the term debt will be issued to the NBEAI entity.

(b) Please provide more detail on the arrangements of the loan, including but not limited to, the repayment term of the loan, interest rate (fixed/variable), collateralized assets, debt covenants imposed, etc.

(c) Please provide any documented correspondence (memorandum of understanding, letter of intent, etc.) between the Applicants and the lending institution with respect to the new debt that outlines the terms and conditions of the loan.

(d) Please comment on the nature of the debt covenants of the new loan, if any, and the ability of NBEAI or New NBHDL to meet those covenants, and the ramifications of violating these covenants with specific reference to the financial viability of NBEAI or New NBHDL.

(e) Please explain whether the negotiated financial terms of the new loan are contingent on a future approval to amalgamate NBHDL and NBEAI in 2022. If so, please explain what the lending ramifications are if Phase 2 is not approved.

(f) Please confirm that the new term debt and associated repayments are included in the pro forma financials included as Appendix J in this application.

(g) If prior to the amalgamation and establishment of the New NBHDL, NBEAI experiences unforeseen difficulties in repaying the new loan, please comment on the nature of any cross-guarantees or financial support that NBHDL will provide to NBEAI to ensure it remains a going concern.

<u>Response:</u>

(a) Subject to the OEB’s approval of the Phase 1 Transaction, NBEAI confirms that the term debt will be issued to the NBEAI entity and will be guaranteed by NBHDL.

(b) Please see attached Appendix Staff-3 for the letter agreement with TD outlining the key financial terms of the loan, which is being guaranteed by NBHDL.

The commitment letter has two distinct facilities contemplated. The first is an $8 million fixed rate term facility to be used to finance the acquisition of ERHDC.

The second is a $2.2 million fixed rate term facility which could be drawn upon if required to replace the existing ERHDC loan with Infrastructure Ontario. The Applicant does not currently expect to need to utilize this second facility.

It is noteworthy that TD is also the commercial lender for NBHDL's own long-term debt needs. The TD financing terms are, in many ways, an extension of NBHDL's other lending arrangements.

(c) Please see the response to Staff-3(b) above.

(d) The debt related covenants associated with the loan as well as the implications in the event of a default are fully detailed in 'Appendix Staff-3'.

The Applicant has are no concerns with NBEAI as borrower, and NBHDL as guarantor, meeting the debt covenants after approval of the Phase 1 Transaction or of New NBHDL meeting its debt related covenants following the completion of the Phase 2 Transaction.

This is shown in response to Staff-4 below.

(e) As can be seen in 'Appendix Staff-3', the financial terms of the loan are not in any way contingent upon the Board approving Phase 2 of the transaction.

Since NBHDL is providing a guarantee for the loan, in the unlikely event that the Phase 2 Transaction is not approved by the OEB, then NBHDL would work with TD to consolidate the transitional loan with NBHDL's other debt and NBEAI would likely be charged a financing charge in compliance with the Affiliate Relationship Code.

(f) NBEAI confirms that the new term debt and associated repayments are included in the pro forma financials included as Appendix J in the MAADs application.

(g) If the Board approves this Application and prior to the amalgamation and establishment of the New NBHDL, NBEAI experiences unforeseen difficulties in repaying the new loan, NBHDL has provided a guarantee to TD with respect to the new loan and will ensure that NBEAI meets all of its debt obligations.

It is worth noting that the financial support being provided by NBHDL to NBEAI is in strict compliance with the requirements set out in the Affiliate Relationships Code.

Appendix Staff-3 – Letter Agreement with TD

Northern Ontario Commercial Banking Group
240 Main Street East
North Bay, Ontario
P1B 1B1

Telephone No.: (705) 495 2603
Fax No.: (705) 474 6297

April 24, 2019

NORTH BAY (ESPANOLA) ACQUISITION INC.
74 Commerce Court
North Bay, ON
P1B 8Y5

Attention: Mr. Matthew Payne

Dear Matthew,

We are pleased to offer the Borrower the following credit facilities (the "Facilities"), subject to the following terms and conditions.

BORROWER

NORTH BAY (ESPANOLA) ACQUISITION INC. (the "Borrower")

LENDER

The Toronto-Dominion Bank (the "Bank"), through its Northern Ontario Commercial Banking Group in North Bay, Ontario.

CREDIT LIMIT

1) CAD$8,000,000
2) CAD$2,200,000

TYPE OF CREDIT AND BORROWING OPTIONS

1) **Committed Reducing Term Facility (Single Draw)** available at the Borrower's option by way of:
   - Fixed Rate Term Loan in CAD$
   - Floating Rate Term Loan available by way of:
     - Bankers Acceptances in CAD$

2) **Committed Reducing Term Facility (Single Draw)** available at the Borrower's option by way of:

- Fixed Rate Term Loan in CAD$
- Floating Rate Term Loan available by way of:
  - Bankers Acceptances in CAD$

PURPOSE

1) To purchase the shares of Espanola Regional Hydro.
2) For repayment of existing Espanola Regional Hydro OSIFA debt.

TENOR

1, 2) Committed

CONTRACTUAL TERM

1) 60 month(s) from the date of drawdown
2) 60 month(s) from the date of drawdown

RATE TERM (FIXED RATE TERM LOAN)

1, 2) Fixed rate: 6 month, 12-60 months but never to exceed the Contractual Term Maturity Date
Floating rate: No term

AMORTIZATION

1) 360 month(s)
2) 264 month(s)

INTEREST RATES AND FEES

Advances shall bear interest and fees as follows:

1) **Committed Reducing Term Facility:**

- Fixed Rate Term Loans: as determined by the Bank, in its sole discretion, for the Rate Term selected by the Borrower, and as set out in the Rate and Payment Terms Notice applicable to that Fixed Rate Term Loan.
- Floating Rate Term Loans available by way of:
  - B/As: as set out by the Bank, in its sole discretion, for the Rate Term selected by the Borrower, and as set out in the Swap Confirmation applicable to that Loan.

2) **Committed Reducing Term Facility:**

- Fixed Rate Term Loans: as determined by the Bank, in its sole discretion, for the Rate Term selected by the Borrower, and as set out in the Rate and Payment Terms Notice applicable to that Fixed Rate Term Loan.
- Floating Rate Term Loans available by way of:
  - B/As: as set out by the Bank, in its sole discretion, for the Rate Term selected by the Borrower, and as set out in the Swap Confirmation applicable to that Loan.

DRAWDOWN

All) One time drawdown prior to December 31, 2020, after which time, any amount not drawn is cancelled. Amounts repaid may not be redrawn.

REPAYMENT AND REDUCTION OF AMOUNT OF CREDIT FACILITY

All) All amounts outstanding will be repaid on or before the Contractual Term Maturity Date. The drawdown will be repaid in equal monthly payments. The Borrower also has the option to pay interest only for 3 years from the original funding date. The details of repayment and interest rate applicable to such drawdown will be set out in the" Rate and Payment Terms Notice" applicable to that drawdown. Any amounts repaid may not be reborrowed.

Notwithstanding the foregoing, drawdowns by BA or LIBOR Loan will not be repaid in periodic instalments as set out above, but rather will be repaid at the end of the term of the BA or LIBOR Loan by the Borrower making another drawdown up to the amount of the Credit Limit as such Credit Limit is reduced using the amortization period set out herein.

Amortization is inclusive of the interest only period of up to 3 years. The amortization of the facility begins at the date of funding the original advance and includes any interest only period utilized.

PREPAYMENT

All) Fixed Rate Loans: the Borrower can utilize the 10% Prepayment Option and accordingly, Fixed Rate Term Loans under this Facility may be prepaid in accordance with Section 4a) and 4b) of Schedule A.
If an Interest Rate Swap is used prepayment is subject to unwinding costs.

SECURITY

The following security shall be provided, shall, unless otherwise indicated, support all present and future indebtedness and liability of the Borrower and the grantor of the security to the Bank including without limitation indebtedness and liability under guarantees, foreign exchange contracts, cash management products, and derivative contracts, shall be registered in first position, and shall be on the Bank's standard form, supported by resolutions and solicitor's opinion, all acceptable to the Bank.

a) Borrowing Resolutions.
b) General Security Agreement ("GSA") representing a First charge on all the Borrower's present and after acquired personal property.
c) Inter-creditor agreement between OSIFA and the Bank (only required if OSIFA debt is not refinanced).
d) Guarantee of Advances
   - Limited to 100.000% of outstanding debt with the Bank.
   - Executed by NORTH BAY HYDRO DISTRIBUTION LIMITED (the "Guarantor")
e) Assignment of Business Insurance.

All persons and entities required to provide a guarantee shall be referred to in this Agreement individually as a "Surety" and/or "Guarantor" and collectively as the "Guarantors";

All of the above security and guarantees shall be referred to collectively in this Agreement as "Bank Security".

DISBURSEMENT CONDITIONS

The obligation of the Bank to permit any drawdown hereunder is subject to the Standard Disbursement Conditions contained in Schedule "A" and the following additional drawdown conditions:

Delivery to the Bank of the following, all of which must be satisfactory to the Bank:

AII) If the 30 year amortization is chosen for Fac.#1, the LDC is to demonstrate to the Bank prior to drawdown:
   a. Municipal control over of the LDC's Board of Directors
   b. Municipal review of the LDC's financial statements
   c. Municipal review of budgets

AII) Solicitor to confirm borrower is amalgamated with operating LDC entity Espanola Regional Hydro Distribution Corporation.

AII) A borrowing resolution and by-law authorizing the borrowing up to $10,200,000.

AII) Executed ISDA Agreement, supported by a solicitor’s letter of opinion, if borrowing by way of interest rate swap.

AII) A by-law authorizing the Borrower to enter into an interest rate swap transaction and the ISDA Agreement and to incur the indebtedness thereunder, if borrowing by way of interest rate swap.

AII) Finalized copy of the Purchase and Sale Agreement satisfactory to the Bank.

AII) Written confirmation of regulatory approval of the purchase/ownership of Espanola Regional Hydro Distribution Corporation.

AII) Most recent consolidated quarterly financial statements prior to amalgamation for the Borrower with a post closing balance sheet showing financial covenant compliance on a pre and post acquisition basis.

AII) Confirmation from a senior officer of North Bay Hydro Distribution Limited that there has been no material adverse change in the financial condition and/or operations of the Borrower.

AII) All security to be on hand and in good order as confirmed by the Bank and the Bank's solicitor.

REPRESENTATIONS AND WARRANTIES

All representations and warranties shall be deemed to be continually repeated so long as any amounts remain outstanding and unpaid under this Agreement or so long as any commitment under this Agreement remains in effect. The Borrower makes the Standard Representations and Warranties set out in Schedule "A".

POSITIVE COVENANTS

So long as any amounts remain outstanding and unpaid under this Agreement or so long as any commitment under this Agreement remains in effect, the Borrower will and will ensure that its subsidiaries and each of the Guarantors will observe the Standard Positive Covenants set out in Schedule "A" and in addition will:

AII) Provide annual Audited Financial Statements within 120 calendar days of fiscal year end

AII) Provide annual Business Plan within 120 calendar days of fiscal year end, including an Income Statement, Balance Sheet, Statement of Changes in Financial Position and Capital Budget.

AII) Ensure borrower remains in the regulated business of electricity distribution and maintains all requisite licenses to do so.

AII) Maintain compliance with all applicable environmental regulations at all times.

AII) Maintain compliance with all contractual obligations and laws, including payment of taxes.

AII) Maintain compliance with terms of all licenses and immediately advise the Bank if OEB notifies the Borrower of a default under a license, or if a license is amended, cancelled, suspended or revoked (any such circumstances will constitute an event of default).

AII) Maintain compliance with the "Affiliate Relationship Code".

AII) Maintain adequate insurance.

All) Provide copy of all OEB rate submissions.

NEGATIVE COVENANTS

So long as any amounts remain outstanding and unpaid under this Agreement or so long as any commitment under this Agreement remains in effect, the Borrower will and will ensure that its subsidiaries and each of the Guarantors will observe the Standard Negative Covenants set out in Schedule "A". In addition the Borrower will not and will ensure that its subsidiaries and each of the Guarantors will not:

All) Distributions (including dividends, interest and principal reductions on shareholder's promissory note) in excess of Free Cashflow are to be financed by cash on hand. Free Cashflow is defined as EBITDA less Payment in Lieu of Taxes less Unfinanced Capital Expenditures (net of contributed capital) less interest costs (excluding shareholder note interest) and less Principal payments if any.

All) Negative Pledge on assets, subject to existing and permitted Encumbrances.

All) No additional debt, including guarantees, without the Bank's prior written consent.

All) No change in ownership structure to occur without prior notice to the Bank.

All) No change in the status of the Borrower as a Limited Distribution Company.

All) No investments, mergers, and/or amalgamations without the Bank's prior written consent.

PERMITTED LIENS

Permitted Liens as referred to in Schedule "A" are:

Purchase Money Security Interests in equipment which Purchase Money Security Interests exist on the date of this Agreement ("Existing PMSIs") which are known to the Bank and all future Purchase Money Security Interests on equipment acquired to replace the equipment under Existing PMSIs, provided that the cost of such replacement equipment may not exceed the cost of the equipment subject to the Existing PMSI by more than 10%

FINANCIAL COVENANTS

The Borrower agrees at all times to:

All) Maintain a Debt Service Coverage (DSC) of not less than 1.20:1. Tested on an annual basis commencing December 31, 2022. The DSC is calculated as follows:

If Unfinanced CAPEX is less than 40% of Capital Expenditures:

[EBITDA - Payments in Lieu of Taxes - Unfinanced CAPEX (net of contributed surplus and proceeds on sale of property, plant, and equipment)] / (Principal + Interest + Capital Leases)

OR

If 40% of Capital Expenditures is less than Unfinanced CAPEX:

[EBITDA - Payments in Lieu of Taxes - 40% of Capital Expenditures (net of contributed surplus and proceeds on sale of property, plant, and equipment)] / (Principal + Interest + Capital Leases)

EBITDA is defined as Earnings before Interest, Income Taxes, Depreciation, and Amortization.

Interest excludes any interest generated on customer deposits and regulatory liabilities.

Unfinanced CAPEX is defined as total Capital Expenditures less loans drawn to pay for Capital Expenditures.

All) Maximum Debt to Capitalization Ratio of 0:60:1, tested on an annual basis commencing December 31, 2022.
Debt is defined as all interest-bearing debt not subordinated to these credit facilities excluding customer deposits and regulatory liabilities.

Capitalization is defined as total interest bearing debt excluding customer deposits and regulatory liabilities, plus shareholder's equity, plus contributed capital, plus preference share capital, less goodwill and intangible assets.

<u>EVENTS OF DEFAULT</u>

The Bank may accelerate the payment of principal and interest under any committed credit facility hereunder and cancel any undrawn portion of any committed credit facility hereunder, at any time after the occurrence of any one of the Standard Events of Default contained in Schedule "A" attached hereto and after any one of the following additional Events of Default:

a) Any material adverse change in legislation or the regulation of the electrical distribution business.

b) Default of any of the aforementioned terms and conditions.

c) Loss of OEB license.

d) Material judgements, or other executions against the Borrower.

<u>ANCILLARY FACILITIES</u>

As at the date of this Agreement, the following uncommitted ancillary products are made available. These products may be subject to other agreements.

1) Certain treasury products, such as forward foreign exchange transactions, and/or interest rate and currency and/or commodity swaps.

The Borrower agrees that treasury products will be used to hedge its risk and will not be used for speculative purposes.

<u>SCHEDULE "A" - STANDARD TERMS AND CONDITIONS</u>

Schedule "A" sets out the Standard Terms and Conditions ("Standard Terms and Conditions") which apply to these credit facilities. The Standard Terms and Conditions, including the defined terms set out therein, form part of this Agreement, unless this letter states specifically that one or more of the Standard Terms and Conditions do not apply or are modified.

We trust you will find these facilities helpful in meeting your ongoing financing requirements. We ask that if you wish to accept this offer of financing (which includes the Standard Terms and Conditions), please do so by signing and returning the attached duplicate copy of this letter to the undersigned. This offer will expire if not accepted in writing and received by the Bank on or before **<u>May 31, 2019.</u>**

Yours truly,

THE TORONTO-DOMINION BANK

Jonathan Loewen
Account Manager

Andrew Crawford
Manager Commercial Credit

TO THE TORONTO-DOMINION BANK:

NORTH BAY (ESPANOLA) ACQUISITION INC. hereby accepts the foregoing offer this ________day of ___________ , 2019. The Borrower confirms that, except as may be set out above, the credit facility(ies) detailed herein shall not be used by or on behalf of any third party.

____
Signature

____
Print Name & Position

____
Signature

____
Print Name & Position

cc. Guarantor(s)

The Bank is providing the guarantor(s) with a copy of this letter as a courtesy only. The delivery of a copy of this letter does not create any obligation of the Bank to provide the guarantor(s) with notice of any changes to the credit facilities, including without limitation, changes to the terms and conditions, increases or decreases in the amount of the credit facilities, the establishment of new credit facilities or otherwise. The Bank may, or may not, at its option, provide the guarantor(s) with such information, provided that the Bank will provide such information upon the written request of the guarantor.

SCHEDULE A
STANDARD TERMS AND CONDITIONS

1. INTEREST RATE DEFINITIONS

Prime Rate means the rate of interest per annum (based on a 365 day year) established and reported by the Bank to the Bank of Canada from time to time as the reference rate of interest for determination of interest rates that the Bank charges to customers of varying degrees of creditworthiness in Canada for Canadian dollar loans made by it in Canada.

The Stamping Fee rate per annum for CAD B/As is based on a 365 day year and the Stamping Fee is calculated on the Face Amount of each B/A presented to the Bank for acceptance. The Stamping Fee rate per annum for USD B/As is based on a 360 day year and the Stamping Fee is calculated on the Face Amount of each B/A presented to the Bank for acceptance.

CDOR means, for any day, the annual rate for B/As denominated in Canadian Dollars for a specified term that appears on the Reuters Screen CDOR Page as of 10:00 a.m. (Toronto time) on such day (or, if such day is not a Business Day, then on the immediately preceding Business Day).

LIBOR means the rate of interest per annum (based on a 360 day year) as determined by the Bank (rounded upwards, if necessary to the nearest whole multiple of 1/16th of 1%) at which the Bank may make available United States dollars which are obtained by the Bank in the Interbank Euro Currency Market, London, England at approximately 11:00 a.m. (Toronto time) on the second Business Day before the first day of, and in an amount similar to, and for the period similar to the interest period of, such advance.

USBR means the rate of interest per annum (based on a 365 day year) established by the Bank from time to time as the reference rate of interest for the determination of interest rates that the Bank charges to customers of varying degrees of creditworthiness for US dollar loans made by it in Canada.

If Prime Rate, CDOR, LIBOR, USBR or any other applicable base rate is less than zero, such base rate shall be deemed to be zero for purposes of this Agreement.

Any interest rate based on a period less than a year expressed as an annual rate for the purposes of the Interest Act (Canada) is equivalent to such determined rate multiplied by the actual number of days in the calendar year in which the same is to be ascertained and divided by the number of days in the period upon which it was based.

2. INTEREST CALCULATION AND PAYMENT

Interest on Prime Based Loans and USBR Loans is calculated daily (including February 29 in a leap year) and payable monthly in arrears based on the number of days the subject loan is outstanding unless otherwise provided in the Rate and Payment Terms Notice. Interest is charged on February 29 in a leap year.

The Stamping Fee is calculated based on the amount and the term of the B/A and is payable upon acceptance by the Bank of the B/A. The net proceeds received by the Borrower on a B/A advance will be equal to the Face Amount of the B/A discounted at the Bank's then prevailing B/A discount rate for CAD B/As or USD B/As as the case may be, for the specified term of the B/A less the B/A Stamping Fee. If the B/A discount rate (or the rate used to determine the B/A discount rate) is less than zero, it shall instead be deemed to be zero for purposes of this Agreement.

Interest on LIBOR Loans and CDOR Loans is calculated and payable on the earlier of contract maturity or quarterly in arrears, for the number of days in the LIBOR or CDOR interest period, as applicable.

L/C and L/G fees are payable at the time set out in the Letter of Credit Indemnity Agreement applicable to the issued L/C or L/G.

Interest on Fixed Rate Term Loans is compounded monthly and payable monthly in arrears unless otherwise provided in the Rate and Payment Terms Notice.

Interest is payable both before and after maturity or demand, default and judgment.

Each payment under this Agreement shall be applied first in payment of costs and expenses, then interest and fees and the balance, if any, shall be applied in reduction of principal.

For loans not secured by real property, all overdue amounts of principal and interest and all amounts outstanding in excess of the Credit Limit shall bear interest from the date on which the same became due or from when the excess was incurred, as the case may be, until the date of payment or until the date the excess is repaid at the Bank's standard rate charged from time to time for overdrafts, or such lower interest rate if the Bank agrees to a lower interest rate in writing. Nothing in this clause shall be deemed to authorize the Borrower to incur loans in excess of the Credit Limit.

If any provision of this Agreement would oblige the Borrower to make any payment of interest or other amount payable to the Bank in an amount or calculated at a rate which would be prohibited by law or would result in a receipt by the Bank of “interest” at a “criminal rate” (as such terms are construed under the Criminal Code (Canada)), then, notwithstanding such provision, such amount or rate shall be deemed to have been adjusted with retroactive effect to the maximum amount or rate of interest, as the case may be, as would not be so prohibited by applicable law or so result in a receipt by the Bank of “interest” at a “criminal rate”, such adjustment to be effected, to the extent necessary (but only to the extent necessary), as follows: first, by reducing the amount or rate of interest, and, thereafter, by reducing any fees, commissions, costs, expenses, premiums and other amounts required to be paid to the Bank which would constitute interest for purposes of section 347 of the Criminal Code (Canada).

3. DRAWDOWN PROVISIONS

Prime Based and USBR Loans
There is no minimum amount of drawdown by way of Prime Based Loans and USBR Loans, except as stated in this Agreement. The Borrower shall provide the Bank with 3 Business Days' notice of a requested Prime Based Loan or USBR Loan over $1,000,000.

B/As
The Borrower shall advise the Bank of the requested term or maturity date for B/As issued hereunder. The Bank shall have the discretion to restrict the term or maturity dates of B/As. In no event shall the term of the B/A exceed the Contractual Term Maturity Date or Maturity Date, as applicable. Except as otherwise stated in this Agreement, the minimum amount of a drawdown by way of B/As is $1,000,000 and in multiples of $100,000 thereafter. The Borrower shall provide the Bank with 3 Business Days' notice of a requested B/A drawdown.

The Borrower shall pay to the Bank the full amount of the B/A at the maturity date of the B/A.

The Borrower appoints the Bank as its attorney to and authorizes the Bank to (i) complete, sign, endorse, negotiate and deliver B/As on behalf of the Borrower in handwritten form, or by facsimile or mechanical signature or otherwise, (ii) accept such B/As, and (iii) purchase, discount, and/or negotiate B/As.

LIBOR and CDOR
The Borrower shall advise the Bank of the requested LIBOR or CDOR contract maturity period. The Bank shall have the discretion to restrict the LIBOR or CDOR contract maturity. In no event shall the term of the LIBOR or CDOR contract exceed the Contractual Term Maturity Date. Except as otherwise stated in this Agreement, the minimum amount of a drawdown by way of a LIBOR Loan or a CDOR Loan is $1,000,000, and shall be in multiples of $100,000 thereafter. The Borrower will provide the Bank with 3 Business Days' notice of a requested LIBOR Loan or CDOR Loan.

L/C and/or L/G
The Bank shall have the discretion to restrict the maturity date of L/Gs or L/Cs.

B/A, LIBOR and CDOR - Conversion
Any portion of any B/A, LIBOR or CDOR Loan that is not repaid, rolled over or converted in accordance with the applicable notice requirements hereunder shall be converted by the Bank to a Prime Based Loan effective as of the maturity date of the B/A or the last day in the interest period of the LIBOR or CDOR contract, as applicable. The Bank may charge interest on the amount of the Prime Based Loan at the rate of 115% of the rate applicable to Prime Based Loans for the 3 Business Day period immediately following such maturity. Thereafter, the rate shall revert to the rate applicable to Prime Based Loans.

B/A, LIBOR and CDOR – Market Disruption
If the Bank determines, in its sole discretion, that a normal market in Canada for the purchase and sale of B/As or the making of CDOR or LIBOR Loans does not exist, any right of the Borrower to request a drawdown under the applicable borrowing option shall be suspended until the Bank advises otherwise. Any drawdown request for B/As, LIBOR or CDOR Loans, as applicable, during the suspension period shall be deemed to be a drawdown notice requesting a Prime Based Loan in an equivalent amount.

Cash Management
The Bank may, and the Borrower hereby authorizes the Bank to, drawdown under the Operating Loan, Agriculture Operating Line or Farm Property Line of Credit to satisfy any obligations of the Borrower to the Bank in connection with any cash management service provided by the Bank to the Borrower. The Bank may drawdown under the Operating Loan, Agriculture Operating Line or Farm Property Line of Credit even if the drawdown results in amounts outstanding in excess of the Credit Limit.

Notice
Prior to each drawdown under a Fixed Rate Term Loan, other than a Long Term Farm Loan, an Agriculture Term Loan, a Canadian Agricultural Loans Act Loan, a Dairy Term Loan or a Poultry Term Loan and at least 10 days prior to the maturity of each Rate Term, the Borrower will advise the Bank of its selection of drawdown options from those made available by the Bank. The Bank will, after each drawdown, other than drawdowns by way of BA, CDOR, or LIBOR Loan or under the operating loan, send a Rate and Payment Terms Notice to the Borrower.

4. PREPAYMENT

Fixed Rate Term Loans

10% Prepayment Option Chosen.

(a) Once, each calendar year, ("Year"), the Borrower may, provided that an Event of Default has not occurred, prepay in one lump sum, an amount of principal outstanding under a Fixed Rate Term Loan not exceeding 10% of the original amount of the Fixed Rate Term Loan, upon payment of all interest accrued to the date of prepayment without paying any prepayment charge. If the prepayment privilege is not used in one Year, it cannot be carried forward and used in a later Year.

(b) Provided that an Event of Default has not occurred, the Borrower may prepay more than 10% of the original amount of a Fixed Rate Term Loan in any Year, upon payment of all interest accrued to the date of prepayment and an amount equal to the greater of:

i) three months' interest on the amount of the prepayment (the amount of prepayment is the amount of prepayment exceeding the 10% limit described in Section 4(a)) using the interest rate applicable to the Fixed Rate Term Loan being prepaid; and

ii) the Yield Maintenance, being the difference between:

a. the current outstanding principal balance of the Fixed Rate Term Loan; and
b. the sum of the present values as of the date of the prepayment of the future payments to be made on the Fixed Rate Term Loan until the last day of the Rate Term, plus the present value of the principal amount of the Fixed Rate Term Loan that would have been due on the maturity

of the Rate Term, when discounted at the Government of Canada bond yield rate with a term which has the closest maturity to the unexpired term of the Fixed Rate Term Loan.

10% Prepayment Option Not Chosen.

(c) The Borrower may, provided that an Event of Default has not occurred, prepay all or any part of the principal then outstanding under a Fixed Rate Term Loan upon payment of all interest accrued to the date of prepayment and an amount equal to the greater of:

i) three months' interest on the amount of the prepayment using the interest rate applicable to the Fixed Rate Term Loan being prepaid; and

ii) the Yield Maintenance, being the difference between:

a. the current outstanding principal balance of the Fixed Rate Term Loan; and
b. the sum of the present values as of the date of the prepayment of the future payments to be made on the Fixed Rate Term Loan until the last day of the Rate Term, plus the present value of the principal amount of the Fixed Rate Term Loan that would have been due on the maturity of the Rate Term, when discounted at the Government of Canada bond yield rate with a term which has the closest maturity to the unexpired term of the Fixed Rate Term Loan.

Floating Rate Term Loans

The Borrower may prepay the whole or any part of the principal outstanding under a Floating Rate Term Loan, at any time without the payment of prepayment charges.

5. STANDARD DISBURSEMENT CONDITIONS

The obligation of the Bank to permit any drawdowns hereunder at any time is subject to the following conditions precedent:

a) The Bank shall have received the following documents which shall be in form and substance satisfactory to the Bank:

i) A copy of a duly executed resolution of the Board of Directors of the Borrower empowering the Borrower to enter into this Agreement;
ii) A copy of any necessary government approvals authorizing the Borrower to enter into this Agreement;
iii) All of the Bank Security and supporting resolutions and solicitors' letter of opinion required hereunder;
iv) The Borrower's compliance certificate certifying compliance with all terms and conditions hereunder;
v) All operation of account documentation; and
vi) For drawdowns under the Facility by way of L/C or L/G, the Bank’s standard form Letter of Credit Indemnity Agreement

b) The representations and warranties contained in this Agreement are correct.
c) No event has occurred and is continuing which constitutes an Event of Default or would constitute an Event of Default, but for the requirement that notice be given or time elapse or both.
d) The Bank has received the arrangement fee payable hereunder (if any) and the Borrower has paid all legal and other expenses incurred by the Bank in connection with the Agreement or the Bank Security.

6. STANDARD REPRESENTATIONS AND WARRANTIES

The Borrower hereby represents and warrants, which representations and warranties shall be deemed to be continually repeated so long as any amounts remain outstanding and unpaid under this Agreement or so long as any commitment under this Agreement remains in effect, that:

a) The Borrower is a duly incorporated corporation, a limited partnership, partnership, or sole proprietorship, duly organized, validly existing and in good standing under the laws of the jurisdiction where the Branch/Centre is located and each other jurisdiction where the Borrower has property or assets or carries on business and the Borrower has adequate corporate power and authority to carry on its business, own property, borrow monies and enter into agreements therefore, execute and deliver the Agreement, the Bank Security, and documents required hereunder, and observe and perform the terms and provisions of this Agreement.

b) There are no laws, statutes or regulations applicable to or binding upon the Borrower and no provisions in its charter documents or in any by-laws, resolutions, contracts, agreements, or arrangements which would be contravened, breached, violated as a result of the execution, delivery, performance, observance, of any terms of this Agreement.

c) No Event of Default has occurred nor has any event occurred which, with the passage of time or the giving of notice, would constitute an Event of Default under this Agreement or which would constitute a default under any other agreement.

d) There are no actions, suits or proceedings, including appeals or applications for review, or any knowledge of pending actions, suits, or proceedings against the Borrower and its subsidiaries, before any court or administrative agency which would result in any material adverse change in the property, assets, financial condition, business or operations of the Borrower.

e) All material authorizations, approvals, consents, licenses, exemptions, filings, registrations and other requirements of governmental, judicial and public bodies and authorities required to carry on its business have been or will be obtained or effected and are or will be in full force and effect.

f) The financial statements and forecasts delivered to the Bank fairly present the present financial position of the Borrower, and have been prepared by the Borrower and its auditors in accordance with the International Financial Reporting Standards or GAAP for Private Enterprises.

g) All of the remittances required to be made by the Borrower to the federal government and all provincial and municipal governments have been made, are currently up to date and there are no outstanding arrears. Without limiting the foregoing, all employee source deductions (including income taxes, Employment Insurance and Canada Pension Plan), sales taxes (both provincial and federal), corporate income taxes, corporate capital taxes, payroll taxes and workers' compensation dues are currently paid and up to date.

h) If the Bank Security includes a charge on real property, the Borrower or Guarantor, as applicable, is the legal and beneficial owner of the real property with good and marketable title in fee simple thereto, free from all easements, rights-of-way, agreements, restrictions, mortgages, liens, executions and other encumbrances, save and except for those approved by the Bank in writing.

i) All information that the Borrower has provided to the Bank is accurate and complete respecting, where applicable:
   i) the names of the Borrower’s directors and the names and addresses of the Borrower’s beneficial owners;
   ii) the names and addresses of the Borrower’s trustees, known beneficiaries and/or settlors; and
   iii) the Borrower’s ownership, control and structure.

7. STANDARD POSITIVE COVENANTS

So long as any amounts remain outstanding and unpaid under this Agreement or so long as any commitment under this Agreement remains in effect, the Borrower will, and will ensure that its subsidiaries and each of the Guarantors will:

a) Pay all amounts of principal, interest and fees on the dates, times and place specified herein, under the Rate and Payment Terms Notice, and under any other agreement between the Bank and the Borrower.

b) Advise the Bank of any change in the amount and the terms of any credit arrangement made with other lenders or any action taken by another lender to recover amounts outstanding with such other lender.

c) Advise promptly after the happening of any event which will result in a material adverse change in the financial condition, business, operations, or prospects of the Borrower or the occurrence of any Event of Default or default under this Agreement or under any other agreement for borrowed money.

d) Do all things necessary to maintain in good standing its corporate existence and preserve and keep all material agreements, rights, franchises, licenses, operations, contracts or other arrangements in full force and effect.

e) Take all necessary actions to ensure that the Bank Security and its obligations hereunder will rank ahead of all other indebtedness of and all other security granted by the Borrower.

f) Pay all taxes, assessments and government charges unless such taxes, assessments, or charges are being contested in good faith and appropriate reserves shall be made with funds set aside in a separate trust fund.

g) Provide the Bank with information and financial data as it may request from time to time, including, without limitation, such updated information and/or additional supporting information as the Bank may require with respect to any or all the matters in the Borrower's representation and warranty in Section 6(i).

h) Maintain property, plant and equipment in good repair and working condition.

i) Inform the Bank of any actual or probable litigation and furnish the Bank with copies of details of any litigation or other proceedings, which might affect the financial condition, business, operations, or prospects of the Borrower.

j) Provide such additional security and documentation as may be required from time to time by the Bank or its solicitors.

k) Continue to carry on the business currently being carried on by the Borrower its subsidiaries and each of the Guarantors at the date hereof.

l) Maintain adequate insurance on all of its assets, undertakings, and business risks.

m) Permit the Bank or its authorized representatives full and reasonable access to its premises, business, financial and computer records and allow the duplication or extraction of pertinent information therefrom.

n) Comply with all applicable laws.

8. STANDARD NEGATIVE COVENANTS

So long as any amounts remain outstanding and unpaid under this Agreement or so long as any commitment under this Agreement remains in effect, the Borrower will not and will ensure that its subsidiaries and each of the Guarantors will not:

a) Create, incur, assume, or suffer to exist, any mortgage, deed of trust, pledge, lien, security interest, assignment, charge, or encumbrance (including without limitation, any conditional sale, or other title retention agreement, or finance lease) of any nature, upon or with respect to any of its assets or undertakings, now owned or hereafter acquired, except for those Permitted Liens, if any, set out in the Letter.

b) Create, incur, assume or suffer to exist any other indebtedness for borrowed money (except for indebtedness resulting from Permitted Liens, if any) or guarantee or act as surety or agree to indemnify the debts of any other Person.

c) Merge or consolidate with any other Person, or acquire all or substantially all of the shares, assets or business of any other Person.

d) Sell, lease, assign, transfer, convey or otherwise dispose of any of its now owned or hereafter acquired assets (including, without limitation, shares of stock and indebtedness of subsidiaries, receivables and leasehold interests), except for inventory disposed of in the ordinary course of business.

e) Terminate or enter into a surrender of any lease of any property mortgaged under the Bank Security.

f) Cease to carry on the business currently being carried on by each of the Borrower, its subsidiaries, and the Guarantors at the date hereof.

g) Permit any change of ownership or change in the capital structure of the Borrower.

9. ENVIRONMENTAL

The Borrower represents and warrants (which representation and warranty shall continue throughout the term of this Agreement) that the business of the Borrower, its subsidiaries and each of the Guarantors is being operated in compliance with applicable laws and regulations respecting the discharge, omission, spill or disposal of any hazardous materials and that any and all enforcement actions in respect thereto have been clearly conveyed to the Bank.

The Borrower shall, at the request of the Bank from time to time, and at the Borrower's expense, obtain and provide to the Bank an environmental audit or inspection report of the property from auditors or inspectors acceptable to the Bank.

The Borrower hereby indemnifies the Bank, its officers, directors, employees, agents and shareholders, and agrees to hold each of them harmless from all loss, claims, damages and expenses (including legal and audit expenses) which may be suffered or incurred in connection with the indebtedness under this Agreement or in connection with the Bank Security.

10. STANDARD EVENTS OF DEFAULT

The Bank may accelerate the payment of principal and interest under any committed credit facility hereunder and cancel any undrawn portion of any committed credit facility hereunder, at any time after the occurrence of any one of the following Events of Default:

a) Non-payment of principal outstanding under this Agreement when due or non-payment of interest or fees outstanding under this Agreement within 3 Business Days of when due.

b) If any representation, warranty or statement made hereunder or made in connection with the execution and delivery of this Agreement or the Bank Security is false or misleading at any time.

c) If any representation or warranty made or information provided by the Guarantor to the Bank from time to time, including without limitation, under or in connection with the Personal Financial Statement and Privacy Agreement provided by the Guarantor, is false or misleading at any time.

d) If there is a breach or non-performance or non-observance of any term or condition of this Agreement or the Bank Security and, if such default is capable to being remedied, the default continues unremedied for 5 Business Days after the occurrence.

e) If the Borrower, any one of its subsidiaries, or, if any of the Guarantors makes a general assignment for the benefit of creditors, files or presents a petition, makes a proposal or commits any act of bankruptcy, or if any action is taken for the winding up, liquidation or the appointment of a liquidator, trustee in bankruptcy, custodian, curator, sequestrator, receiver or any other officer with similar powers or if a judgment or order shall be entered by any court approving a petition for reorganization, arrangement or composition of or in respect of the Borrower, any of its subsidiaries, or any of the Guarantors or if the Borrower, any of its subsidiaries, or any of the Guarantors is insolvent or declared bankrupt.

f) If there exists a voluntary or involuntary suspension of business of the Borrower, any of its subsidiaries, or any of the Guarantors.

g) If action is taken by an encumbrancer against the Borrower, any of its subsidiaries, or any of the Guarantors to take possession of property or enforce proceedings against any assets.

h) If any final judgment for the payment of monies is made against the Borrower, any of its subsidiaries, or any of the Guarantors and it is not discharged within 30 days from the imposition of such judgment.

i) If there exists an event, the effect of which with lapse of time or the giving of notice, will constitute an event of default or a default under any other agreement for borrowed money in excess of the Cross Default Threshold entered into by the Borrower, any of its subsidiaries, or any of the Guarantors.

j) If the Borrower, any one of its subsidiaries, or any of the Guarantors default under any other present or future agreement with the Bank or any of the Bank's subsidiaries, including without limitation, any other loan agreement, forward foreign exchange transactions, interest rate and currency and/or commodity swaps.

k) If the Bank Security is not enforceable or if any party to the Bank Security shall dispute or deny any liability or any of its obligations under the Bank Security, or if any Guarantor terminates a guarantee in respect of future advances.

l) If, in the Bank's determination, a material adverse change occurs in the financial condition, business operations or prospects of the Borrower, any of the Borrower's subsidiaries, or any of the Guarantors.

m) If the Borrower or a Guarantor is an individual, the Borrower or such Guarantor dies or is found by a court to be incapable of managing his or her affairs.

11. ACCELERATION

If the Bank accelerates the payment of principal and interest hereunder, the Borrower shall immediately pay to the Bank all amounts outstanding hereunder, including without limitation, the amount of unmatured B/As, CDOR and LIBOR Loans and the amount of all drawn and undrawn L/Gs and L/Cs. All cost to the Bank of unwinding CDOR and LIBOR Loans and all loss suffered by the Bank in re-employing amounts repaid will be paid by the Borrower.

The Bank may demand the payment of principal and interest under the Operating Loan, Agriculture Operating Line or Farm Property Line of Credit (and any other uncommitted facility) hereunder and cancel any undrawn portion of the Operating Loan, Agriculture Operating Line or Farm Property Line of Credit (and any other uncommitted facility) hereunder, at any time whether or not an Event of Default has occurred.

12. INDEMNITY

The Borrower agrees to indemnify the Bank from and against any and all claims, losses and liabilities arising or resulting from this Agreement. USD loans must be repaid with USD and CAD loans must be repaid with CAD and the Borrower shall indemnify the Bank for any loss suffered by the Bank if USD loans are repaid with CAD or vice versa, whether such payment is made pursuant to an order of a court or otherwise. In no event will the Bank be liable to the Borrower for any direct, indirect or consequential damages arising in connection with this Agreement.

13. TAXATION ON PAYMENTS

All payments made by the Borrower to the Bank will be made free and clear of all present and future taxes (excluding the Bank's income taxes), withholdings or deductions of whatever nature. If these taxes, withholdings or deductions are required by applicable law and are made, the Borrower, shall, as a separate and independent obligation, pay to the Bank all additional amounts as shall fully indemnify the Bank from any such taxes, withholdings or deductions.

14. REPRESENTATION

No representation or warranty or other statement made by the Bank concerning any of the Facilities shall be binding on the Bank unless made by it in writing as a specific amendment to this Agreement.

15. CHANGING THE AGREEMENT

a) The Bank may, from time to time, unilaterally change the provisions of this Agreement where (i) the provisions of the Agreement relate to the Operating Loan, Agriculture Operating Line or Farm Property Line of Credit (and any other uncommitted facility) or (ii) such change is for the benefit of the Borrower, or made at the Borrower’s request, including without limitation, decreases to fees or interest payable hereunder or (iii) where such change makes compliance with this Agreement less onerous to the Borrower, including without limitation, release of security. These changes can be made by the Bank providing written notice to the Borrower of such changes in the form of a specific waiver or a document constituting an amending agreement. The Borrower is not required to execute such waiver or amending agreement, unless the Bank requests the Borrower to sign such waiver or amending agreement. A change in the Prime Rate and USBR is not an amendment to the terms of this Agreement that requires notification to be provided to the Borrower.

b) Changes to the Agreement, other than as described in a) above, including changes to covenants and fees payable by the Borrower, are required to be agreed to by the Bank and the Borrower in writing, by the Bank and the Borrower each signing an amending agreement.

c) The Bank is not required to notify a Guarantor of any change in the Agreement, including any increase in the Credit Limit.

16. ADDED COST

If the introduction of or any change in any present or future law, regulation, treaty, official or unofficial directive, or regulatory requirement, (whether or not having the force of law) or in the interpretation or application thereof, relates to:

i) the imposition or exemption of taxation of payments due to the Bank or on reserves or deemed reserves in respect of the undrawn portion of any Facility or loan made available hereunder; or,

ii) any reserve, special deposit, regulatory or similar requirement against assets, deposits, or loans or other acquisition of funds for loans by the Bank; or,

iii) the amount of capital required or expected to be maintained by the Bank as a result of the existence of the advances or the commitment made hereunder;

and the result of such occurrence is, in the sole determination of the Bank, to increase the cost of the Bank or to reduce the income received or receivable by the Bank hereunder, the Borrower shall, on demand by the Bank, pay to the Bank that amount which the Bank estimates will compensate it for such additional cost or reduction in income and the Bank's estimate shall be conclusive, absent manifest error.

17. EXPENSES

The Borrower shall pay, within 5 Business Days following notification, all fees and expenses (including but not limited to all legal fees) incurred by the Bank in connection with the preparation, registration and ongoing administration of this Agreement and the Bank Security and with the enforcement of the Bank's rights and remedies under this Agreement and the Bank Security whether or not any amounts are advanced under the Agreement. These fees and expenses shall include, but not be limited, to all outside counsel fees and expenses and all in-house legal fees and expenses, if in-house counsel are used, and all outside professional advisory fees and expenses. The Borrower shall pay interest on unpaid amounts due pursuant to this paragraph at the All-In Rate plus 2% per annum.

Without limiting the generality of Section 25, the Bank or the Bank’s agent, is authorized to debit any of the Borrower’s accounts with the amount of the fees and expenses owed by the Borrower hereunder, including the registration fee in connection with the Bank Security, even if that debiting creates an overdraft in any such account. If there are insufficient funds in the Borrower’s accounts to reimburse the Bank or it’s agent for payment of the fees and expenses owed by the Borrower hereunder, the amount debited to the Borrower’s accounts shall be deemed to be a Prime Based Loan under the Operating Loan, the Agriculture Operating Line or Farm Property Line of Credit.

The Borrower will, if requested by the Bank, sign a Pre-Authorized Payment Authorization in a format acceptable to the Bank to permit the Bank’s agent to debit the Borrower’s accounts as contemplated in this Section.

18. NON WAIVER

Any failure by the Bank to object to or take action with respect to a breach of this Agreement or any Bank Security or upon the occurrence of an Event of Default shall not constitute a waiver of the Bank's right to take action at a later date on that breach. No course of conduct by the Bank will give rise to any reasonable expectation which is in any way inconsistent with the terms and conditions of this Agreement and the Bank Security or the Bank's rights thereunder.

19. EVIDENCE OF INDEBTEDNESS

The Bank shall record on its records the amount of all loans made hereunder, payments made in respect thereto, and all other amounts becoming due to the Bank under this Agreement. The Bank's records constitute, in the absence of manifest error, conclusive evidence of the indebtedness of the Borrower to the Bank pursuant to this Agreement.

The Borrower will sign the Bank’s standard form Letter of Credit Indemnity Agreement for all L/Cs and L/Gs issued by the Bank.

With respect to chattel mortgages taken as Bank Security, this Agreement is the Promissory Note referred to in same chattel mortgage, and the indebtedness incurred hereunder is the true indebtedness secured by the chattel mortgage.

20. ENTIRE AGREEMENTS

This Agreement replaces any previous letter agreements dealing specifically with terms and conditions of the credit facilities described in the Letter. Agreements relating to other credit facilities made available by the Bank continue to apply for those other credit facilities. This Agreement, and if applicable, the Letter of Credit Indemnity Agreement, are the entire agreements relating to the Facilities described in this Agreement.

21. NON-MERGER
Notwithstanding the execution, delivery or registration of the Bank Security and notwithstanding any advances made pursuant thereto, this Agreement shall continue to be valid, binding and enforceable and shall not merge as a result thereof. Any default under this Agreement shall constitute concurrent default under the Bank Security. Any default under the Bank Security shall constitute concurrent default under this Agreement. In the event of an inconsistency between the terms of this Agreement and the terms of the Bank Security, the terms of this Agreement shall prevail and the inclusion of any term in the Bank Security that is not dealt with in this Agreement shall not be an inconsistency.

22. ASSIGNMENT
The Bank may assign or grant participation in all or part of this Agreement or in any loan made hereunder without notice to and without the Borrower's consent.

The Borrower may not assign or transfer all or any part of its rights or obligations under this Agreement.

23. RELEASE OF INFORMATION
The Borrower hereby irrevocably authorizes and directs the Borrower's accountant, (the "Accountant") to deliver all financial statements and other financial information concerning the Borrower to the Bank and agrees that the Bank and the Accountant may communicate directly with each other.

24. FX CLOSE OUT
The Borrower hereby acknowledges and agrees that in the event any of the following occur: (i) Default by the Borrower under any forward foreign exchange contract ("FX Contract"); (ii) Default by the Borrower in payment of monies owing by it to anyone, including the Bank; (iii) Default in the performance of any other obligation of the Borrower under any agreement to which it is subject; or (iv) the Borrower is adjudged to be or voluntarily becomes bankrupt or insolvent or admits in writing to its inability to pay its debts as they come due or has a receiver appointed over its assets, the Bank shall be entitled without advance notice to the Borrower to close out and terminate all of the outstanding FX Contracts entered into hereunder, using normal commercial practices employed by the Bank, to determine the gain or loss for each terminated FX contract. The Bank shall then be entitled to calculate a net termination value for all of the terminated FX Contracts which shall be the net sum of all the losses and gains arising from the termination of the FX Contracts which net sum shall be the "Close Out Value" of the terminated FX Contracts. The Borrower acknowledges that it shall be required to forthwith pay any positive Close Out Value owing to the Bank and the Bank shall be required to pay any negative Close Out Value owing to the Borrower, subject to any rights of set-off to which the Bank is entitled or subject.

25. SET-OFF
In addition to and not in limitation of any rights now or hereafter granted under applicable law, the Bank may at any time and from time to time without notice to the Borrower or any other Person, any notice being expressly waived by the Borrower, set-off and compensate and apply any and all deposits, general or special, time or demand, provisional or final, matured or unmatured, in any currency, and any other indebtedness or amount payable by the Bank (irrespective of the place of payment or booking office of the obligation), to or for the credit of or for the Borrower's account, including without limitation, any amount owed by the Bank to the Borrower under any FX Contract or other treasury or derivative product, against and on account of the indebtedness and liability under this Agreement notwithstanding that any of them are contingent or unmatured or in a different currency than the indebtedness and liability under this Agreement.

When applying a deposit or other obligation in a different currency than the indebtedness and liability under this Agreement to the indebtedness and liability under this Agreement, the Bank will convert the deposit or other obligation to the currency of the indebtedness and liability under this Agreement using the exchange rate determined by the Bank at the time of the conversion.

26. SEVERABILITY
In the event any one or more of the provisions of this Agreement shall for any reason, including under any applicable statute or rule of law, be held to be invalid, illegal or unenforceable, that part will be severed from this Agreement and will not affect the enforceability of the remaining provisions of this Agreement, which shall remain in full force and effect.

27. MISCELLANEOUS

i) The Borrower has received a signed copy of this Agreement;

ii) If more than one Person, firm or corporation signs this Agreement as the Borrower, each party is jointly and severally liable hereunder, and the Bank may require payment of all amounts payable under this Agreement from any one of them, or a portion from each, but the Bank is released from any of its obligations by performing that obligation to any one of them;

iii) Accounting terms will (to the extent not defined in this Agreement) be interpreted in accordance with accounting principles established from time to time by the Canadian Institute of Chartered Accountants (or any successor) consistently applied, and all financial statements and information provided to the Bank will be prepared in accordance with those principles;

iv) This Agreement is governed by the law of the Province or Territory where the Branch/Centre is located;

v) Unless stated otherwise, all amounts referred to herein are in Canadian dollars

28. DEFINITIONS
Capitalized Terms used in this Agreement shall have the following meanings:

"All-In Rate" means the greater of the interest rate that the Borrower pays for Floating Rate Loans or the highest fixed rate paid for Fixed Rate Term Loans.

"Agreement" means the agreement between the Bank and the Borrower set out in the Letter and this Schedule "A" - Standard Terms and Conditions.

"Business Day" means any day (other than a Saturday or Sunday) that the Branch/Centre is open for business.

"Branch/Centre" means The Toronto-Dominion Bank branch or banking centre noted on the first page of the Letter, or such other branch or centre as may from time to time be designated by the Bank.

"Contractual Term Maturity Date" means the last day of the Contractual Term period. If the Letter does not set out a specific Contractual Term period but rather refers to a period of time up to which the Contractual Term Maturity Date can occur, the Bank and the Borrower must agree on a Contractual Term Maturity Date before first drawdown, which Contractual Term Maturity Date will be set out in the Rate and Payments Terms Notice.

“Cross Default Threshold” means the cross default threshold set out in the Letter. If no such cross default threshold is set out in the Letter it will be deemed to be zero.

"Face Amount" means, in respect of:

(i) a B/A, the amount payable to the holder thereof on its maturity;

(ii) A L/C or L/G, the maximum amount payable to the beneficiary specified therein or any other Person to whom payments may be required to be made pursuant to such L/C or L/G.

"Fixed Rate Term Loan" means any drawdown in Canadian dollars under a Facility at an interest rate which is fixed for a Rate Term at such rate as is determined by the Bank at its sole discretion.

"Floating Rate Loan" means any loan drawn down, converted or extended under a Facility at an interest rate which is referenced to a variable rate of interest, such as the Prime Rate.

"Inventory Value" means, at any time of determination, the total value (based on the lower of cost or market) of the Borrower's inventories that are subject to the Bank Security (other than (i) those inventories supplied by trade creditors who at that time have not been fully paid and would have a right to repossess all or part of such inventories if the Borrower were then either bankrupt or in receivership, (ii) those inventories comprising work in process and (iii) those inventories that the Bank may from time to time designate in its sole discretion) minus the total amount of any claims, liens or encumbrances on those inventories having or purporting to have priority over the Bank.

"Letter" means the letter from the Bank to the Borrower to which this Schedule "A" - Standard Terms and Conditions is attached.

"Letter of Credit" or *"L/C"* means a documentary letter of credit or similar instrument in form and substance satisfactory to the Bank.

"Letter of Guarantee" or *"L/G"* means a stand-by letter of guarantee or similar instrument in form and substance satisfactory to the Bank.

"Maturity Date" for a Facility, means the date on which all amounts outstanding under such Facility are due and payable to the Bank.

"Person" includes any individual, sole proprietorship, corporation, partnership, joint venture, trust, unincorporated association, association, institution, entity, party, or government (whether national, federal, provincial, state, municipal, city, county, or otherwise and including any instrumentality, division, agency, body, or department thereof).

"Purchase Money Security Interest" means a security interest on an asset which is granted to a lender or to the seller of such asset in order to secure the purchase price of such asset or a loan incurred to acquire such asset, provided that the amount secured by the security interest does not exceed the cost of the asset and provided that the Borrower provides written notice to the Bank prior to the creation of the security interest, and the creditor under the security interest has, if requested by the Bank, entered into an inter-creditor agreement with the Bank, in a format acceptable to the Bank.

"Rate Term" means that period of time as selected by the Borrower from the options offered to it by the Bank, during which a Fixed Rate Term Loan will bear a particular interest rate. If no Rate Term is selected, the Borrower will be deemed to have selected a Rate Term of 1 year.

"Rate and Payment Terms Notice" means the written notice sent by the Bank to the Borrower setting out the interest rate and payment terms for a particular drawdown.

"Receivable Value" means, at any time of determination, the total value of those of the Borrower's trade accounts receivable that are subject to the Bank Security other than (i) those accounts then outstanding for 90 days, (ii) those accounts owing by Persons, firms or corporations affiliated with the Borrower, (iii) those accounts that the Bank may from time to time designate in its sole discretion, (iv) those accounts subject to any claim, liens, or encumbrance having or purporting to have priority over the Bank, (v) those accounts which are subject to a claim of set-off by the obligor under such account, MINUS the total amount of all claims, liens, or encumbrances on those receivables having or purporting to have priority over the Bank.

"Receivables/Inventory Summary" means a summary of the Borrower's trade account receivables and inventories, in form as the Bank may require and certified by a senior officer/representative of the Borrower.

"US$" or "USD Equivalent" means, on any date, the equivalent amount in United States Dollars after giving effect to a conversion of a specified amount of Canadian Dollars to United States Dollars at the exchange rate determined by the Bank at the time of the conversion.

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Reference: Application, Pages 36-37
Application (Appendix I, ERHDC 2017 Financial Statements)

Preamble:

The Applicant states "During this timeframe [Phase 1] NBEAI will see significant increases in its debt to equity ratios and ratios tied to liquidity will reduce, however, with the proposed amalgamation in 2022 the Applicant considers this to be temporary and have determined that the purchase price will not have an adverse effect on the financial viability of NBEAI or new NBHDL."

Questions:

(a) Please provide additional detail on what quantitative analyses the Applicant has undertaken to conclude that the purchase price will not have an adverse effect on financial viability of NBEAI or new NBHDL.

(b) Will the existing loans to ERHDC be eliminated (replaced) by the new loan from the Toronto Dominion Bank or is the new loan supplementary to the existing loans being held by ERHDC?

(c) If NBEAI will keep ERHDC's existing debt arrangements, please indicate how the acquisition will affect the loan covenants imposed in the Infrastructure Ontario non-revolving term loans (as indicated in Note 11 of the 2017 Audited Financial Statements of ERHDC).

(d) Please explain the consequences of breaching the debt service coverage ratio or debt to total assets ratio covenants under ERHDC's Infrastructure Ontario loans and provide an analysis to demonstrate whether NBEAI (and later new NBHDL) will or will not remain compliant with these covenants.

(e) Will the existing loans to NBHDL be eliminated (replaced) by the new loan from the Toronto Dominion Bank or is the new loan supplementary to the existing loans being held by NBHDL?

(f) If the newly amalgamated NBHDL intends to keep the current NBHDL's existing debt arrangements, please indicate how the 2022 merger will affect the various loan covenants it must maintain (the loan covenants associated with the Ontario Infrastructure Projects Corporation loan, as well as the debt service coverage ratio requirement on the other various term loans currently held by NBHDL).

(g) Please explain the consequences of breaching any of the covenants identified in part f) above and provide an analysis to demonstrate whether new NBHDL will or will not remain compliant with these covenants.

Response:

(a) Before the acquisition neither NBHDL nor ERHDC were levered at the full 60%:40% debt-to-equity ratio (1.50), and consequently both NBHDL and ERHDC have the capacity to take on additional debt while not impacting the financial viability of the respective utilities.

The key financial ratios of both NBHDL and ERHDC prior to the Phase 1 Transaction are shown in the table below.

Following the Phase 1 Transaction, NBHDL will be guaranteeing the debt being used to finance the acquisition of NBEAI and the key financial covenants are being waived by the lenders for NBEAI until Phase 2. The key financial ratios of NBHDL and NBEAI combined following the Phase 1 Transaction are shown in the table below.

Following the Phase 2 Transaction, the key financial ratios for New NBHDL are shown in the table below.

Table 1: Key Financial Ratios

	Pre-Phase 1 Transaction		**Post-Phase 1**	**Post-Phase 2**
	NBHDL (2018)	**ERHDC (2018)**	**NBEAI & NBHDL Combined (2020)**	**New NBHDL (2022)**
Leverage (Debt-to-equity)	1.00	1.12	1.30	1.26
Liquidity (Current ratio)	1.85	1.32	1.71	1.67
Debt Service Coverage Ratio (TD calculation)[1]	1.29	N/A	1.26	1.38
Debt Service Coverage (IO calculation)[2]	1.75	1.67	1.34	1.34
Debt to Total Asset Ratio (IO calculation)[3]	40%	35%	45%	45%
Debt to Capitalization Ratio (TD calculation)[4]	44%	N/A	54%	53%

[1] TD minimum Debt Service Coverage Ratio of 1.20. (Obligation waived for NBEAI until Phase 2).
[2] IO minimum Debt Service Coverage Ratio of 1.25 for NBEAI and 1.30 for NBHDL. (Obligation waived for NBEAI until Phase 2).
[3] IO requires the Debt to Total Asset Ratio to be greater than 60%. (Obligation waived for NBEAI until Phase 2).
[4] TD requires the Debt to Capitalization Ratio to be less than 60%. (Obligation waived for NBEAI until Phase 2).

As shown in Table 1 above, the purchase price will have no impact on the financial viability of NBEAI and NBHDL (combined) or of New NBHDL.

(b) Subject to obtaining all necessary third-party consents (see Staff-12), the existing loan with Infrastructure Ontario is anticipated to remain but all other loans held by ERHDC (the shareholder loans and the RBC loan) will be cancelled.

In the event Infrastructure Ontario consent is not obtained, and as explained in Staff-3 above the Applicant has secured a second credit facility with TD of $2.2 million which, if drawn upon, is capable of taking-out and replacing the IO loan.

(c) As noted in response to Staff-12, consent of OILC is required as a condition to closing. NBEAI does not anticipate that the transaction will have any adverse impacts on its ability to meet the obligations under the OILC loan.

(d) As is traditional in most IO LDC financing arrangements, a breach of the debt service coverage ratio or the debt to total assets ratio covenants **may** constitute an "Event of Default". This is true pursuant to Section 9 of ERHDC's existing financing agreement with Infrastructure Ontario and Lands Corporation.

Under no circumstances will NBHDL permit an Event of Default to occur for either NBHDL or NBEAI if the Board approves the Phase 1 Transaction.

Each of TD and IO specify different calculations for and have different obligations in their debt. This is shown in the response to part (a) above.

Finally, and as explained in Staff-3 above, the Applicant has secured a second credit facility with TD of $2.2 million which, if drawn upon, is capable of completely taking-out and replacing the IO loan.

(e) Upon amalgamation in 2022, the new loan will be supplementary to the existing loans held by NBHDL.

(f) New NBHDL will be in compliance with all financial covenants. By 2022, the intended year of amalgamation, NBHDL's existing debt arrangements will reside with TD; the existing OILC loan held by NBHDL will be fully paid in April 2021.

The impact of the merger will not negatively impact the financial covenants of existing TD lending or any of the NBEAI related debt.

See part (a) above for a forecast of performance of 2022 financial covenants.

(g) As shown in the table provided in Staff – 4 f) above, New NBHDL will be in compliance with all financial covenants.

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Reference: Dividend Policy

Questions:

(a) Please outline the proposed dividend policy of the amalgamated entity (both NBEAI's policy and New NBHDL's policy).

(b) Please provide an analysis that shows what the expected annual dividend payout of the amalgamated entity will be over the deferred rebasing period (for NBEAI during Phase 1 and New NBHDL during Phase 2).

(c) Please provide an analysis on how the proposed dividend policy from 2019 to 2026 will not adversely affect the financial viability of NBEAI or New NBHDL.

Response:

(a) The intention is for the amalgamated entity to continue to operate under NBHDL's dividend policy, a copy of which is attached as 'Appendix Staff-5'.

(b) There are no dividends forecasted for NBEAI during the transitional period following the Phase 1 Transaction.

Following the completion of the Phase 2 Transaction, New NBHDL will make dividend payments subject to and in accordance with its dividend policy based upon the determination of its board of directors.

(c) The dividend policy is included as 'Appendix Staff-5'.

Under this policy, it is not possible for the board to declare a dividend if it would adversely affect the financial viability of the company.

Specifically, when deciding whether to declare or pay dividends, Section 1.5 of the dividend policy requires the Board to ensure that:

- the best interests of the company will always be paramount when deciding whether or not there are sufficient funds available to declare and pay dividends; and
- the company must have sufficient funds on hand to enable a methodical re-investment in its assets and business so as to complete and maintain a realistic five (5) year capital expenditure plan.

In addition, Section 1.3 of the dividend policy further limits the board's ability to pay dividends. It provides:

> *Dividends will only be paid to the extent that such payment would not otherwise cause:*
> *(i) non-compliance with applicable Law;*
> *(ii) non-compliance with any regulatory covenant or obligation;*

(iii) *a breach of contract or the immediate or anticipated failure to otherwise meet the terms of financing arrangements;*

(iv) *an impairment in the operations and maintenance of the assets of Disco;*

(v) *an impairment in financial prudence including capital investment in electricity distribution infrastructure to sustain reliability;*

(vi) *a deterioration in the credit rating of Disco;*

(vii) *an impairment in the maintenance and growth of the Business, consistent with the Business Plan.*

This is consistent with NBHDL's long standing prudent approach to dividends, which will continue following the amalgamation and the creation of New NBHDL.

Appendix Staff-5 – Dividend Policy

SCHEDULE A-1
DIVIDEND POLICY – NORTH BAY HYDRO DISTRIBUTION LIMITED

The dividend policy of Distco is predicated on the mandate of the Distco Board which includes optimizing value to the Holdco Shareholder. Such value is generally realized by Holdco through dividends or the appreciation of enterprise value.

1.1 Regular Dividends – Distco

The Distco Board will approve, declare and pay regular dividends from Distco to the Holdco Shareholder on an annual basis of 30% of Net and Comprehensive Income (as defined in the International Financial Reporting Standard in effect from time to time). Payment of the dividend would be made in two installments annually.

1.2 Special Dividend

Should excess funds be available for additional dividends after a regular dividend has been declared and paid by Distco, then the Distco Board may supplement the regular dividend payment by way of a special dividend in an amount and at the time or times when the Distco Board deems appropriate subject to complying with the Conditions Precedent set out below.

1.3 Conditions Precedent to the Payment of Dividends

Dividends will only be paid to the extent that such payment would not otherwise cause:

(i) non-compliance with applicable Law;

(ii) non-compliance with any regulatory covenant or obligation;

(iii) a breach of contract or the immediate or anticipated failure to otherwise meet the terms of financing arrangements;

(iv) an impairment in the operations and maintenance of the assets of Distco;

(v) an impairment in financial prudence including capital investment in electricity distribution infrastructure to sustain reliability;

(vi) a deterioration in the credit rating of Distco;

(vii) an impairment in the maintenance and growth of the Business, consistent with the Business Plan.

1.4 Payment of Dividends

Dividends, when approved and declared by the Distco Board, will be paid in two installments by way of certified cheque, bank draft or electronic funds transfer to the Holdco Shareholder as follows:

(i) The first dividend installment will be paid in December of each year.

(ii) The second dividend installment will be paid within 30 days following the receipt and approval of Distco's Financial Statements.

1.5 General Guidelines

The Distco Board will, when deciding whether to declare and pay dividends, consider the following guidelines:

(i) The best interests of Distco will always be paramount when deciding whether or not there are sufficient funds available to declare and pay dividends;

(ii) Distco must have sufficient funds on hand to enable a methodical re-investment in its infrastructure and plant in an amount to be determined by the Distco Board by way of completing and maintaining a realistic five year capital expenditure plan/budget and which capital expenditure plan /budget will be reviewed and adjusted at least annually;

(iii) Any requirements and considerations that arise from any rate order issued by the Ontario Energy Board then in effect and any associated application, including a cost of service application;

(iv) Such other factors and concerns that may arise at any time or times or require special consideration by the Distco Board as determined by the Distco Board.

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Reference**:** Application, Page 38, Section 10: "Other Related Matters"

Preamble:

The Applicant states that both NBHDL and ERHDC have adopted IFRS and utilize MIFRS for regulatory reporting purposes. OEB staff is seeking additional information with respect to the impact of ERHDC's adoption of NBHDL's accounting policies within IFRS. Although both entities will report under the same accounting framework, whenever they are consolidated into one set of financial statements (either as separate entities or as an amalgamated single entity), ERHDC (the acquired company) will be required to adopt the accounting policies of NBHDL (the acquirer). This includes, but is not limited to, asset capitalization policies, depreciation policies, etc.

Questions:

(a) Please provide the anticipated timeline of when ERHDC will revise its accounting policies to align with that of NBHDL, as required by *IFRS 10 – Consolidated Financial Statements*.

(b) Has the Applicant undertaken any studies or reviews of the types of transactions that will be impacted as a result of ERHDC's adoption of NBHDL's accounting policies?

(c) If so, please quantify the estimated impact on ERHDC's revenue requirement between the time that ERHDC revises its accounting policies and the time that ERHDC rebases using these updated policies. Specifically, please separate the components of revenue requirement (OM&A, depreciation, cost of capital, and PILs) that are expected to be impacted and show how these calculations are derived.

(d) Please explain the Applicant's intentions with respect to how it plans to account for the differences calculated in part c) with respect to distribution rates.

(e) If the Applicant's intention in part d) above is to request to have an Accounting Order established to track the revenue requirement differences between ERHDC's and NBHDL's accounting policies as part of this proceeding, please prepare a Draft Accounting Order as an appendix for approval.

Response:

(a) The Applicant does not anticipate revising accounting policies until at least 2022. Prior to this time, PUC will continue to provide services to NBEAI utilizing ERHDC's current accounting standards.

(b) At this stage in the process, the Applicant has not undertaken any detailed study or review of the types of transactions that may be impacted as a result of ERHDC's adoption of NBHDL's accounting policies.

Such an analysis would a costly waste of resources prior to OEB approval of this Application.

At a high level, with respect to capitalization and depreciation policies, ERHDCs accounting treatment is similar to NBHDL including the utilization of the July 2010 Kinetrics report for useful life and componentization purposes and conformance with IRFS with respect to capitalization and overhead policies.

It is not anticipated at this time that there will be material financial impacts due to ERHDC's adoption of NBHDL's accounting policies in 2022.

Finally, ERHDC's 2012 Cost of Service application (EB-2011-0319) reflected the changes to depreciation as a result of the Kinetrics study and included costs related to transition to IFRS in the service revenue requirement.

(c) See the response to Staff-6(b) above.

(d) See the response to Staff-6(b) above.

(e) See the response to Staff-6(b) above.

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<u>Reference</u>: Handbook to Electricity Distributor and Transmitter Consolidations
Application (Appendix J)

<u>Preamble:</u>

The OEB's *Handbook to Electricity Distributor and Transmitter Consolidations* includes a list of filing requirements. Under the filing requirements, Section 2.2.4, (page 6 of the filing requirements), applicants are asked to "provide pro forma financial statements for each of the parties (or if an amalgamation, the consolidated entity) for the first full year following the completion of the proposed transaction."

<u>Questions:</u>

(a) Please provide pro forma financial statements for NBHDL for the fiscal year ended December 31, 2020.

(b) Please provide pro forma financial statements for the proposed consolidated entity of New NBHDL, for the first full year following the completion of the amalgamation between NBHDL and NBEAI in 2022.

(c) Please confirm that the pro forma statements in Appendix J reflect the incremental transition costs that are projected in this application and that the pro forma financial statements requested in part b) above will reflect the incremental transition costs and the savings.

(d) Please explain how the projections in the pro forma statements in Appendix J are derived (or will be derived for parts a) and b) above).

<u>Response:</u>

(a) Please see attached Appendix Staff-7(a) for the pro forma financial statements for NBHDL for the fiscal year ended December 31, 2020.

(b) Please see attached Appendix Staff-7(b) for the pro forma financial statements for the proposed consolidated entity of New NBHDL for the year-ended 2022.

(c) Please note that the incremental transition costs of $150k that are projected in this application are not anticipated to be incurred until 2021 and 2022, therefore, they are not included in the 2020 pro forma statements in Appendix J. NBEAI confirms that the pro forma financial statements requested in part b) for 2022 include $75k in transition costs that will be incurred in 2022 and reflect the projected savings estimated for 2022.

(d) The projections in the pro forma statements included in Appendix J of the Application, as well as those included in response to parts a) and b) above, are derived as follows:

- 2016 was used as a base year with updates for 2017 actuals and cost projections for 2018 through to 2026 were made separately for each company.

- NBHDL
  1. 2018-2021 costs were based on the 2019 budget and rolling 5-year plan that includes costs assessments at the departmental level.
  2. 2022 through 2026 costs assumed an OM&A growth rate of approx. 2.5%.
  3. Capital spending is relatively stable across the 2019-2026 time horizon, which reflects historical DSP projections combined with prudent pacing of projects that reflect a balance between reliability and rate stability.
- ERHDC
  1. OM&A growth rates of approx. 2.5% were applied where appropriate for ERHDC from 2018 through 2026 with capital spending reflecting relatively flat expenditures over the 2019-2026 horizon with the exception of a replacement bucket truck in 2019 and a substation rebuild in 2021.

- NBEAI and NBHDL approved cost of service applications for 2021 and 2020 respectively.
- For 2022 forward NBEAI and NBHDL financials were added together, final transition costs of $75k were incorporated and synergies were addressed through to 2026.

Appendix Staff-7(a) Pro Forma Financial Statements for NBHDL for 2020

North Bay Hydro Distribution Ltd.
Pro-forma Income Statement
Fiscal Period 2020

	2020
Electricity Sales	74,662,883
Other Revenue	765,201
Total Revenue	**75,428,084**
Cost of Power	61,116,638
Operating Expenses	
Operations & Maintenance	3,227,576
Billing, Collecting & Administration	4,183,032
Depreciation and Amortization, Disposals	3,198,582
Total Operating Expenses	**71,725,828**
Income from Operating activities	**3,702,256**
Finance Income	332,594
Finance Costs	1,355,179
Other Income / Expenses	478,444
Income before provision for PILs	**3,158,114**
Income Tax	710,759
Net Income	**2,447,355**

North Bay Hydro Distribution Ltd.
Pro-forma Balance Sheet
Fiscal Period 2020

	2020
ASSETS	
Current assets	
Cash and short-term investments	8,671,202
Accounts receivable	14,044,036
Inventory	622,429
Other	643,905
Total current assets	**23,981,572**
Non-current Assets	
Property, plant and equipment	73,831,386
Other Assets	3,155,666
Regulatory deferral account debit balances	640,965
TOTAL ASSETS	**101,609,589**
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	8,324,252
Current portion of long-term debt	4,354,056
Total current liabilities	**12,678,308**
Long-term liabilities	
Customer deposits	705,386
Contributed capital / deferred revenue	4,220,557
Employee future benefits	4,547,240
Long-term debt	37,019,858
Regulatory deferral account credit balances	1,542,094
Total long-term liabilities	**48,035,135**
SHAREHOLDER'S EQUITY	
Capital Stock	19,511,601
Retained earnings	21,384,545
Total shareholder's equity	**40,896,146**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	**101,609,589**

North Bay Hydro Distribution Ltd.
Statement of Cash Flows
Fiscal Period 2020

	2020
OPERATING ACTIVITIES	
Net Income	2,447,355
Net adjustments to non-cash charges	3,589,515
Net change in non-cash working capital balances	(1,343,734)
Net cash flows from operating activities	**4,693,136**
INVESTING ACTIVITIES	
Purchase of property, plant and equipment	(5,290,666)
Changes in regulatory deferral account balances	(504,687)
Cash used in investment activities	**(5,795,352)**
FINANCING ACTIVITIES	
Long term debt	925,186
Other	(204,749)
Cash provided by financing activities	**720,437**
Net increase in cash	(381,780)
Cash at beginning of year	9,052,982
Cash, end of the period	**8,671,202**

Appendix Staff-7(b) Pro Forma Financial Statements for New NBHDL for 2022

New North Bay Hydro Distribution Ltd.
Pro-forma Income Statement
Fiscal Period 2022

	2022
Electricity Sales	88,522,333
Other Revenue	923,159
Total Revenue	**89,445,492**
Cost of Power	72,014,082
Operating Expenses	
Operations & Maintenance	6,229,213
Billing, Collecting & Administration	2,689,911
Depreciation and Amortization, Disposals	3,549,788
Total Operating Expenses	**84,482,993**
Income from Operating activities	**4,962,499**
Finance Income	340,624
Finance Costs	1,774,593
Other Income / Expenses	415,318
Income before provision for PILs	**3,943,848**
Income Tax	788,770
Net Income	**3,155,078**

North Bay Hydro Distribution Ltd.
Pro-forma Balance Sheet
Fiscal Period 2022

	2022
ASSETS	
Current assets	
Cash and short-term investments	10,951,916
Accounts receivable	16,356,565
Inventory	718,071
Other	771,095
Total current assets	**28,797,646**
Non-current Assets	
Property, plant and equipment	85,559,344
Goodwill	3,256,500
Other Assets	2,534,266
Regulatory deferral account debit balances	1,948,214
TOTAL ASSETS	**122,095,970**
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	11,554,184
Current portion of long-term debt	5,711,185
Total current liabilities	**17,265,369**
Long-term liabilities	
Customer deposits	958,156
Contributed capital / deferred revenue	4,987,988
Employee future benefits	4,659,202
Long-term debt	49,077,476
Regulatory deferral account credit balances	1,603,073
Total long-term liabilities	**61,285,894**
SHAREHOLDER'S EQUITY	
Capital Stock	19,511,601
Retained earnings	24,033,106
Total shareholder's equity	**43,544,707**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	**122,095,970**

New North Bay Hydro Distribution Ltd.
Statement of Cash Flows
Fiscal Period 2022

	2022
OPERATING ACTIVITIES	
Net Income	3,155,078
Net adjustments to non-cash charges & working capital balances	3,475,048
Net cash flows from operating activities	**6,630,126**
INVESTING ACTIVITIES	
Purchase of property, plant and equipment	(5,348,166)
Changes in regulatory deferral account balances	(7,500)
Cash used in investment activities	**(5,355,666)**
FINANCING ACTIVITIES	
Long term debt	702,478
Dividends	(946,523)
Other	124,924
Cash provided by financing activities	**(119,121)**
Net increase in cash	1,155,338
Cash at beginning of year	9,796,577
Cash, end of the period	**10,951,916**

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Reference: Application, Pages 12, 27, 35

Preamble:

Page 27 of the Application states "[…] ERHDC has been outside of the rate setting structure for an extended period of time and needs to have rates re-set in order to continue investing in the operational and infrastructure needs of the communities it serves and to position itself in a more secure, financially viable position". Further, "Customers are not best served when the financial viability of an LDC is at risk".

Page 35 of the Application states "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" and that "ERHDC does not have the financial ability to continue executing its operational plans without a rate adjustment".

Page 12 of the Application states "if the Board approves the Phase 1 Transaction, NBEAI would also ensure ERHDC files a cost of service rebasing application for rates effective May 1, 2021 (the "Espanola Rebasing Application")."

ERHDC last filed a rebasing application in February 2012 for 2012 rates. It has been operating under interim rates since May 2016. ERHDC was scheduled to rebase in 2017 but received OEB approval to defer to 2018. As of mid-April 2019, ERHDC has not yet submitted its 2018 cost of service filing, nor has it indicated to OEB staff that it intends to seek OEB permission to defer the application. As of May 1, 2019 ERHDC would be required to convert its rate year to 2019.

Questions:

(a) Does ERHDC intend to submit its 2018 cost of service filing to the OEB by the end of April 2019? If not, why not? If not, has it requested or does it intend to request OEB approval to defer its 2018 filing? Please explain.

(b) Under Phase 1 as proposed, please confirm the year in which the ERHDC would file its cost of service rebasing application for rates effectives May 1, 2021?

(c) If ERHDC's need to rebase is so pressing, why does the Applicant propose to wait until 2021, or thereabouts, to rebase ERHDC's rates (i.e. rather than rebase Espanola now)?

(d) What is the soonest that ERHDC could file a complete cost of service application? Please explain.

(e) Please comment on when ERHDC would next rebase if the OEB did not approve the proposed Phase 1 transaction? Is the date of Espanola's next rebasing tied to whether or not the current consolidation proposal is approved?

(f) Please comment on whether and how ERHDC's rebasing in Phase 1 will account for the savings projected in Phase 2?

<u>Response:</u>

(a) ERHDC does not intend to submit its 2018 cost of service filing to the OEB by the end of April 2019.

Doing so would be contrary to OEB policy, as articulated in Section 2.0.5 of the Board's Chapter 2 Filing Requirements for Electricity Distribution Rate Applications (2017 Edition for 2018 Rate Applications) which states explicitly:

> "*Late applications filed after the commencement of the rate year for which the application is intended will not be accepted by the OEB. For example, for an application to set rates on a cost of service basis commencing May 1, 2018, late applications filed after April 28, 2018 (the last business day before the commencement of the rate year) should be converted to a 2019 rate application. This means that the 2018 test year now becomes the bridge year and the applicant should provide a 2019 budget to underpin an updated test year. In this instance, the OEB expects that a distributor will not seek any further rate adjustment for the 2018 rate year but will remain with the rates set for 2017.*"

ERHDC has not and does not intend to request approval to defer its 2018 filing because it is already clearly and unambiguously addressed in the OEB's policy as set out above.

Finally, and as set out in this Application, the purchaser has laid out its plan to file a cost of service rebasing application for NBEAI for rates effective May 1, 2021.

(b) If the Board approves the Application, the Applicant would use best efforts to file a rate application for NBEAI by August 2020 for rates effective May 1, 2021.

(c) The Applicant is unable to file earlier due to a restrictive covenant found at Section 7.9.1 of the Securities Purchase Agreement dated October 12, 2018, which is attached at Appendix D of the Application. Without going into the details of the negotiations, this was viewed as an important condition on the sale of ERHDC by the sellers. The transaction may not have been possible without this covenant.

(d) Assuming preparations would commence this year, the soonest that ERHDC could file a complete cost of service application would be in August 2020 for rates effective May 1, 2021.

The work effort required to complete a cost of service application is extensive. This is the minimum length of time required to realistically complete a cost of service rate application for ERHDC.

(e) The next possible rebasing of ERHDC's rates would be filed in August 2020 for rates effective May 1, 2021. The next rebasing is directly tied to the approval of the current consolidation proposal.

(f) The savings projected in Phase 2 will not, and must not, be incorporated into ERHDC's rebasing for rates effective May 1, 2021. This is clearly stated in the Application:

> "*A fundamental component of the Proposed Rate Framework is that the NBH Rebasing Application and the ERHDC Rebasing Applications will be heard independently. No synergies are possible until the PUC Services Agreement expires.*"

- And -

> "*The Proposed Rate Framework is an integral, and non-severable component of the proposed two phase transaction and this overall Application. If the Board determines that it will deny the Proposed Rate Framework, the balance of the Application must also be denied.*"

Staff - 9

Reference: Application, Pages 11, 24

Preamble:

Page 11 of the Application states "[…] NBHDL is due to file its cost of service rebasing application for rates effective May 1, 2020".

Page 24 of the Application states "[…] NBHDL intends to file the NBHDL Rebasing Application for rates effective May 1, 2020, as currently required."

Questions:

(a) Please confirm that NBHDL is due to file its cost of service rebasing application for rates effective May 1, 2020 and that it intends to file its application for rates effective May 1, 2020 as currently required, irrespective of whether or not NBEAI's proposed consolidation application is approved.

(b) Please confirm the year in which NBHDL would file its cost of service rebasing application for rates effectives May 1, 2020.

(c) Please comment on whether and how NBHDL's rebasing in Phase 1 will account for the savings projected in Phase 2.

Response:

(a) NBHDL is due to file its cost of service rebasing application for rates effective May 1, 2020. The intention has been to file the application as required, irrespective of whether or not the Application is approved, subject to workflow limitations. Processing this MAADs Application in parallel with the preparation of a COS application is a significant undertaking for NBHDL, which has limited resources, especially when there is a concerted effort to both minimize the costs of such regulatory proceedings and the interruption to the day-to-day operations. NBHDL will endeavor to work towards filing a rate application for 2020 rates, however, the reality is that it may be delayed despite best efforts.

(b) NBHDL would use best efforts to file its cost of service rebasing application for rates effectives May 1, 2020 in late 2019 or early 2020.

(c) The savings projected in Phase 2 will not, and must not, be incorporated into NBHDL's rebasing for rates effective May 1, 2020. This is clearly stated in the Application:

> "*A fundamental component of the Proposed Rate Framework is that the NBH Rebasing Application and the ERHDC Rebasing Applications will be heard independently. No synergies are possible until the PUC Services Agreement expires.*"

\- And -

"*The Proposed Rate Framework is an integral, and non-severable component of the proposed two phase transaction and this overall Application. If the Board determines that it will deny the Proposed Rate Framework, the balance of the Application must also be denied.*"

Staff - 10

Reference: Application, Cover Letter
Application, Pages 1-44

Preamble:

The Applicant seeks approval to purchase Espanola Hydro, merge with it, but operate Espanola Hydro and North Bay Hydro as separate companies with independent rebasings before 2022. This is referred to in the application as “Phase 1”.

The Applicant proposes to return at a later date with a second application for approval to merge the Espanola company created in Phase 1 with the North Bay distributor, effective 2022. This is referred to in the application as “Phase 2”.

The Applicant anticipates Phase 1 will result in a net cost. The Applicant also anticipates that Phase 1 will strain it financially (e.g. “significant increases in its debt to equity ratios” during the period to 2022 and reduced “ratios tied to liquidity”). The Applicant states all of this will be more than corrected in Phase 2 (i.e. net savings and financial relief will come).

Approvals sought by the Applicant at this time relate only to Phase 1; the Applicant has not yet submitted an application to the OEB for approvals related to Phase 2.

The Applicant identifies a pressing need to rebase Espanola Hydro’s rates.

Espanola Hydro was scheduled to rebase in 2017 but received OEB approval to defer to 2018. Espanola Hydro has not yet submitted its 2018 cost of service filing, nor has it requested OEB permission to defer the application. As of May 1, 2019 Espanola Hydro would be required to convert its rate year to 2019.

Despite the pressing picture it paints, the Applicant proposes that Espanola Hydro should apply to rebase for rates effective 2021 (i.e. not now or next year).

Questions:

(a) If Phase 1 contains only net cost and financial stress, while Phase 2 contains the benefit and relief (and the Phase 2 application is to be submitted in the future and is therefore not a sure thing), why not file Phase 1 and Phase 2 approval requests in a single application and at the same time rather than in two separate applications filed years apart?

(b) Please comment on the pros and cons of the following indicative scenarios, and on whether such scenarios were considered by the Applicant and why they were not pursued:

- **"1": As proposed, but with earlier Espanola rebasing**
  - Espanola rebases sooner (i.e. rather than for rates effective 2021 as originally proposed by the Applicant),
  - The consolidation involves two separate applications filed years apart (i.e. as originally proposed by the Applicant).

- **"2": Earlier Espanola rebasing, all consolidation requests made in a single application**
  - Espanola rebases sooner rather than later,
  - The consolidation involves one application.

- **"3": Espanola rebasing as proposed, but all consolidation requests made in a single application**
  - Espanola rebases for rates effective 2021 as originally proposed,
  - The consolidation involves one application.

- **"4": Merge first, rebase later**
  - Espanola and North Bay Hydro merge (i.e. to form "the new NBHDL")
  - Espanola defers rebasing
  - The consolidation involves one application.

(c) Please comment on why ERHDC and NBHDL did not elect to file an acquisition and amalgamation application effective 2022 (i.e. for the period after the expiry of the existing arrangement between PUC and ERHDC) instead of the phased approach contemplated in the current Application? Please further comment on why this is the case given that Espanola and North Bay would have pursued independent rebasings prior to 2022 anyhow (i.e. in absence of the consolidation).

<u>Response:</u>

(a) No synergies are possible prior to the Phase 2 transaction due to the ongoing obligations under the PUC Agreement. NBHDL is unwilling to make ratepayers in the City of North Bay assume ERHDC's obligations under the PUC Agreement. Consequently, the two utilities must be operated separately until the Phase 2 Transaction is completed (after the PUC agreement expires).

When the Ontario Energy Board ("OEB") grants leave under Section 86 of the *Ontario Energy Board Act, 1998* such leave is traditionally accompanied by the following condition:

> "The leave granted in paragraphs [●] and [●] shall expire 18 months from the date of this Decision and Order. If the transaction has not been completed by that date, a new application will be required in order for the transaction to proceed."

This condition is traditionally referred to as the "**sunset clause**".

The Applicant has proposed filing a new application for OEB approval of the Phase 2 Transaction because **it is not possible** to complete both the Phase 1 Transaction and the Phase 2 Transaction within 18 months, and because a new application would thus be required for the Phase 2 Transaction in accordance with the terms of sunset clause.

For example, let's assume as a hypothetical, that the OEB approves this Phase 1 Transaction on June 1, 2019. The earliest the Applicant expects to be in a position to file the Phase 2 Transaction materials would be early 2022, let's say January 1, 2022 for the sake of the hypothetical. This difference of 31 months greatly exceeds the 18-month sunset clause.

The Applicant is not requesting a change to or deviation from the OEB's traditional sunset clause in its Application.

Rather, consistent with the requirements of the sunset clause, since it is not possible to complete both the Phase 1 Transaction and the Phase 2 Transaction within 18 months, the Applicant is proposing to file Phase 2 as a new application in order to obtain leave from the Board.

(b) The Applicant's comments on each of the scenarios posed in this question are included below.

Scenario 1: As proposed, but with earlier Espanola rebasing

The Applicant is unable to pursue this option due to a restrictive covenant included at Section 7.9.1 of the Securities Purchase Agreement dated October 12, 2018, which is attached at Appendix D of the Application.

That covenant requires the Applicant to, subject to some specific exceptions:

> "[…] *maintain the existing rates for the customers of ERHDC, adjusted solely by the OEB's Price Cap Incentive Rate-setting option, or any amendment, modification, successor or replacement thereof established by the OEB until May 1, 2021*"

Without going into the details of the negotiations, this was viewed as an important condition on the sale of ERHDC by the sellers. The transaction may not have been possible without this covenant.

It is important to note that that while this covenant is binding on the Applicant - it is not binding on the OEB. Specifically, Section 7.9.1 is subject to any requirements of applicable law and the prescribed requirements of the OEB, including all policies, procedures, handbooks, guidance and other documentation promulgated by the OEB.

That said, it is also important to respect the intentions of the parties to the proposed transaction as expressed in the documented commercial terms. The evidence in the Application demonstrates that the long-term financial viability of ERHDC can be both sustained and ultimately enhanced if the Board approves the Application as proposed.

Scenario 2: Earlier Espanola rebasing, all consolidation requests made in a single application

The Applicant is unable to pursue this option for the same reason as was explained in response to Scenario 1 above. Specifically, an earlier Espanola rebasing is not something that the Applicant can pursue due to a restrictive covenant included in the Securities Purchase Agreement dated October 12, 2018 and filed as Appendix D to the Application.

The Applicant is also unable to pursue this option for the same reason as was explained in response to part (a) above. Specifically, since it is not possible to complete both the Phase 1 Transaction and the Phase 2 Transaction within 18 months, the Applicant is proposing to file Phase 2 as a new application to obtain leave from the Board in compliance with the requirements of the OEB's standard sunset clause.

Scenario 3: Espanola rebasing as proposed, but all consolidation requests made in a single application

The Applicant is also unable to pursue this option for the same reason as was explained in response to part (a) above. Specifically, since it is not possible to complete both the Phase 1 Transaction and the Phase 2 Transaction within 18 months, the Applicant is proposing to file Phase 2 as a new application to obtain leave from the Board in compliance with the requirements of the OEB's standard sunset clause.

Scenario 4: Merge first, rebase later

The Applicant is unable to pursue this option due to the poor financial situation of ERHDC.

As was explained in the Application, ERHDC has not been before the Board for a cost of service application in seven (7) years. In addition, ERHDC has not had rates adjusted in nearly four (4) years. Finally, ERHDC has been operating under interim rates since May 1, 2016.

In this context, ERHDC has not performed financially well over the last few years and this trend is projected to continue if the Board does not approve this Application. For example, in 2017 ERHDC’s achieved regulatory ROE was 2.45%, well below the Board’s deemed ROE dead-band of 300 basis points.

The Applicant is not able to proceed with the merger of ERHDC with North Bay Hydro unless and until this financial uncertainty is resolved.

(c) The Application that has been filed is seeking OEB approval of a specific commercial transaction which was negotiated at arms-length between a buyer and two sellers which is fully detailed in the Securities Purchase Agreement dated October 12, 2018 and is attached as Appendix D to the Application.

Section 7.1 of the Securities Purchase Agreement requires the Applicant and the vendors to, as promptly as practicable after the execution of the Agreement file or cause to be filed with the OEB an application required to be made under Subsection 86(1) and Subsection 86(2) of the OEB Act in respect of the OEB’s approval. In addition, the Applicant and the vendors must use their best efforts to cooperate and assist to the other, so that the Required Approval can be obtained as soon as reasonably possible. In addition, under the Securities Purchase Agreement the "Closing Date" must by definition occur prior to the "Outside Date" (December 31, 2020).

In this context, the reason ERHDC and NBHDL did not file an acquisition and amalgamation application effective 2022 is because it is entirely inconsistent with the terms of the commercial transaction that is before the Board for approval in this Application.

Neither ERHDC nor NBHDL are party to this Securities Purchase Agreement, nor do they have the authority to amend the terms of this commercial transaction.

The commercial transaction that has been successfully negotiated between the buyer and sellers reflects a range of legitimate interests, including the sellers’ desire to sell ERHDC, and the buyer’s willingness to buy ERHDC on the basis of the phased regulatory approach contemplated in the Application.

If, instead, the question is why didn't the Applicant bring forth an application for approval of a completely different commercial transaction? The answer is apparent. That is not the commercial transaction that was negotiated between the buyer and the sellers.

This question was previously contemplated by the OEB, which determined in its combined MAADs Decision dated August 31, 2005 (RP-2005-0018 / EB-2005-0234 / EB-2005-0254 / EB-2005-0257) (the “**Combined MAADs Decision**”) that:

> "*The Board is of the view that its mandate in these matters is to consider whether the transaction that has been placed before it will have an adverse effect relative to the status quo in terms of the Board’s statutory objectives. It is not to determine*

> *whether another transaction, whether real or potential, can have a more positive effect than the one that has been negotiated to completion by the parties.*"[5]

[5] Combined MAADs Decision at pg. 6

Staff - 11

Reference: Application, Pages 19-32
Application, Pages 1-44

Preamble:

Table 7-3 on page 30 of the Application provides SAIFI and SAIDI metrics for the North Bay and Espanola distributors. The table states "Please note due to ERHDC being fully embedded with HONI, the majority of weather-related events cause upstream outages which are classified as Loss of Supply and therefore are not included in the above SAIDI/SAIFI calculations, resulting in very favourable statistics for ERHDC when excluded. As such, the statistics do not provide an equal comparison between the two utilities."

Page 32 of the Application states "As NBEAI is acquiring ERHDC the proposed transaction will result in a change of control. All transmission and distribution assets in the ERHDC service territory will fall under the control of NBEAI in Phase 1 […]."

Page 32 of the Application states "Due to the distance between the two utilities and the importance of maintaining and/or enhancing current customer service levels, it is proposed that the current operation centres will be maintained in both service territories throughout the duration of this process."

Page 19 of the Application states "Front line operations staff that currently respond to outages and power quality issues are expected to continue to serve the same communities. The Applicant anticipates that response times will not decline. Throughout both phases of this transaction, it is the intention of the Applicant to maintain the service levels of both LDCs through the merging of technologies, system control, adoption of best work practices, etc."

Page 31 of the Application states in the context of Phase 2, "Of note, the ERHDC electrical system will be displayed, managed, and operated from the NBHDL Control Room, an element of operation that is currently lacking at ERHDC."

Page 29 of the Application states "[…] it is proposed the existing service center will continue to operate in Espanola."

Questions:

(a) For clarity, will the Espanola distribution system be operated from the Espanola operations centre during Phase 1? If so, who will it be operated by? If not, please explain.

(b) Please clarify the significance of the term "control" versus "operate" on page 32 in the context of distribution system operations and reliability for the Espanola service territory.

(c) Will there be a reduction to the number of Espanola system operators during Phase 1? If yes, please explain and comment on implications for Espanola reliability.

(d) Will there be a reduction to the number of Espanola front line operations staff that currently respond to outages and power quality issues during Phase 1? If yes, please explain and comment on implications for Espanola service levels and quality standards (e.g. such as response times).

(e) With respect to distribution system operations, service levels and quality standards, will there be any merging of technologies, system control, adoption of best work practices, etc. during Phase 1?

(f) Are Loss of Supply events excluded only from ERHDC's SAIDI and SAIFI statistics in Table 7-3? If yes, please explain why they are not also excluded from NBHDL's statistics for greater comparability?

(g) Please clarify what is meant by "[…] an element of operation that is currently lacking at ERHDC" in the quote from Application page 31 above.

(h) Is the Espanola service centre referenced on page 19 the same as the operations centre referenced on page 32? Please clarify.

Response:

(a) The Espanola distribution system will be operated from the Espanola operations centre during Phase 1. The system will be operated as it is currently; by ERHDC staff, managed by PUC pursuant to the PUC Services Agreement.

(b) The significance of the word control in the context of Phase 1 is in relation to the ownership structure only. The control (ownership) will change in Phase 1, but the operation of the distribution system and reliability for the Espanola service territory will remain as it is currently; the system will continue to be operated by ERHDC operations staff and PUC management pursuant to the PUC Services Agreement.

(c) There are no "system operators" in Espanola, only line crew. There are no proposed reductions in the number of Espanola line crew during Phase 1.

(d) There are no proposed reductions to the number of Espanola front line operations staff that currently respond to outage and power quality issues during Phase 1.

(e) With the existence of the PUC Services Agreement throughout the duration of Phase 1, business operations are proposed to continue as currently structured. As outlined on page 30 and page 31, Phase 2 is where the majority of the merging of technologies, system control, and adoption of best work practices will occur.

(f) Loss of Supply events are excluded from the statistics of both ERHDC and NBHDL in Table 7-3.

Due to the ownership and configuration of ERHDC's system (fully embedded with HONI) the majority of weather-related events in the service territory cause Loss of Supply outages.

This is in contrast to the ownership and configuration of NBHDL's system (not fully embedded in HONI) where the majority of weather events cause local outages and therefore don't receive the same type of exclusions from the statistics.

For this reason, the two systems cannot be compared directly as the configurations of the systems and thus how identical outages are classified are quite different.

Notwithstanding the foregoing, both systems achieve very strong reliability statistics.

(g) Currently at the Espanola operations centre there is no control room, or dedicated staff, that handle control room activities only.

Operating maps exist and are kept current and accurate by operations personnel, but not in the traditional sense of a dedicated control room with dedicated staff. This is what is meant by an element of operation that is currently lacking.

(h) The ERHDC's "office" referenced on page 19 is the same as the "current operation centre" in Espanola reference on page 32. There is no "service centre" referenced on page 19.

Staff - 12

Reference: Application, Page 9

Preamble:

Page 9 of the Application states "The closing of the acquisition of the Purchased Securities is conditional upon the receipt of all required approvals and third-party consents, including the OEB's approval of this Application."

Questions:

a) Please clarify which required approvals and third-party consents are referenced in the quote above. Please also summarize the status of each and provide an outlook for expected completion as applicable.

b) Please clarify when the transaction will close following receipt of the approvals and consents noted above.

Response:

(a) The required third party consents and approvals to complete the acquisition of the Purchased Securities consist of (i) receipt of the OEB's approval of this Application, which is the "Required Approval" under the Securities Purchase Agreement which is attached as Appendix D to this Application, and (ii) receipt of the "Third Party Consents" as set forth Schedule Q to the Securities Purchase Agreement, which are summarized as follows:

(i) the consent of Ontario Infrastructure and Lands Corporation pursuant to the terms of financing agreement between Espanola Regional Hydro Distribution Corporation and Ontario Infrastructure and Lands Corporation dated October 28, 2015, as amended by Amending Agreement No. 1 dated November 23, 2015; and

(ii) the consent of Royal Bank of Canada pursuant to the terms of a letter agreement between Royal Bank of Canada and Espanola Regional Hydro Distribution Corporation dated October 17, 2011, as amended by a Letter Amending Agreement dated June 9, 2014.

(b) All Third Party Consents are anticipated to be received prior to or shortly after the receipt of the Required Approval. The transaction will close on the "Closing Date" under the Securities Purchase Agreement which is defined as occurring no earlier than five Business Days and no later than 35 days following receipt of the Required Approval.

Donald D. Rennick Interrogatories

DDR-1

Reference: Page 16 – 4 through Page 17 – 8

Preamble:

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.

"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;".

"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;".

Questions:

(a) Please provide specific details of the suggested positive impacts on NBHDL consumers regarding price and quality of electricity service that this amalgamation will produce.

(b) 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.

(c) Based on these facts, please indicate how the transaction proposed in this application has passed the OEB "no-harm" test.

<u>Response:</u>

(a) All customers stand to benefit from the proposed transaction. In particular, customers of NBHDL will benefit because the otherwise fixed overhead costs of providing services will be spread out across a larger pool of customers, thereby reducing the per customer portion of these fixed overhead costs. Customers of ERHDC will benefit because NBHDL can largely replace the services provided under the PUC Services Agreement at no incremental cost to customers.

(b) Engineering and operational expertise is not lacking or not available to NBHDL; however, with the addition of a new service territory and the addition of staff with years of experience in distribution engineering and operations, there are many things to be shared and learned between the two teams, which will result overall in a higher quality of decision making and a stronger ability to develop, and execute, plans and processes.

(c) We note that this question in part (a) and (b) is focused on exploring the “net benefits” to customers of both NBHDL and ERHDC. The “no harm” test differs conceptually from a “net benefits” test. The evidence throughout the Application demonstrates how the proposed transaction meets the various facets of the “no harm” test. The response to parts (a) and (b) above demonstrate how, in addition to meeting the “no harm” test, there will actually be net benefits to both the customers of NBHDL and ERHDC as a result of the transaction.

NBEAI demonstrated throughout the MAADs application how the proposed application has passed the OEB “no harm” test. There are significant and sustainable synergies anticipated as a result of centralizing back-office functions including management, billing, customer service, finance and regulatory functions.

The reality of ERHDC and NBHDL’s service territories is that there is no growth in load or customers, and while on-going efforts to control costs are made, the existing customer base carries these costs. Amalgamating the two LDCs allows administrative costs to be spread over a larger customer base, easing some of the cost pressures on customers and enabling economies of scale. This philosophy is one that is consistently referred when assessing the benefits of voluntary consolidation and one that NBHDL believes will translate to future efficiencies.

DDR-2

Reference: Page 23 – 17

Questions:

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

(b) 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?

Response:

(a) The acquisition was presented, discussed, explained over the course of five (5) NBHHL meetings spanning from October 31, 2017 to July 26, 2019, resulting in a resolution approving the execution of the SPA for acquisition of Espanola Regional Hydro. For context, a typical year would include one or two meetings. Meetings dates were as follows:

- October 31, 2017
- November 30, 2017
- January 16, 2018
- July 17, 2018
- July 26, 2018

(b) Board members of NBHHL are required to act honestly and in good faith with a view to the best interests of the corporation; and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Their approval of the proposed transaction was based on the fact that it is in the best interests of the corporation.

DDR-3

Reference: Page 24 - 12

Question:

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.

Response:

The assumptions that were used to arrive at the synergies that range from $572k to $686k were based on centralizing back-office functions including management, billing, customer service, finance and regulatory functions. Please see the response to Staff – 7 d) and SEC – 8 for additional commentary. NBEAI would note that 2022 year includes $75k in transition costs.

DDR-4

Reference: Page 24 - 16

Preamble:

"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.

Question:

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

Response:

The rates paid by customers of ERHDC currently include an amount for cost of capital, which in accordance with the OEB's policies include both a return on debt and return on equity component. Following the completion of the Phase 1 transaction, the amounts that previously funded ERHDC's cost of capital will go to fund NBEAI's cost of capital. In addition, the PUC Services Agreement and the costs related to it are reflective of the underlying service costs of ERHDC and will continue to be in place until such time as the contract expires.

DDR-5

Reference: Page 25 – 13

Preamble:

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

	2019	2020	2021	2022	2023	2024	2025	2026	
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

Question:

Response:

There does not appear to be a specific question within the statements provided in the preamble above.

There are significant synergies that are a direct result of the centralization of back office functions as referenced in the Application that will bring about benefits for customers of ERHDC as well as NBHDL.

As shown in Schedule A, prepared by Mr. Rennick, the acquisition of ERHDC results in a **reduced** OM&A cost per customer for both NBHDL and ERHDC customers. This more than satisfies the "no harm" test.

The primary benefit for NBHDL customers is that New NBHDL will be operated with essentially the same level of administrative costs, but with a larger customer base resulting in a lower OM&A cost per customer to the benefit of all customers.

DRR-6

Reference: Page 26-21

Preamble:

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

Question:

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.

Response:

The sentence included in the preamble is within the context of why a two-phased approach was proposed for the acquisition. The Applicant does not agree with the suggestion that "ERHDC has been less than well-organized". Without the approval of the purchase, NBEAI has no way of ensuring that ERHDC submits its regulatory filings or brings them up to date.

DDR-7

Reference: Page 27-15

Question:

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.

Response:

Not confirmed. Please see response to DDR-5 for the benefits of this acquisition for both ERHDC and NBHDL customers.

DDR-8

Reference: Page 28-16

Preamble:

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

Question:

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.

Response:

Phase 1 of the proposed transaction includes a cost of service rebasing for ERHDC, independent of NBHDL. The rates that are set at that point in time will be in place until rate harmonization, expected to occur in 2026. Under this two-phase approach, ERHDC customers will be paying for infrastructure requirements during that time period not NBHDL customers.

Rates for NBHDL customers over the next 10 years will also be set based on an independent cost of service application that reflects the underlying OM&A cost structure required to provide services for NBHDL.

Upon rate harmonization, OM&A costs will be allocated over a larger customer base which will allow for a lower overall and relatively stable OM&A cost per customer over the longer-term.

<u>DDR-9</u>

<u>Reference:</u> Page 28-25

<u>Question:</u>

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?

<u>Response:</u>

Mr. Rennick is correct that there are no material reductions forecasted for NBHDL OM&A costs over the time period referenced arising directly as a result of the Application. The anticipated synergies are primarily as a result of NBHDL's ability to centralize the back-office functions of ERHDC.

During this same time period, however, NBHDL customers will not see any OM&A cost increases as a result of the purchase. NBHDL customers will experience relatively stable rates within cost of service applications with no decrease in the service levels that customers have come to expect.

Finally, New NBHDL will see lower total costs overall to service a larger customer base, resulting in a lower OM&A per customer benefiting all customers.

Finally, having filed this Application with the OEB in a public regulatory forum ensures that not only the OEB but also the other parties to this proceeding as well as any interested member of the public can easily recall this promise in the future.

DDR-10

Reference: Page 34-3

Preamble:

"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."

Question:

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.

Response:

NBHDL will be gaining the benefit of several individuals with years of operational experience in the Northern Ontario climate to its team through the retention of ERHDC staff, experience that takes decades to develop in an industry that is constantly managing against the loss of knowledge and experience through retirements of an aging workforce.

NBHDL looks forward to embracing and utilizing the knowledge, experience, and perspective of ERHDC staff through collaboration to find ways to continuously improve, which in the end will result in benefits for both service territories.

As both operation centres are proposed to remain, throughout Phase 1 and Phase 2, the amalgamation will not directly result in any loss of experience for the combined operations of the utilities.

DDR-11

Reference: Page 35-1

Preamble:

"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.

Question:

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.

Response:

NBHDL was approached by an advisor to ERHDC to determine if NBHDL would be interested participating in a competitive bid process. After investigation, evaluation and economic modeling of the opportunity it was determined by NBHDL that there was merit in submitting a bid that included rebasing of ERHDC.

NBHDL's bid was successful in this competitive process.

NBHDL submitted its bid in furtherance of its mission statement, which is:

> "North Bay Hydro is committed to distributing electricity to it's customers in a safe, reliable and efficient manner that provides good value for money while being responsive to customer and community needs and contributing to provincial and local policy objectives."

Economist Don Drummond had previously recommended in the Commission on the Reform of Ontario's Public Services, "Public Services for Ontarians: A Path to Sustainability and Excellence," February 2012 at p. 331 to:

> "*Consolidate Ontario's 80 local distribution companies (LDCs) along regional lines to create economies of scale. Reducing the $1.35 billion spent on operations, maintenance and administrative costs for Ontario's LDCs would result in direct savings on the delivery portion of the electricity bill.*"

Similarly, the Report of the Ontario Distribution Sector Review Panel titled *Renewing Ontario's Electricity Distribution Sector: Putting the Consumer First* dated December 2012 recommended:

> "*The consolidation of Ontario LDCs into 8 to 12 regional distributors that are large enough to deliver improved efficiency and enhanced customer focus, while at the same time maintaining connections with local communities.*"

and

> "*There should be two regional distributors in the north, one serving the northeast part of Ontario, and the other serving the northwest.*"

and

> "*In the first ten years after consolidation, $1.7 billion in costs at net present value can be removed from the electricity distribution sector. After allowing for $500 million in transaction and transition costs, it is expected that cost savings of $1.2 billion at net present value would be achieved across the sector over the first ten years for the benefit of customers and shareholders. This would be equivalent to approximately $70 per year for every electricity customer by the end of the tenth year.*"

In this context, NBHDL is not pursing the transaction to benefit ERHDC customers. Rather, NBHDL is pursing the transaction because all customers (including NBHDL customers) will be better off as a result of the proposed transaction due to the economies of scale associated with the transaction.

The economies of scale arising from the transaction are more fully detailed in the Application. At a high level, NBHDL is able to integrate ERHDC front-end and back-end business functions into current NBHDL business functions with very little allocation of NBHDL resources once transitioned. As evidenced, doing so creates synergies and spreads existing NBHDL costs over a greater customer base both of which provide benefit to all NBHDL and ERHDC customers.

DDR-12

Reference: Page 35-12

Preamble:

"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."

Question:

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.

Response:

Not confirmed. The rates currently paid by NBHDL customers do not include, and will never include, these incremental one-time transaction and transition costs related to this purchase nor will future rates include these costs in the underlying OM&A cost structure. Rather, these costs are being funded through retained earnings.

DDR-13

Reference: Page 35-23

Preamble:

“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.”

Question:

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.

Response:

Not confirmed. Delivery rates currently paid by NBHDL customers do not include, and will not include, these incremental one-time transaction and transition costs related to this purchase nor will future rates include these costs in the underlying OM&A cost structure.

DDR-14

Reference: Page 35-15

Preamble:

"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.

Question:

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

Response:

The reasoning and calculations made to arrive at the final purchase price are not relevant to the matters at issue in this Application.

Please refer to the Combined MAADs Decision dated August 31, 2005 (RP-2005-0018 / EB-2005-0234 / EB-2005-0254 / EB-2005-0257) (the "**Combined MAADs Decision**") which provides at pg. 7 that:

> "*The Board is of the view that the selling price of a utility is relevant only if the price paid is so high as to create a financial burden on the acquiring company which adversely affects economic viability as any premium paid in excess of the book value of assets is not normally recoverable through rates. This position is in keeping with the "no harm" test.*"

The evidence in the Application is clear. The purchase price will not create a financial burden for the NBHDL nor will it affect the economic viability of NBHDL or NBEAI.

DDR-15

Reference: Page 37-4

Preamble:

"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.

Question:

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.

Response:

Please see the table included in response to Staff-4(a).

DDR-16

Reference: Page 37-6

Preamble:

"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.

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
2016 Rate Base - ERHDC		$6,128,438		**Return**
	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.

<u>Questions:</u>

(a) [Schedule B] Based on this fact, please explain how this cash shortage is not harmful to the current customers of NBHDL.

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

<u>Response:</u>

(a) The Applicant does not agree with the hypothetical posed or the conclusion implied in this question.

Among other things, it assumes that 100% of the financing must be paid off within 20 years. That would mean at the end of the 20-year period, that the utility would be effectively financed through 0% debt and 100% equity. This is not in conformance with the OEB's stipulated 60% debt and 40% equity capital structure.

As explained in Staff – 4 a), while this specific acquisition is proposed to be 100% financed, New NBHDL will still be within the OEB's deemed debt structure for the purposes of setting rates.

Finally, the 'cash shortage' referenced in the IR does not account for any of the synergies anticipated during the deferred rebasing period after phase 2. Nor does it reflect that New NBHDL will have assets and equity as a result of the purchase of ERHDC's infrastructure that itself has value.

In addition, with respect to the Schedule prepared by Mr. Rennick there are several assumptions that should be adjusted for/included and further considerations made:

- The OEB cost of capital metrics being used in this calculation, specifically the 8.98% for the cost of equity, is an after-tax rate of return. Since the $220k of annual return is already after tax, the $1.1M of PILS should not be considered. The only tax that should be considered is the amount of tax on the difference between the OEB cost of debt rates and the actual debt rates from TD, which is minimal.

- The current negotiated terms with TD have an amortization period of 25 years, not 20 years. Therefore, there are 5 more years where the return would be higher than the interest costs, further lowering the "cash required" amount.

- Even if one assumes that the debt is fully paid off, then the net return to equity becomes greater as there are no further debt servicing payments to make. In other words, if this analysis looked at an even longer time horizon, the net return associated with this transaction grows.

- Your calculation does not contemplate any increase in the acquired rate base. There are some capital improvements expected, therefore the $6.1M is likely to increase (also increasing the return expected).

- Your calculation does not include the annual synergy savings expected from the amalgamation. They are assumed to be approximately $3.25M over the 5-year period (before customer rates are reduced for the synergy savings). After tax this would equate to $2.6M of additional income not included in the Schedule B analysis.

Finally, this calculation looks at the transaction from a pure cashflow perspective and does not consider the growth in equity/asset that NBHDL is acquiring.

The company will be adding over $6M in rate base (which, again, assumes no growth in the rate base due to capital investments). Although this increased rate base may not directly impact the cashflow calculation in Schedule B, it does provide the municipality with a larger/more valuable asset.

(b) This has been fully addressed in the evidence included in the Application and through these IRRs.

<u>DDR-17</u>

<u>Reference:</u> Page 37-11

<u>Preamble:</u>

"Pro forma financial statements"

<u>Questions:</u>

(a) Please provide a breakdown of the $10,765,944 shown as long term debt on the pro-forma Balance Sheet.

(b) Please provide details of the $139,381 as cash provided by financing activities shown on the pro-forma Statement of Cash Flows.

<u>Response:</u>

(a) Long-term debt in the pro forma statements of NBEAI for 2020 include existing OILC debt, debt in relation to capital infrastructure spending and the acquisition financing debt.

(b) The $139k includes changes in customer deposits and net change in borrowing.

School Energy Coalition Interrogatories

SEC-1

Reference: Application, p. 8 – 12, and Appendix D, s. 7.9

Question:

Please confirm the following proposed timeline, or correct if not confirmed:

a. Approval of Board in 2019
b. Closing of Phase I Transaction – approximately 60 days after OEB approval
c. Rebasing Application by North Bay Hydro – August 31, 2019
d. Rebased Rates for North Bay Hydro effective – May 1, 2020
e. Rebasing Application by Espanola Hydro – August 31, 2020
f. Rebased Rates for Espanola Hydro – May 1, 2021
g. End of PUC Services Agreement Term – May 31, 2021
h. Extension of PUC Services Agreement for Transition to – February 28, 2022
i. Closing of Phase II Transaction – February 28, 2022
j. Rate Harmonization and Rebased Rates – May 1, 2027.

Response:

NBEAI confirms the proposed timeline above, subject to the following specific comments:

With respect to d), please see Staff – 9 a).

With respect to j) the intention is to put forward a rate application that addresses harmonization of rates effective May 1, **2026**.

SEC-2

Reference: Application, p. 14; Appendix D, section 7.9.2

Question:

With respect to the proposed ratemaking framework:

(a) Please confirm that the Applicants are not planning to have any rebasing deferral period for either North Bay Hydro or Espanola Hydro. Instead, the proposal is that North Bay Hydro will rebase for May 1, 2020, and then remain on Price Cap IR for six years rather than the normal four years, and Espanola Hydro will rebase for May 1, 2021, and then remain on Price Cap IR for five years rather than the normal four years.

(b) Put another way, please confirm that the Applicants are proposing an eight year rebasing deferral period, but are requesting that the Board allow them to seek additional rate increases in 2020 and 2021 respectively during the rebasing deferral period.

(c) Please confirm that, under the Applicants' rate proposal, the 2020 and 2021 rebasings will assume costs as if no merger was taking place.

(d) Please confirm that the approval the Applicants are requesting today with respect to the proposed rate framework is intended to continue to be effective even if the Board's policies with respect to timing of rebasing, and available years of Price Cap IR, change in the interim period, i.e. the Board's order in this proceeding will supercede any inconsistent Board policy in existence in 2022.

(e) [Appendix D, section 7.9.2] Please clarify whether the proposed ratemaking framework includes the ability to seek a rebasing for Espanola Hydro that is effective prior to May 1, 2021, in the event that this provision of the Securities Purchase Agreement becomes applicable.

Response:

(a) NBEAI confirms that there are no plans for any rebasing deferral period for either NBHDL or ERHDC independently. The proposal is for both companies to remain on Price Cap IR until a cost of service application is put forward for rate harmonization.

(b) The Applicants are not proposing an eight-year rebasing deferral period. NBHDL and NBEAI are proposing to file independent cost of service applications in 2020 and 2021 as required under current timelines. Following completion of the Phase 2 Transaction, NBHDL would commit to only defer rebasing and rate harmonization of the consolidated utility for five (5) years. This would ensure that ratepayers would see the benefits of the amalgamation of NBHDL and ERHDC by 2026, a full two (2) years earlier than if the 10-

year deferred rebasing period was applied following the completion of the Phase 1 Transaction.

(c) The two companies are running separately until 2022. As such, NBEAI confirms that the two independent cost of service filings will reflect the underlying OM&A cost structure to provide services to the respective communities and customers for the test years in question.

(d) Not confirmed.

The approvals requested in the Application are premised entirely upon the Board's current policies.

If the Board's policies with respect to timing of rebasing or available years of Price Cap IR change in the interim period, it would be incumbent upon a future panel of the Board to assess the implications of those changes on the approvals obtained in this Application.

(e) NBEAI confirms that the proposed ratemaking framework includes the ability to seek a rebasing for Espanola Hydro that is effective prior to May 1, 2021, in the event that this provision of the Securities Purchase Agreement becomes applicable. It is important to recognize that Section 7.9.2 of the SPA is strictly limited to a consideration of specific types of losses under Sections 7.18.2 (land/real estate issues), 9.5.5 (losses for unpaid taxes) and 10.1.1 (breach of representations and warranties).

SEC-3

Reference: Application, p. 12

Question:

Please file the December 31, 2018 audited financial statements of both North Bay Hydro and Espanola Hydro.

Response:

Please see ‘Appendix SEC-3’ for the audited financial statements of both NBHDL and ERHDC.

Appendix SEC-3 – Audited Financial Statements for NBHDL and ERHDC

North Bay Hydro Distribution Limited
Financial Statements
For the year ended December 31, 2018

North Bay Hydro Distribution Limited
Financial Statements
For the year ended December 31, 2018

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Independent Auditor's Report

To the Shareholder of North Bay Hydro Distribution Limited

Opinion

We have audited the financial statements of North Bay Hydro Distribution Limited (the Entity), which comprise the statement of financial position as at December 31, 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

North Bay, Ontario
March 27, 2019

North Bay Hydro Distribution Limited
Statement of Financial Position
Expressed in Canadian Dollars
For the year ended December 31, 2018

	Note	2018	2017
Assets			
Current assets			
Cash and short-term investments		$ 7,791,709	$ 12,132,663
Accounts receivable	7	10,830,576	7,519,215
Unbilled revenue		5,867,434	6,329,535
Payment in lieu of taxes receivable	8	142,088	21,050
Inventory	11	738,723	610,225
Prepaid expenses - current		640,999	638,161
Total current assets		26,011,529	27,250,849
Non-current assets			
Property, plant and equipment	5	69,301,631	65,569,846
Prepaid expenses – long-term		63,510	254,041
Financial instrument asset		1,194,928	1,335,704
Deferred taxes	8	1,666,724	2,555,522
Total non-current assets		72,226,793	69,715,113
Total assets		98,238,322	96,965,963
Regulatory deferral account debit balances	4	666,902	450,824
Total assets and regulatory deferral account balances		$ 98,905,224	$ 97,416,787

The accompanying notes are an integral part of these financial statements.

North Bay Hydro Distribution Limited
Statement of Financial Position (continued)
Expressed in Canadian Dollars
For the year ended December 31, 2018

	Note	2018	2017
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	9	$ 9,558,632	$ 10,575,337
Deferred revenue		841,982	386,415
Customer deposits - current	7	73,005	113,244
Current portion of long-term debt	15	3,431,093	2,983,225
Total current liabilities		13,904,712	14,058,221
Long-term liabilities			
Customer deposits - long-term	7	737,239	721,988
Contributions in aid of construction	5	3,500,338	3,022,340
Employee future benefits	9	4,256,659	4,559,762
Long-term debt	15	35,060,008	33,988,488
Total non-current liabilities		43,554,244	42,292,578
Total liabilities		57,458,956	56,350,799
Shareholder's Equity			
Share capital	12	19,511,601	19,511,601
Retained earnings		19,059,353	17,275,704
Accumulated other comprehensive income (loss)		(11,059)	(166,308)
		19,048,294	17,109,396
Total shareholder's equity		38,559,895	36,620,997
Total liabilities and shareholder's equity		96,018,851	92,971,796
Regulatory deferral account credit balances	4	2,886,373	4,444,991
Total liabilities, equity and regulatory deferral account credit balances		$ 98,905,224	$ 97,416,787

Signed on behalf of the Board of Directors by

_______________________ Director

_______________________ Director

The accompanying notes are an integral part of these financial statements.

North Bay Hydro Distribution Limited
Statement of Comprehensive Income
Expressed in Canadian Dollars
For the year ended December 31, 2018

	Note	2018	2017
Revenue			
Electricity sales		$ 67,424,198	$ 68,378,071
Other		746,080	836,408
		68,170,278	69,214,479
Expenses			
Cost of power		55,082,974	56,443,994
Operating expenses	13	6,430,199	6,576,880
Depreciation and amortization		2,854,199	2,677,812
(Gain) loss on disposal of property, plant and equipment		25,920	154,023
Loss (gain) on foreign exchange		(915)	10,733
		64,392,377	65,863,443
Income from operating activities		3,777,901	3,351,037
Finance income	14	382,647	302,724
Finance costs	14	(1,091,700)	(1,051,545)
Change in interest rate swap	15	(140,775)	890,292
Income before provision for payment in lieu of income taxes		2,928,073	3,492,508
Provision for payment in lieu of income taxes			
Current	8	-	130,864
Deferred		832,823	414,498
		832,823	545,362
Profit for the year before net movements in regulatory deferral account balances		2,095,250	2,947,145
Net movement in regulatory deferral account balances related to profit or loss	3	114,430	16,779
Net movement in regulatory deferral account balances arising from deferred tax movement		832,823	414,498
Profit for the year and net movements in regulatory deferral account balances		3,042,503	3,378,423
Other comprehensive income:			
Remeasurement of employee future benefits (net of (2018 – ($55,974) in tax) (2017-$101,826)	8	155,249	(282,424)
Net and comprehensive income for the year		$ 3,197,752	$ 3,095,999

North Bay Hydro Distribution Limited
Statement of Changes in Equity
Expressed in Canadian Dollars
For the year ended December 31, 2018

	Share Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance at January 1, 2017	$ 19,511,601	$116,116	$ 16,628,816	$ 36,256,533
Profit for the year and net movements in regulatory deferral account balances	-	-	3,378,423	3,378,423
Other comprehensive Income, net of tax		(282,424)		(282,424)
Dividends paid	-	-	(2,731,535)	(2,731,535)
December 31, 2017	19,511,601	(166,308)	17,275,704	36,620,997
Profit for the year and net movements in regulatory deferral account balances	-	-	3,042,503	3,042,503
Other comprehensive income, net of tax	-	155,249	-	155,249
Dividends paid	-	-	(1,258,854)	(1,258,854)
Balance at December 31, 2018	$ 19,511,601	$ (11,059)	$ 19,059,353	$38,559,895

North Bay Hydro Distribution Limited
Statement of Cash Flows
Expressed in Canadian Dollars
For the year ended December 31, 2018

	2018	2017
Cash Flows From Operating Activities		
Profit for the year and net movements in regulatory deferral account balances	$ 3,042,503	$ 3,378,423
Adjustments to reconcile income to net cash used in operating activities:		
Depreciation and amortization	2,854,199	2,677,812
Amortization of contributions in aid of construction	(80,619)	(71,269)
Deferred income taxes	832,823	414,498
Employee future benefit expense	177,966	209,666
Loss on disposal of property, plant and equipment	25,920	184,022
Change in interest rate swap	140,775	(890,292)
	6,993,567	5,902,860
Change in non-cash operating working capital:		
Accounts receivable	(3,311,361)	(65,207)
Unbilled revenue	462,103	1,378,825
Inventory	(128,498)	(98,920)
Prepaid expenses	187,692	215,043
Accounts payable and accrued liabilities	(1,016,705)	(558,591)
Deferred revenue	455,568	277,342
Payment in lieu of taxes	(121,038)	261,821
Customer deposits	(24,988)	127,141
Net cash flows from operating activities	3,496,340	7,440,315
Cash Flows from investing activities		
Proceeds from sale	3,432	
Purchase of property, plant and equipment	(6,615,336)	(7,174,523)
Changes in regulatory deferral account balances	(1,774,695)	(607,059)
Cash used in investment activities	(8,386,599)	(7,781,582)
Cash Flows from financing activities		
Contributions received in aid of construction	558,617	728,037
Dividends paid	(1,258,854)	(2,731,535)
Employee future benefits paid	(269,846)	(239,718)
Repayment of long-term debt	(2,980,612)	(2,553,477)
Advances of long-term debt	4,500,000	5,000,000
Cash provided by financing activities	549,305	203,307
Net decrease in cash	(4,340,954)	(137,959)
Cash and short-term investments, beginning of year	12,132,663	12,270,623
Cash, end of year	$ 7,791,709	$ 12,132,663

The accompanying notes are an integral part of these financial statements.

1. CORPORATE INFORMATION

North Bay Hydro Distribution Limited's (the "Company") main business activity is the distribution of electricity under authority of the Ontario Energy Board ("OEB") Act, 1998. The Company owns and operates an electricity distribution system, which delivers electricity to approximately 24,350 customers located in North Bay, Ontario.

Operating in a regulated environment exposes the Company to regulatory and recovery risk.

Regulatory risk is the risk that the Province and its regulator, the OEB, could establish a regulatory regime that imposes conditions that restrict the electricity distribution business from achieving an acceptable rate of return that permits financial sustainability of its operations including the recovery of expenses incurred for the benefit of other market participants in the electricity industry such as transition costs and other regulatory balances. All requests for changes in electricity distribution charges require the approval of the OEB.

Regulatory developments in Ontario's electricity industry, including current and possible future consultations between the OEB and interested stakeholders, may affect distribution rates and other permitted recoveries in the future. North Bay Hydro Distribution Limited is subject to a cost of service regulatory mechanism under which the OEB establishes the revenues required (i) to recover the forecast operating costs, including depreciation and amortization and income taxes, of providing the regulated service, and (ii) to provide a fair and reasonable return on utility investment, or rate base. As actual operating conditions may vary from forecast, actual returns achieved can differ from approved returns.

The address of the Company's corporate office and principal place of business is 74 Commerce Crescent, North Bay, Ontario, Canada.

The sole shareholder of the Company is the Corporation of the City of North Bay.

2. BASIS OF PREPARATION

a) Statement of compliance

The financial statements of North Bay Hydro Distribution Limited have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The financial statements were authorized for issue by the Board of Directors on March 27, 2019.

b) Basis of measurement

The financial statements have been prepared on a historical cost basis. The financial statements are presented in Canadian dollars (CDN$), which is also the Company's functional currency, and all values are rounded to the nearest dollar, unless when otherwise indicated.

c) Judgment and Estimates

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving critical judgments and estimates in applying

2. Basis of Preparation (continued)

accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are:

- The calculation of the impairment of accounts receivable (Note 7)
- The recognition of regulatory debit and credit balances (Note 4)
- The determination for the provision for Payment in Lieu of Taxes since there are many transactions and calculations for which the ultimate tax determination is uncertain (Note 8); and
- The calculation of the net future obligation for certain unfunded health, dental and life insurance benefits for the Company's retired employees (Note 9).

In addition, in preparing the financial statements the notes to the financial statements were ordered such that the most relevant information was presented earlier in the notes and the disclosures that management deemed to be immaterial were excluded from the notes to the financial statements. The determination of the relevance and materiality of disclosures involved significant judgement.

3. Adoption of New Accounting Standards

Accounting standards, interpretations and amendments effective for accounting years beginning on or after January 1, 2018 did not materially affect the Company's financial statements other than those described below.

IFRS 9 Financial Instruments (IFRS 9)

On January 1, 2018, the Company adopted IFRS 9 Financial Instruments (IFRS 9), which supersedes IAS 39, Financial Instruments: Recognition and Measurement (IAS 39). IFRS 9 includes revised guidance on the classification and measurement of financial assets and liabilities; new guidance for measuring impairment on financial assets; and new hedge accounting guidance. The Company adopted IFRS 9 retrospectively, however despite the retrospective adoption of IFRS 9, the Company is not required, upon initial application, to restate comparatives.

(i) Classification and measurement of financial instruments

On adoption of IFRS 9, in accordance with its transitional provisions, the Company has not restated prior periods but has reclassified the financial assets held at January 1, 2018, retrospectively, based on the new classification requirements and the characteristics of each financial instrument as at the transition date. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements. The Company did not choose the option of designating any financial liabilities at fair value through profit or loss (FVTPL) as such, the adoption of IFRS 9 did not impact the Company's accounting policies for financial liabilities.

Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 contains three primary measurement categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVTOCI), and FVTPL.

Expressed in Canadian Dollars

3. ADOPTION OF NEW ACCOUNTING STANDARDS (CONTINUED)

The following table shows the original classification and carrying amount under IAS 39 and the new classification and carrying amount under IFRS 9 for each class of the Company's financial assets and financial liabilities as at January 1, 2018.

Financial Instrument	Note	IAS 39		IFRS 9	
Financial assets					
Cash and short-term investments		Loans and receivables	$ 7,791,709	Amortized cost	$ 7,791,709
Accounts receivable	7	Loans and receivables	10,831,576	Amortized cost	10,831,576
Unbilled service revenue		Loans and receivables	5,867,434	Amortized cost	5,867,434
Financial instrument asset		Loans and receivables	1,194,928	Amortized cost	1,194,928
Financial liabilities					
Accounts payable and accrued liabilities	9	Other financial liabilities	$ 9,558,632	Amortized cost	$ 9,558,632
Customer deposits	7	Other financial liabilities	810,244	Amortized cost	810,244

(ii) Impairment of financial assets

IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss (ECL) model. This applies to financial assets measured at amortized cost. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

Under IAS 39, accounts receivable would be first provisioned for when it is deemed that the collection is unlikely. Upon adoption of IFRS 9 the Company measures the loss allowance at an amount equal to the lifetime ECL that results from possible default events over the expected life of accounts receiveables and unbilled service revenue. The Company measures the loss allowance by reviewing its customer receivables and related unbilled revenues for credit factors including aging analysis and collection history patterns.

IFRS 15 Revenue from Contracts with Customers (IFRS 15)

On January 1, 2018, the Company adopted IFRS 15 Revenue from Contracts with Customers (IFRS 15). IFRS 15 contains a five-step model that applies to contracts with customers that specifies that revenue is recognized when or as an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognized at a point in time or over time.

The Company adopted IFRS 15 using the modified retrospective approach, with recognition of transitional adjustments in opening retained earnings of the date of initial application (January 1, 2018), without restatement of comparative figures. IFRS 15 provides for certain options practical expedients, including those related to the initial adoption of the standard. The Company has not had a need to apply any expedients upon adoption of IFRS 15 on January 1, 2018.

(i) Recognition and measurement

Electricity sales are based on the cost of power and usage by the customer. For Regulated Price Plan (RPP) customers, the OEB has set a fixed rate which should approximate the true cost of power. The Company recovers the difference between amounts billed to RPP customers for electricity changes (RPP rate) and the cost to purchase the electricity (RPP Settlement Amount) from the IESO. In accordance with IAS 18, the RPP Settlement Amount was recorded as part electricity sales, as revenue should be measured at the fair value of consideration received or receivable.

In accordance with IFRS 15, revenue is recognized at the transaction price as per the contract with the customer. The contract with a RPP customer states the transaction price as the OEB RPP rate. As such, the RPP Settlement Amount will be recorded as a reduction/addition from/to purchased power instead of electricity sales. For the year ended December 31, 2018, the effect of applying IFRS 15 is an increase/decrease in electricity sales of $Nil and an increase/reduction to purchased power of $Nil.

Capital contributions received from developers to construct or acquire property, plant and equipment for the purpose of connecting future customers to the distribution network are considered out of scope of IFRS 15. Capital contributions received will be recognized as contributions in aid of construction and amortized into revenue at an equivalent rate to that used for depreciation of the related property, plant and equipment (PP&E).

The adoption of IFRS 15 had no impact to opening retained earnings as at January 1, 2018.

(ii) Disclosure

Amendments were also made to IFRS 15 introducing expanded qualitative and quantitative disclosures, which the Company has also adopted for the annual period beginning January 1, 2018.

Impacts of adopting IFRS 9 and IFRS 15 on the Company's financial statements on January 1, 2018

The adoption of IFRS 15 and 9 did not result in any changes to the statement of financial position on January 1, 2018.

4. REGULATORY DEFERRAL ACCOUNT BALANCES

In accordance with IFRS 14, the Company has continued to apply the accounting policies it applied in accordance with the pre-changeover Canadian GAAP for the recognition, measurement and impairment of assets and liabilities arising from rate regulation. These are referred to as regulatory deferral account balances. Regulatory deferral account balances are recognized and measured initially and subsequently at cost. They are assessed for impairment on the same basis as other non-financial assets.

Regulatory deferral account credit balances are associated with the collection of certain revenues earned in the current period or in prior period(s) that are expected to be returned to consumers in future periods through the rate-setting process.

Regulatory deferral account debit balances represent future revenues associated with certain costs incurred in the current period or in prior period(s) that are expected to be recovered from consumers in future periods through the rate-setting process. Management continually assesses the likelihood of recovery of regulatory balances. If recovery through future rates is no longer considered probable, the amounts would be charged to the results of operations in the period that the assessment is made.

Expressed in Canadian Dollars

4. REGULATORY DEFERRAL ACCOUNT BALANCES (CONTINUED)

The balances and movements in the regulatory deferral account balances shown below are presented net of related deferred taxes. These deferred taxes are not presented within the total deferred tax asset balances shown in Note 8.

All amounts deferred as regulatory deferral account balances are subject to approval by the OEB. As such, amounts subject to deferral could be altered by the regulators. Remaining recovery periods are those expected and the actual recovery or settlement periods could differ based on OEB approval. Due to previous, existing or expected future regulatory articles or decisions, the Company has the following amounts expected to be recovered by customers (returned to customers) in future periods and as such regulatory deferral account balances are comprised of:

	Remaining recovery period (years)	2018	2017
Regulatory Deferral Account Debit Balances			
Cost of Power (i)	1 – 4	$ 381,987	$ 273,659
LRAMVA (iii)	1 – 4	181,983	104,243
Other (vi)	1 – 4	102,933	72,922
Total Regulatory Deferral Account Debit Balances		$ 666,902	$ 450,824

	Remaining recovery period (years)	2018	2017
Regulatory Deferral Account Credit Balances and related Deferred Tax	Remaining recovery period (years)		
Cost of Power - Wholesale Market Service (i)	1 – 4	$ (607,380)	$ (1,022,271)
Cost of Power – Global Adjustment (i)	1 - 4	(25,913)	(603,238)
Disposition/rec – 2014 - 2018 (ii)	1 - 4	(433,182)	(151,268)
Retail cost variances (iv)	1 – 4	(131,763)	(112,690)
Deferred income taxes (v)	5 - 25	(1,666,724)	(2,555,522)
Other (vi)	1 – 4	(21,412)	-
Total Regulatory Deferral Account Credit Balances and related Deferred Tax		$ (2,886,373)	$ (4,444,991)

4. Regulatory deferral account balances (continued)

In the absence of rate regulation, these rate regulated assets and liabilities would be recognized in income in the year in which they relate. As a result, the net effect on income for the period is as stated below.

i. Cost of Power

This account is comprised of the variances between amounts charged by the Company to customers, based on regulated rates, and the corresponding cost of non-competitive electricity service charged to the Company for the operation of the wholesale electricity market and grid, including commodity and global adjustment, various wholesale market settlement charges and transmission charges. Under the OEB's direction, the Company has deferred the settlement variances that have occurred since May 1, 2002 in accordance with the AP Handbook. Carrying charges are calculated monthly on the opening balance of the applicable variance account using a specific interest rate as outlined by the OEB. The Company did not recognize carrying charge income related to the retail settlement variance accounts for external reporting purposes prior to December 31, 2003.

The OEB allows the variances to be deferred which would normally be recorded as revenue for unregulated businesses under Modified IFRS (MIFRS). In absence of rate regulation, revenues in 2018 would have been lower by $1,110,543 (2017 - lower by $39,789).

As a component of the yearly Incentive Regulation Mechanism (IRM) rate application process, "Group 1" account balances (which are composed of Low Voltage, Wholesale Market, Network, Connection, Power and the Smart Meter Entity charge) are reviewed and will qualify for disposition if balances, including carrying charges, exceed a preset threshold per kWh. The Company has not proposed any disposition in the pending 2019 IRM application for 2019 rates. In 2018, NBHDL disposed of 2016 audited balances for Group 1 accounts – see Note iii.

ii. Disposition/recovery – 2014, 2015, 2016, 2017, 2018

Disposition/recovery – 2014 On August 30, 2013, the Company filed an IRM application for 2014 distribution rates (EB-2013-0157) with the OEB which included a request seeking disposition of the Group 1 balances for regulatory assets and liabilities. On March 6, 2014, the OEB approved the disposition of net regulatory assets of $864,885 and net regulatory liabilities of $1,594,828 over a one year period commencing May 1, 2014 and ending April 30, 2015. The amounts consisted of principal balances as of December 31, 2012 with carrying charges projected to April 30, 2014. NBHDL will seek disposition of the net residual balance of $17,657 in a future rate application.

Disposition/recovery – 2015 On December 18, 2014, the Company filed a COS application for 2015 distribution rates (EB-2014-0099) with the OEB which included a request seeking disposition of the balances for regulatory assets and liabilities. On July 16, 2015, the OEB approved the disposition of net regulatory assets of $1,554,186 and net regulatory liabilities of ($4,662,850) which includes Group 1 and 2 balances, CGAAP and LRAMVA accounts. The Group 1 and 2 amounts consisted of principal balances as of December 31, 2013 with carrying charges projected to April 30, 2015 for a net total of $455,076 being collected from customers over a one year period commencing July 1, 2015 and ending June 30, 2016. The PP&E – CGAAP and transitional amounts are being refunded to customers over a two year period beginning July 1, 2015 and ending June 30, 2016. The amount owed to customers includes the disposition of the regulatory liability of ($3,793,377). The LRAMVA amount approved for disposition included the lost revenue for OPA programs up to December 31, 2013 plus carrying charges projected to April 30, 2015 for a total amount of $229,637 being collected from customers over a one-year period commencing July 1, 2015 and ending June 30, 2016. NBHDL will seek disposition of the net residual balance of ($6,614) in a future rate application.

Disposition/recovery – 2016 On March 23, 2016, the Company filed an IRM application for 2016 distribution rates (EB-2015-0092) with the OEB which included a request seeking disposition of the Group 1 balances for regulatory assets and liabilities. On May 5, 2016, the OEB issued a decision approving the disposition of net regulatory assets of $935,707. The amounts consisted of principal balances as of December 31, 2014 with carrying charges projected to April 30, 2016. The OEB approved disposition of $950,051 over a one year period commencing May 1, 2016 and ending April 30, 2017 for the Global Adjustment amount; the remaining Group 1 account balances netting ($14,344) will be refunded to customers in a future rate application. NBHDL will seek disposition of the net residual balance of $59,666 in a future rate application.

Disposition/recovery – 2017 On September 26, 2016, the Company filed an IRM application for 2017 distribution rates (EB-2016-0214) with the OEB which included a request seeking disposition of the Group 1 balances for regulatory assets and liabilities. On February 8, 2017, the OEB issued a decision approving the disposition of net regulatory liabilities of ($691,352). The amounts consisted of principal balances as of December 31, 2015 with carrying charges projected to April 30, 2017. The OEB approved disposition over a one-year period commencing May 1, 2017 and ending April 30, 2018. NBHDL will seek disposition of the net residual balance of ($24,814) in a future rate application.

Disposition/recovery – 2018 On October 16, 2017, the Company filed an IRM application for 2018 distribution rates (EB-2017-0065) with the OEB which included a request seeking disposition of the Group 1 balances for regulatory assets and liabilities. On March 22, 2018, the OEB issued a decision approving the disposition of net regulatory liabilities of ($1,300,650). The amounts consisted of principal balances as of December 31, 2016 with carrying charges projected to April 30, 2018. The OEB approved disposition over a one-year period commencing May 1, 2018 and ending April 30, 2019. The balance owing as at December 31, 2018 is ($479,007).

iii. Lost Revenue Adjustment Mechanism Variance Account (LRAMVA)

On April 26, 2012 the OEB released the Guidelines for Electricity Distributor Conservation and Demand Management (EB-2012-0003) which included accounting direction on the treatment of lost revenues from forecasted/unforecasted Conservation and Demand Management (CDM) results on distribution revenue due to variances from forecasted throughput used to establish distribution rates.

The Board established an LRAM variance account ("LRAMVA") to capture the differences between the results of actual, verified impacts of authorized CDM activities undertaken by electricity distributors between 2011-2014 for both Board-Approved CDM programs and IESO-Contracted Province-Wide CDM programs in relation to activities undertaken by the distributor and/or delivered for the distributor by a third party under contract (in the distributor's franchise area) and the level of CDM program activities included in the distributor's load forecast (i.e. the level embedded into rates). At a minimum, distributors must apply for disposition of the balance in the LRAMVA the time of their Cost of Service rate applications.

4. REGULATORY DEFERRAL ACCOUNT BALANCES (CONTINUED)

In the 2014 COS application, the OEB approved disposition of LRAMVA amounts related to CDM programs up to December 31, 2013 in the amount of $221,924; this is now included in the disposition/recovery – 2015 account. On February 8, 2017, the OEB approved disposition of LRAMVA amounts related to CDM programs up to December 31, 2014 in the amount of $191,584; this is now included in the disposition/recovery – 2017 account.

Under the Conservation First Framework, for programs that take place from 2015 to 2020, distributors are to treat lost revenues in a similar manner as those from the 2010-2014 programs with respect to the impact of lost revenues. Distributors are to capture the differences between the results of actual, verified impacts of authorized CDM activities against the LRAMVA threshold included in the most recent Cost of Service application. Accordingly, the Company has recorded $178,128 in the LRAMVA deferral account; this represents amounts related to CDM programs from 2015 to 2017.

iv. Retail cost variances

Retail cost variances were established to record the difference between the amount billed and the incremental costs of providing retail services and to record the difference between the amount billed in relation to a service transaction request and the incremental costs of providing the initial screening and actual processing services for the service transaction request. Under the OEB's direction, the Company has deferred the settlement variances that have occurred since May 1, 2002. Accordingly, the Company has deferred these recoveries in accordance with the AP Handbook.

The OEB allows the variances to be deferred which would normally be recorded as revenue for unregulated businesses under IFRS. In absence of rate regulation, revenues in 2018 would have been higher by $19,072 (2017 - higher by $23,011). The deferred balance for unapproved settlement variances continues to be calculated in accordance with the OEB's direction. The OEB approved disposition of audited 2013 balances in the 2014 COS application - see Note iii.

v. Deferred Income Taxes

The recovery from, or refund to, customers of future income taxes through future rates is recognized as a regulatory deferral account balance. The Company has recognized a deferred tax asset of $1,666,724 (2017 – $2,555,522) arising from the recognition of regulatory deferral account balances and a corresponding regulatory deferral account credit balance of $1,666,724 (2017 - $2,555,522). The deferred tax asset balance is presented within the total regulatory deferral account balances presented in the statement of financial position.

4. REGULATORY DEFERRAL ACCOUNT BALANCES (CONTINUED)

vi. Other

2018 costs relate to carrying charges on accounts included as regulatory credits, increased OEB cost assessments and incremental revenue related to pole attachment charges. In 2016, in addition to an increase in the OEB's internal budget, the OEB also revised its Cost Assessment Model to reflect a change in the methodology used to apportion costs. These changes resulted in a material shift in the allocation of costs. The OEB established a variance account for electricity distributors to record any material differences between OEB cost assessments currently built into rates, and cost assessments that will result from the application of the new cost assessment model. NBHDL has recorded $30,586 in incremental cost assessment increases in 2018 ($38,744 – 2017) in the deferral account in accordance with the guidance on the use of the variance account. In 2018 the OEB revised its approved pole attachment charges for distributors. The OEB established a variance account for electricity distributors to record the revenue difference between these new rates and previously approved rates. NBHDL has recorded ($21,354) as incremental revenue.

For certain of the regulatory items identified above, the expected recovery or settlement period, or likelihood of recovery or settlement, is affected by risks and uncertainties relating to the ultimate authority of the regulator in determining the item's treatment for rate-setting purposes. Management continually assesses the likelihood of recovery of regulatory assets and realization of regulatory liabilities. If recovery and realization through future rates is no longer considered probable, the amounts would be charged to the results of operations in the period that the assessment is made.

Expressed in Canadian Dollars

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated amortization. Costs may include direct material, labour, contracted services, overhead, engineering costs and interest on funds used during construction that are considered applicable to construction. Major spares such as spare transformers and other items kept as standby/back up equipment are accounted for as property, plant and equipment since they support the Company's distribution system reliability. Upon disposal the cost and accumulated amortization of assets are relieved from the respective accounts and any gain or loss is reflected in operations.

Depreciation of property, plant and equipment is recorded in the Statement of Comprehensive Income on a straight-line basis over the estimated useful life of the related asset. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each annual reporting period.

The estimated useful lives are as follows:

Distribution Assets:	
Building and fixtures	30 - 50 years
Substations	40 - 50 years
Poles, towers and fixtures	45 years
Overhead conductor and devices	60 years
Underground conduit and conductor	40 - 50 years
Distribution transformers	40 years
Overhead and underground services	40 – 60 years
Distribution meters	10 - 25 years
General Assets:	
Buildings	25 – 50 years
Office equipment	10 years
Computer equipment	5 years
Transportation equipment	5 - 8 years
Small tools and miscellaneous equipment	10 years
Load management controls	6 years
System supervisory equipment	15 – 20 years

Land is not depreciated.

Expressed in Canadian Dollars

5. Property, Plant and Equipment (continued)

	Electrical Distribution Assets	General Assets	Work in process	Total
Cost				
Balance at January 1, 2017	$ 107,624,500	11,879,414	1,628,390	121,132,304
Additions	5,584,344	607,498	982,681	7,174,523
Disposals	(863,965)	(310,374)		(1,174,339)
Balance at December 31, 2017	112,344,878	12,176,538	2,611,071	127,132,487
Balance at January 1, 2018	112,344,878	12,176,538	2,611,071	127,132,487
Additions	6,642,285	297,763	(324,712)	6,615,336
Disposals	(286,282)	(53,766)		(340,048)
Balance at December 31, 2018	118,700,881	12,420,536	2,286,359	133,407,775
Depreciation and impairment losses				
Balance at January 1, 2017	51,541,860	8,333,284	-	59,875,144
Depreciation for the year	2,091,199	586,613	-	2,677,812
Disposals	(679,940)	(310,374)	-	(990,314)
Balance at December 31, 2017	$ 52,953,119	$ 8,609,523	$	$ 61,562,642
Balance at January 1, 2018	52,953,119	8,609,523	-	61,562,642
Depreciation for the year	2,262,348	591,852	-	2,854,200
Disposals	(256,932)	(53,766)	-	(310,698)
Balance at December 31, 2018	$ 54,958,535	$ 9,147,609	$	$ 64,106,144
Carrying amounts:				
At December 31, 2017	$ 59,391,760	$ 3,567,015	$ 2,611,071	$ 65,569,846
At December 31, 2018	$ 63,742,346	$ 3,272,927	$ 2,286,359	$ 69,301,631

Expressed in Canadian Dollars

6. Revenue Recognition

As a licensed distributor, the Company is responsible for billing customers for electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties. The Company is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Company ultimately collects these amounts from customers. The Company has determined that they are acting as a principal for the electricity distribution and, therefore, have presented the electricity revenues on a gross basis.

Revenues from the sale and distribution of electricity is recognized over time on an accrual basis upon delivery of electricity, including unbilled revenues accrued in respect of electricity delivered but not yet billed. Sale and distribution of electricity revenue is comprised of customer billings for distribution service charges. Customer billings for distribution service charges are recorded based on meter readings, and are generally due within 30 days of the billing date.

Other revenues, which include revenues from pole use rental, collection charges and other miscellaneous revenues are recognized at the time services are provided. Where the Company has an ongoing obligation to provide services, revenues are recognized as the service is performed and amounts billed in advance are recognized as deferred revenue.

Certain assets may be acquired or constructed with financial assistance in the form of contributions from customers. Contributions vary by project and are based on the criteria set forth in the Distribution System Code. Since the contributions will provide customers with ongoing access to the supply of electricity, these contributions are classified as contributions in aid of construction and are amortized as revenue on a straight-line basis over the useful life of the constructed or contributed asset.

When an asset is received as a capital contribution, the asset is initially recognized at its fair value, with the corresponding amount recognized as contributions in aid of construction.

The continuity of deferred contributions in aid of construction is as follows:

	December 31 2018	December 31 2017
Deferred contributions, net, beginning of year	$ 3,022,340	$ 2,365,572
Contributions in aid of construction received	558,617	728,037
Contributions in aid of construction recognized as distribution revenue	(80,619)	(71,269)
Deferred contributions, net, end of year	$ 3,500,338	$ 3,022,340

All contributions in aid of construction are cash contributions. There have not been any contributions of property plant and equipment.

Expressed in Canadian Dollars

7. Accounts Receivable, Unbilled Revenue and Customer Deposits

	December 31 2018	December 31 2017
Accounts receivable due from related parties	$ 953,905	$ 553,302
Short term advances to related parties	2,733,926	275,265
Customer accounts receivable	7,257,277	6,732,023
Loss allowance	(114,532)	(41,375)
Total accounts receivable	$ 10,830,576	$ 7,519,215

a) Recognition and initial measurement

The Company initially recognizes accounts receivable on the date on which they are originated and recognizes unbilled service revenue on the date on which the Company delivers the electricity but has not yet billed the customer. Similar to customer billings, unbilled revenue for distribution service charges are recorded based on meter readings. Accounts receivable and unbilled service revenue are initially measured at fair value.

b) Classification and subsequent measurement

Accounts receivable and unbilled service revenue are classified and subsequently measured at amortized cost because they meet the solely payments of principal and interest criterion and are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. The carrying amount is reduced through the use of a loss allowance and the amount of the related loss allowance is recognized in profit or loss. Subsequent recoveries of receivables and unbilled service revenue previously provisioned are credited to profit or loss.

c) Fair value measurement

Due to its short-term nature, the carrying amounts of accounts receivable and unbilled service revenue approximates their fair value.

d) Credit risk

Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. Where the security posted is in the form of cash or cash equivalents, these amounts are recorded in the accounts as deposits, which are reported separately from the Company's own cash and cash equivalents. Deposits to be refunded to customers within the next fiscal year are classified as a current liability. Interest rates paid on customer deposits are based on the Bank of Canada’s prime business rate less 2%.

Due to its short-term nature, the carrying amount of the accounts receivable due from related parties and other accounts receivable approximates its fair value. Unbilled service revenue reflects the electricity delivered but not yet billed to customers. Customer billings generally occur within 30 days of delivery. The Company's credit risk associated with accounts receivable is primarily related to payments from distribution customers. The Company has approximately 24,350 customers, the majority of which are residential. The Company considers an account receivable to be in default when the customer is unlikely to pay its credit obligations in full, without recourse by the Company, such as realizing security (if any is held). Accounts are past-due (in default) when the customers have failed to make the contractually requirements payments when due, which is generally within 30 days of the billing date.

Expressed in Canadian Dollars

The Company considers an account receivable to be credit-impaired when the customer has amounts more than 90 days past the billing date. In determining the allowance for doubtful accounts, the Company considers historical loss experience of account balances based on the aging and arrears status of accounts receivable balances.

The change in allowance for doubtful accounts related to a $167,985 bad debt expense for the year and accounts receivable write off of $153,888. The carrying amount of accounts receivable is reduced through the use of an allowance for impairment. Subsequent recoveries of receivables previously provisioned were $59,061 (2017 - $50,977.33) and are credited to the income statement. The balance of the allowance for impairment at December 31, 2018 is $114,532 (2017 - $41,375). The Company's credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2018, approximately $191,727 (2017 - $151.646) is considered 60 days past due.

Construction deposits represent cash prepayments for the estimated cost of capital projects recoverable from customers and developers. Upon completion of the capital project, these deposits are transferred to contributions in aid of construction.

Customer deposits represents cash deposits from electricity distribution customers and retailers, as well as construction deposits. Deposits from electricity distribution customers are refundable to customers demonstrating an acceptable level of credit risk as determined by the Company in accordance with policies set out by the OEB or upon termination of their electricity distribution service.

	December 31 2018	December 31 2017
Customer deposits – current	$ 73,005	$ 113,244
Customer deposits – long-term	737,239	721,988
Total customer deposits	$ 810,244	$ 835,232

a) Recognition and initial measurement

The Company initially recognizes customer deposits on the date on which the Company received the deposit. Customer deposits are initially measured at fair value.

b) Classification and subsequent measurement

Customer deposits are classified and subsequently measured at amortized cost, using the effective interest rate method.

c) Fair value measurement

The fair value of customer deposits approximates their carrying amounts taking into account interest accrued on the outstanding balance.

Expressed in Canadian Dollars

8. Payments in Lieu of Taxes Payable

The Company is a Municipal Electricity Utility ("MEU") for purposes of the PIL's regime contained in the Electricity Act, 1998. As a MEU the Company is exempt from tax under the Income Tax Act (Canada) and the Corporations Tax Act (Ontario).

Under the Electricity Act, 1998, the Company is required to make payments in lieu of corporate income taxes each year to Ontario Electricity Financial Corporation ("OEFC"), commencing October 1, 2001. These payments are calculated in accordance with the rules for computing taxable income and other relevant amounts contained in the Income Tax Act (Canada) and the Corporation Tax Act (Ontario) as modified by the Electricity Act, 1998, and related regulations. PILs expense comprises of current and deferred tax. Current tax and deferred tax are recognized in comprehensive income except to the extent that it relates to items recognized directly in equity or regulatory deferral account balances.

Significant judgment is required in determining the provision for PILs. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on the Company's current understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Significant components of the payments in lieu of taxes expense are as follows:

a. Expense

The Company's provision for PILs is calculated as follows:

	2018	2017
Income before provision for payment in lieu of income taxes	$ 2,928,073	$ 3,492,508
Regulatory assets/liabilities added (deducted) for tax purposes	(885,896)	(294,387)
Net change in reserves (EFB)	(91,880)	(30,052)
Capital cost allowance (greater than) less than amortization expense	(2,110,256)	(1,845,871)
Other items	(64,280)	(53,302)
Unrealized (gain) loss	140,775	(890,292)
(Gain) loss on disposal of assets	25,920	154,022
Income (loss) for tax purposes	(57,544)	532,626
Statutory Canadian federal and provincial tax rate	26.50%	26.50%
Provision for PILs (recovery)	(15,249)	141,146
Prior year over provision		(10,282)
Loss carryforward balance	$ (15,249)	$ Nil
Total tax provision	$ Nil	$ 130,864

Expressed in Canadian Dollars

b. Deferred Taxes

Components of deferred taxes are as follows:

	2018	2017
Property, plant and equipment	$ 392,232	$ 965,944
Employee future benefits	1,128,015	1,208,337
Regulatory Assets / Liabilities	146,478	381,241
Total deferred tax assets	$ 1,666,724	$ 2,555,522

9. Employee Future Benefits

Employee future benefits other than pension provided by the Company include medical and insurance benefits. These benefit plans provide benefits to certain employees when they are no longer providing active service.

The cost of these benefits are determined using actuarial valuations. An actuarial valuation involves making various assumptions. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, the cost of these benefits are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The calculation is performed by a qualified actuary using the projected unit credit method discounted to its present value using yields available on high quality corporate bonds that have maturity dates approximating to the terms of the liabilities. The valuation is performed every third year or when there are significant changes to workforce. A full valuation was performed in 2016 and is scheduled to be done in 2019.

Remeasurements of the defined benefit obligation are recognized directly within equity in other comprehensive income. The remeasurements include actuarial gains and losses.

Service costs are recognized in the Statement of Comprehensive Income in operating expenses, and include current and past service costs as well as gains and losses on curtailments.

Net interest expense is recognized on the Statement of Comprehensive Income in finance costs, and is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the balance of the net defined benefit obligation, considering the effects of benefit payments during the period. Gains or losses arising from changes to defined benefits or plan curtailment are recognized immediately in the Statement of Comprehensive Income. Settlements of defined benefit plans are recognized in the period in which the settlement occurs.

The plan is exposed to a number of risks, including:

Interest rate risk: decreases/increases in the discount rate used (high quality corporate bonds) will increase/decrease the defined benefit obligation.

Longevity risk: changes in the estimation of mortality rates of current and former employees.

Health care cost risk: increases in cost of providing health, dental and life insurance benefits.

Expressed in Canadian Dollars

9. EMPLOYEE FUTURE BENEFITS (CONTINUED)

The Company has a defined benefit life insurance and health care plan covering substantially all unionized employees and most retirees. Information about the Company's defined benefit life insurance and health care plan is as follows:

	2018	2017
Prepaid benefit liability, beginning of year	$ 4,559,762	$ 4,205,564
Expense for the year	177,966	209,666
Benefits paid during the year	(269,846)	(239,718)
Recognized in Other Comprehensive Income	(211,223)	384,250
Prepaid benefit liability, end of year	$ 4,256,659	$ 4,559,762
Fair value of plan assets	$NIL	$NIL

Included in wages and employee benefits and finance costs respectively, is a net benefit expense as follows:

	2018	2017
Total service cost of the plan for the year	$ 34,281	$ 62,024
Interest on average liabilities	143,685	147,642
Total Expense for the year	$ 177,966	$ 209,666

The main actuarial assumptions employed for the valuations are based on the full actuarial report performed in 2016, except where noted below. In 2018, the Company hired an outside consulting firm to update the actuarial valuation report based on the changes noted below, including an update of employee and retiree status.

Expected average remaining service life of active employees 13 years.

a. General Inflation

Future general inflation levels, as measured by changes in the Consumer Price Index ("CPI"), were assumed at 2.0% per annum (2017 - 2.0%).

b. Interest (Discount) Rate

The obligation at year end, of the present value of future liabilities and the expense for the year ended, were determined using a discount rate of 3.9% (2017- 3.4%). The discount rate for 2018 reflects the assumed long-term yield on high quality bonds as at December 31, 2018 (most recent valuation date).

c. Salary Levels

Future general salary and wage levels were assumed to increase at 3.3% (2017- 3.3%) based on expected CPI adjusted for productivity, merit and promotion as at December 31, 2016.

9. EMPLOYEE FUTURE BENEFITS (CONTINUED)

d. Medical Costs

Medical costs reflect cost increase assumptions from 2018 and continue to be assumed to increase 5.78% in 2019, 5.56% in 2020, 5.56% in 2021, 5.14% in 2022, 4.93% in 2023, 4.41% in 2024 and 4.5% thereafter.

e. Dental Costs

Dental costs reflect cost increase assumptions from 2018 and are assumed to increase at 4.5% annually.

The Company's sick accrual is included above in the amount of $164,500 (2017 - $198,800) and is the accumulation of non-vested sick leave benefits under IAS 19 standards for financial reporting purposes. The Company hired an outside consulting firm to assess the future payments to be made as a result of the Company's employees' sick leave bank hours in 2015. The discount rate used in 2018 was 3.9% (2017 – 3.4%). The Future general salary and wage levels were assumed to increase at 3.3% per annum.

Other employee benefits that are expected to be settled wholly within 12 months after the end of the reporting period are presented as current liabilities.

10. RELATED PARTY TRANSACTIONS

The Company provides administrative and other services to an affiliated company, North Bay Hydro Services Inc ("Services").

The Corporation of the City of North Bay (the "City") is the 100% owner of North Bay Hydro Holdings Inc. which is the parent company of North Bay Hydro Distribution Limited, North Bay Hydro Services Inc. and North Bay (Espanola) Acquisition Inc.

Electrical energy is sold to the City at the same prices and terms as other electricity customers consuming equivalent amounts of electricity. Streetlight maintenance services are provided at rates determined in relation to other service providers. Other construction services are provided at cost.

The company has provided an inter-company loan arrangement to North Bay Hydro Services Inc. with a maximum authorized limit of $3.5 million. The interest rate on this facility is 3.45%. The loan balance at December 31, 2018 was $2,733,926 (2017 - $275,000) and is expected to be fully repaid in 2019.

The following tables summarize the transactions that occurred between North Bay Hydro Distribution Limited and its affiliates.

Expressed in Canadian Dollars

10. Related Party Transactions (continued)

	Sale of Goods		Purchase of Goods		Amounts owed to (from)	
	Year Ended December 31, 2018	Year Ended December 31, 2017	Year Ended December 31, 2018	Year Ended December 31, 2017	Year Ended December 31, 2018	Year Ended December 31, 2017
NBHS						
Contract services and other	$ 372,060	$ 380,270	$ -	$ -	$ -	$ -
Contracted Services	-	-	307,149	399,335	-	-
Total statement of earnings and retained earnings	372,060	380,270	307,149	399,335	-	-
Accounts receivable					(174,095)	(184,349)
Accounts payable	-	-	-	-	318,115	405,782
Loan Receivable					(2,733,926)	(275,265)
Asset (proceeds) / sale	-	(18,691)	-	-	-	-
Total balance sheet	$ -	$ (18,691)	$ -	$ -	$(2,589,906)	$ (53,832)
NBEAI						
Accounts Receivable					(377,940)	
Hydro Holdings						
Administration fees	$ -	$ -	$ 12,000	$ 12,000	$ -	$ -
Holdco total	$ -	$ -	$ 12,000	$ 12,000	$ -	$ -
City of North Bay						
Electrical energy sales	$ 3,700,370	$ 3,900,717	$ -	$ -	$ -	$ -
Construction activity sales	53,844	10,849	-	-	-	-
Street light maintenance	19,901	23,703	-	-	-	-
Fuel / water / other	-	-	306,873	325,766	-	-
CDM initiatives	-	-	25,265	6,654	-	-
Donations	-	-	1,250	1,250	-	-
Interest on promissory note	-	-		-	-	-
Total statement of earnings and retained earnings	$ 3,774,115	$ 3,935,269	$ 333,388	$ 333,670	$ -	$ -
Accounts receivable	-	-	-	-	(401,871)	(368,953)
Accounts payable	-	-	-	-	126,815	130,685
Total balance sheet	$ -	$ -	$ -	$ -	($275,056)	($238,268)

Management Compensation

During the year the Company compensated its senior management group $1,115,317 (2017 - $976,900), including salaries and benefits.

Expressed in Canadian Dollars

11. INVENTORY

Cost of inventories comprised of direct materials, which typically consists of distribution assets not deemed as major spares, unless purchased for specific capital projects in process or as spare units. Costs, after deducting rebates and discounts, are assigned to individual items of inventory on the basis of weighted average cost. Decommissioned assets that are transferred to inventory are tested for impairment once they are removed from service and placed in inventory. Inventory is recognized at the lower of cost and net realizable value. The amount of inventories consumed by the Company and recognized as an expense during 2018 was $90,924 (2017 - $86,833).

Inventory consists of parts, supplies and materials held for future capital expansion or maintenance and are valued at the lower of cost, determined by the weighted average method, and replacement cost.

12. SHARE CAPITAL

Authorized:

Unlimited Common shares

The issued share capital is as follows:

	2018	2017
1,001 Common Shares	$ 19,511,601	$ 19,511,601

13. OPERATING EXPENSES BY NATURE

	2018	2017
Repairs and maintenance	$ 1,087,545	$ 1,025,289
Staff costs	3,384,856	3,457,066
General administration and overhead	1,707,658	1,850,811
Bad debts	167,985	163,484
Property taxes	82,155	80,230
	$ 6,430,199	$ 6,576,880

Expressed in Canadian Dollars

14. Finance Income and Finance Cost

	2018	2017
Finance Income:		
Interest income on receivables	$ 207,164	$ 161,950
Interest income on bank deposits	175,483	140,774
	$ 382,647	$ 302,724
Finance Cost:		
Interest on long-term debt	$ 948,015	$ 903,903
Net interest on employee future benefits	143,685	147,642
	$1,091,700	$1,051,545

15. Long-term Debt

The Company negotiated a loan with the Ontario Infrastructure Projects Corporation to provide funding for the Smart Meter project. The loan is a 10 year serial loan at an interest rate of 3.90% calculated on a semi-annual basis. The loan will be repaid in 120 monthly installments which will include both principal and interest. The loan balance at the end of the year was $816,667 (2017 - $1,166,667), of which $350,000 is repayable within one year.

The Company's agreement with the Ontario Infrastructure Projects Corporation requires a debt service coverage ratio of 1.3 or higher, a debt to capital ratio lower than 60%, and a current ratio of 1.1:1 or higher. As part of the financing proposal, the OIPC agreed to waive any debt service coverage violation if working capital surplus was greater than the loan amount. The agreement also prevents the Company from making loans or paying dividends that would cause the violation of these covenants. As at December 31, 2018 the Company was in compliance with these covenants.

The Company has five term loans in the amounts of $4,000,000, $4,500,000, $6,000,000, and two $5,000,000 loans with a Canadian Financial Institution and has entered into interest rate derivative agreements to manage the volatility of interest rates on long-term debt for each. Four of these loans are to be repaid over 120 months and one over 240 months with combined repayments of $234,651 per month principal and interest having fixed rates at 3.095%,3.55%, 2.45%, 2.36%, and 2.88% respectively.

The Company entered into a term loan in the amount of $19,500,000 to replace the existing loan agreement with the City of North Bay. This loan is to be repaid over 240 months with repayments of $103,331 per month principal and interest at a rate of 2.5%.

The fair value of these loans are $37,674,438 (2017- $35,636,009) which is estimated by obtaining market-to-market quotes from the Company's lending institutions. The quoted prices generally reflect the estimated amount that the Company would pay (receive) to settle these agreements at the statement of financial position date.

Expressed in Canadian Dollars

15. Long-term Debt (continued)

The Company must maintain Debt Service Coverage (DSC) ratio of not less than 1.20:1 on to remain in compliance with outstanding debt obligations. The Company has met these covenants at year-end.

Principal repayments for the next five years and thereafter are as follows:

2019	$ 3,083,711
2020	3,166,330
2021	3,253,974
2022	3,344,095
2023	3,511,605
Thereafter	21,314,723
	$ 37,674,438

The interest rates on these financial instruments are fixed and therefore the Company is not exposed to fluctuations in short-term interest rates in relation to these debts.

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an on-going basis. The Company strives to maintain a liquidity level that allows for sufficient funds to meet operational requirements so that obligations can be met as they become due.

The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities:

December 31, 2017	60 days	< 1 year	1 – 5 years	> 5 years
Accounts payable	$10,575,337	$ -	$ -	$ -
Loans	509,558	2,473,666	15,047,796	18,940,691
	$11,084,895	$2,473,666	$15,047,796	$18,940,691

December 31, 2018	60 days	< 1 year	1 – 5 years	> 5 years
Accounts payable	$9,558,632	$ -	$ -	$ -
Loans	568,646	2,865,064	17,122,187	17,935,207
	$10,127,278	$2,865,064	$17,122,187	$17,935,207

16. CONTINGENCIES

The Company belongs to the Municipal Electrical Reciprocal Insurance Exchange ("MEARIE"). MEARIE is a self-insurance plan that pools the risks of all of its members. Any losses experienced by MEARIE are shared amongst its members. As at December 31, 2018, the Company has not been made aware of any assessments for losses. The Company has one outstanding claim against it and expects that any potential liability under this claim will be covered under the MEARIE liability policy.

17. COMMITMENTS

On October 9, 2009 the Company entered into a 15 year contract with Sensus Metering Systems Inc. to maintain and further develop the AMI system that meets the MEU functional specifications related to the Smart Meter Project. The contract contains 3 renewal terms of 5 years each. The Company elected to have the monthly fees billed in US dollars, instead of having the currency rate set on an annual basis in October of each year. Termination penalties apply if the Company cancels the contract without cause, the related fees are based on a sliding scale for the year this takes place and the fees associated with the service option selected. Annual fees in the amount of approximately $206,000 are expected to be incurred under this contract, however can fluctuate based on several factors including performance. This contract exposes the Company to currency risk with fluctuations in currency prices when it purchases US dollars to meet the payable commitments.

18. CREDIT FACILITY / LETTERS OF CREDIT

The Company has an authorized line of credit under a credit facility agreement with a Canadian chartered bank. The maximum draw permitted under this agreement is $1,000,000. At year end the Company had drawn $Nil (2017 - $Nil) under this facility.

The Company has available a revolving term facility with a maximum draw of $1,000,000 to finance the purchase of capital assets. At year end the Company had drawn $Nil (2017 - $NIL) under this facility.

The Company has a $3.6 million letter of credit with its bank provided to the IESO to secure the Company's hydro purchase obligations. The Company has provided its financial institution with a General Security Agreement as security for this obligation.

The Company's general banking agreement which encompasses the line of credit, revolving term facility and the letter of credit contains financial covenants which include a debt to capital ratio lower than 60% and a debt service coverage ratio of not less than 1:1 and positive free cash flow. Distributions in excess of free cash flow are permitted when financed by cash on hand. As at December 31, 2018 the Company was in compliance with these covenants.

The Company strives to maintain a liquidity level that allows for sufficient funds to meet operational requirements so that obligations can be met as they become due while minimizing interest expense. The Company monitors cash balances regularly and has access to short-term borrowings, should they be required, under its credit facility agreement. If the Company were to utilize this facility it would be exposed to fluctuations in short-term interest rates.

19. Pension Agreements

The Company makes contributions to the OMERS, which is a multi-employer pension plan, on behalf of all full-time members of its staff. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. The Administration Corporation Board of Directors, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of the assets and administration of the benefits. OMERS provides pension services to almost half a million active and retired members and approximately 1,000 employers.

Each year an independent actuary determines the funding status of OMERS Primary Pension Plan (the Plan) by comparing the actuarial value of invested assets to the estimated present value of all pension benefits that members have earned to date. The most recent actuarial valuation of the Plan was conducted at December 31, 2018. The results of this valuation disclosed total actuarial liabilities of $100,081 million in respect of benefits accrued for service with actuarial assets at that date of $95,890 million indicating an actuarial deficit of $4,191 million. Because OMERS is a multi-employer plan, any pension plan surpluses or deficits are a joint responsibility of Ontario municipal organizations and their employees. As a result, the Company does not recognize any share of the OMERS pension surplus or deficit. The amount contributed to OMERS for 2018 was $437,483 (2017 - $437,730).

20. Capital Disclosures

The Company considers its capital to comprise its common share capital, retained earnings, and long-term debt.

In managing its capital, the Company's primary objective is to ensure its continued ability to provide a consistent return for its equity shareholders through a combination of capital growth and through the payment of periodic dividends to its common shareholders. The Company also seeks to ensure that access to funding is available in order to maintain and improve the equipment used in operations and maintain financial ratios within the recommended guidelines as prescribed by the OEB. In order to achieve these objectives, the Company develops detailed annual operating budgets and seeks to maintain distribution revenue levels and control costs to enable the Company to meet its working capital requirements and strategic investment needs. In making decisions to adjust its capital structure to achieve these objectives, the Company considers both its short-term position and long-term operational and strategic objectives.

As at December 31, 2018 the Company is party to debt agreements that contain various covenants and is restricted from offering loans or paying dividends that would cause a violation of those covenants.

21. STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning after January 1, 2019 or later years.

The Company has not yet determined the extent of the impact of the following new standards, interpretations and amendments, which have not been applied in these financial statements:

- IFRS 16 – Leases; (supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). It eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease will be recorded in the statement of financial position with a "right of use" asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. The accounting requirements from the perspective of the lessor remains largely in line with previous IAS 17 requirements. The effective date for IFRS 16 is January 1, 2019. The company is in the process of evaluating the impact of the new standard standard.
- IFRIC 23 – Uncertainty over income tax treatments provides guidance on recognition and measurement of uncertain income tax treatments. The effective date for IFRIC 23 is January 1, 2019. The Company is in the process of evaluating the impact of this interpretation.

SEC-4

Reference: Application, p. 12

Preamble:

In EB-2014-0071, both Espanola Hydro and OEB Staff did normalization calculations with respect to the regulatory ROE for several years.

Question:

Please provide the full calculations to get to 6.29% for 2016, 2.45% for 2017, and the actual regulatory ROE for 2018. Please advise which, if any, of the normalization adjustments in EB-2014-0071 were used for 2016-2018, and if the normalizations were different from those in that previous case, please explain why.

Response:

Please see 'Appendix SEC-4 - ERHDC ROE Calculations 2016-2018'.

ROE calculations are normalized based on OEB format as reported through the annual Reporting and Record Keeping Requirements.

Espanola Regional Hydro Distribution Corporation

Financial Statements

Year ended December 31, 2018

INDEPENDENT AUDITOR'S REPORT

To: The Shareholders of
Espanola Regional Hydro Distribution Corporation

Report on the Audit of the Financial Statements

Opinion
We have audited the financial statements of **Espanola Regional Hydro Distribution Corporation**, which comprise the statement of financial position as at **December 31, 2018**, and the statements of comprehensive earnings, retained earnings and accumulated other comprehensive earnings, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the corporation as at **December 31, 2018**, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion
We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the corporation's financial reporting process.

INDEPENDENT AUDITOR'S REPORT, continued

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

INDEPENDENT AUDITOR'S REPORT, continued

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Freelandt Caldwell Reilly LLP

FREELANDT CALDWELL REILLY LLP

Chartered Professional Accountants
Licensed Public Accountants

Sudbury, Ontario
April 10, 2019

Espanola Regional Hydro Distribution Corporation
Statement of Financial Position
December 31, 2018 with comparative figures for 2017

	2018	2017
Assets		
Current		
Cash	$ 767,496	$ 1,483,510
Accounts receivable (note 4)	1,151,782	1,027,266
Unbilled revenue - energy sales	532,037	570,747
Unbilled revenue - distribution	152,114	162,262
Inventory	50,383	71,199
Prepaid expenses	159,865	28,742
Payment in lieu of taxes	79,202	63,196
	2,892,879	3,406,922
Payment in lieu of deferred taxes (note 8)	11,392	10,510
Property, plant and equipment (note 5)	4,880,215	4,640,045
Total assets	7,784,486	8,057,477
Regulatory assets (note 6)	2,543,512	2,680,471
Payment in lieu of deferred tax regulatory assets (note 6)	102,932	70,916
Total assets and regulatory assets	$ 10,430,930	$ 10,808,864

Approved on behalf of the Board of Directors:

Director ____________________

Director ____________________

See accompanying notes to financial statements

Espanola Regional Hydro Distribution Corporation
Statement of Financial Position
December 31, 2018 with comparative figures for 2017

	2018	2017
Liabilities and shareholders' equity		
Current		
Accounts payable and accrued liabilities	$ 655,886	$ 606,029
Payable for energy purchases	1,454,594	2,140,288
Current portion of long-term debt	86,359	83,452
	2,196,839	2,829,769
Customer deposits	210,362	222,090
Deferred revenue	137,257	-
Payment in lieu of deferred taxes (note 8)	114,324	70,560
Contributions in aid of construction (note 9)	316,758	286,384
Employee future benefits (note 10)	84,387	70,067
Long-term obligations (note 11)	2,071,612	2,157,971
Notes payable (note 12)	1,524,511	1,524,511
	6,656,050	7,161,352
Shareholders' equity		
Share capital (note 13)	2,281,000	2,281,000
Retained earnings	1,003,493	923,799
Accumulated other comprehensive earnings	998	14,954
	3,285,491	3,219,753
Total liabilities and shareholders' equity	9,941,541	10,381,105
Regulatory liabilities (note 6)	489,389	416,893
Payment in lieu of deferred tax regulatory liabilities (note 6)	-	10,866
Total liabilities, shareholders' equity and regulatory liabilities	$ 10,430,930	$ 10,808,864

Commitments (note 16)

Espanola Regional Hydro Distribution Corporation
Statement of Comprehensive Earnings
Year ended December 31, 2018 with comparative figures for 2017

	2018	2017 (restated) (note 20)
Revenue		
Energy sales	$ 6,729,611	$ 7,152,542
Distribution	1,630,447	1,593,631
	8,360,058	8,746,173
Cost of Energy	6,520,156	7,315,286
Gross Profit	1,839,902	1,430,887
Operating expenses (note 14)		
General and administration	329,323	376,015
Billing and collecting	429,732	433,424
Distribution - operations	374,289	303,433
Distribution - maintenance	267,091	285,370
Depreciation	161,273	153,005
Interest on long-term obligations and notes payable	148,067	150,875
	1,709,775	1,702,122
Earnings (loss) before other income and payment in lieu of taxes	130,127	(271,235)
Other income		
Interest	20,896	18,732
Labour, rental and other charges	112,275	99,528
Amortization of contributions in aid of construction	9,845	8,103
	143,016	126,363
Earnings (loss) before payment in lieu of taxes, change in regulatory asset and liability balances and other comprehensive earnings (loss)	273,143	(144,872)
Payments in lieu of taxes (recovery) (note 8)		
Current	(16,006)	(63,196)
Deferred	42,882	38,778
	26,876	(24,418)
Net earnings (loss) before change in regulatory asset and liability balances and other comprehensive earnings (loss)	246,267	(120,454)
Change in regulatory assets and liabilities (note 6)		
Change in regulatory asset and liability account balances related to profit and loss	(209,455)	162,744
Change in payment in lieu of deferred tax balances related to regulatory assets and liabilities	42,882	38,778
	(166,573)	201,522
Net earnings before other comprehensive loss	79,694	81,068
Other comprehensive loss		
Remeasurement of employee future benefits liability, net of tax	(13,956)	(4,327)
Net earnings	$ 65,738	$ 76,741

See accompanying notes to financial statements

Espanola Regional Hydro Distribution Corporation

Statement of Retained Earnings and Accumulated Other Comprehensive Earnings
Year ended December 31, 2018 with comparative figures for 2017

	Share capital	Retained earnings	Accumulated other comprehensive earnings (loss)	Total
Balance, December 31, 2017	$ 2,281,000	$ 923,799	$ 14,954	$ 3,219,753
Net earnings before other comprehensive loss	-	79,694	-	79,694
Other comprehensive loss	-	-	(13,956)	(13,956)
Balance, December 31, 2018	2,281,000	1,003,493	998	3,285,491
Balance, December 31, 2016	2,281,000	842,731	19,281	3,143,012
Net earnings before other comprehensive loss	-	81,068	-	81,068
Other comprehensive loss	-	-	(4,327)	(4,327)
Balance, December 31, 2017	$ 2,281,000	$ 923,799	$ 14,954	$ 3,219,753

Espanola Regional Hydro Distribution Corporation
Cash Flows Statement
Year ended December 31, 2018 with comparative figures for 2017

	2018	2017
Cash flows from operating activities		
Net earnings before other comprehensive loss	$ 79,694	$ 81,068
Adjustments to reconcile earnings to cash provided by (used in) operations:		
Depreciation	183,915	175,597
Amortization of contributions in aid of construction	(9,895)	(8,103)
Provision for payment in lieu of deferred taxes	42,882	38,778
Provision for payment in lieu of taxes	(16,006)	(63,196)
Interest charges on long-term obligations and notes payable	148,067	150,875
	428,657	375,019
Change in non-cash working capital items		
Accounts receivable	(124,516)	183,336
Unbilled revenue - energy sales	38,710	91,155
Unbilled revenue - distribution	10,148	(8,434)
Inventory	20,816	4,647
Prepaid expenses	(131,123)	118
Payment in lieu of taxes paid	-	144,571
Accounts payable and accrued liabilities	49,857	(71,030)
Payable for energy purchases	(685,694)	(469,081)
Interest on long-term obligations and notes payable paid	(148,067)	(150,875)
	(541,212)	99,426
Cash flows from investing activities		
Proceeds on disposal of property, plant and equipment	-	32,008
Purchase of property, plant and equipment	(424,085)	(694,191)
Regulatory assets	104,943	(278,373)
	(319,142)	(940,556)
Cash flows from financing activities		
Customer deposits	(11,728)	41,540
Deferred revenue	137,257	-
Regulatory liabilities	61,630	76,851
Contributions in aid of construction received	40,269	3,293
Employee future benefits	364	233
Repayment of long-term debt	(83,452)	(80,644)
	144,340	41,273
Decrease in cash	(716,014)	(799,857)
Cash, beginning of year	1,483,510	2,283,367
Cash, end of year	$ 767,496	$ 1,483,510

See accompanying notes to financial statements

1. Nature of operations

Espanola Regional Hydro Distribution Corporation was incorporated on November 1, 2000 under the laws of the province of Ontario, Canada. The incorporation was required in accordance with the Electricity Act, 1998, Ontario (the EA). The Corporation is a wholly owned subsidiary of Espanola Regional Hydro Holdings Corporation and was incorporated for the purpose of providing regulated electricity distribution services to customers in the Town of Espanola and the Township of Sables-Spanish Rivers from its head office located at 598 Second Street, Espanola Ontario, Canada.

The Corporation and other electricity distributors purchase their electricity from the wholesale market administered by the Independent Electricity System Operator (IESO) and recover the costs of electricity and certain other costs at a later date in accordance with procedures mandated by the Ontario Energy Board (the OEB).

The OEB has regulatory oversight of electricity matters in the Province of Ontario. The Ontario Energy Board Act, 1998 sets out the OEB's authority to issue a distribution licence which must be obtained by owners or operators of a distribution system in Ontario. The OEB prescribes licence requirements and conditions including, among other things, specified accounting records, regulatory accounting principles and the filing process requirements for rate-setting purposes.

The OEB's authority and responsibilities include the power to approve and fix rates for the transmission and distribution of electricity and the responsibility for ensuring that electricity distribution companies fulfil their obligations to connect and service customers.

Regulatory developments in Ontario's electricity industry may affect distribution rates and the permitted recovery or settlement or the timing of recovery or settlement of certain regulatory assets and liabilities.

2. Significant accounting policies

These financial statements are prepared using International Financial Reporting Standards applying the accounting policies set out below on a consistent basis in all years presented in these financial statement. The significant policies are detailed as follows:

(a) Statement of compliance and basis of measurement

These financial statements are the representation of the Corporation's management and are prepared in accordance with International Financial Reporting Standards (IFRS). as issued by the International Accounting Standards Board (IASB). The Corporation adopted IFRS as of January 1. 2015 with a transition date of January 1. 2014. The Corporation's accounting policies are based on IFRS applicable as at December 31, 2018. The Corporation has adopted the requirements of IFRS 14 - Regulatory Deferral Accounts. which permits the Corporation to account for regulatory deferral account balances using its previous GAAP when it adopted IFRS. Previously, the financial statements of the Corporation were prepared using Canadian generally accepted accounting principles.

These financial statements have been prepared on a historical cost basis, except for financial instruments classified as "fair value through profit or loss" and "available for sale" financial assets which have been measured at fair value.

These financial statements are presented in Canadian dollars and were approved by the Corporation's Board of Directors on April 10. 2019.

(b) Effects of rate regulation

The Ontario Energy Board (OEB) is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfil obligations to connect and service customers. The OEB has the general power to include or exclude costs. revenues. losses or gains in the rates of a specific period. resulting in a change in the timing of accounting recognition from that which would have been applied in a non rate regulated company. Such change in timing involves the application of rate regulated accounting. giving rise to the recognition of regulatory assets and liabilities. Regulatory assets represent future revenues associated with certain costs. incurred in the current period or in prior periods, which are expected to be recovered from customers in future periods through the rate-setting and approval process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that are expected to be refunded to customers as a result of the rate-setting and approval process.

(c) Cash and cash equivalents

Cash and cash equivalents are defined as cash and highly liquid investments, consisting primarily of term deposits, with terms to maturity of three months or less at the date of purchase.

(d) Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined using the average cost method.

2. **Significant accounting policies, continued**

(e) **Property, plant and equipment**

Property, plant and equipment are measured at historical cost or deemed cost less accumulated depreciation and impairment losses, if any. The Corporation elected to use the carrying amount, as previously determined under Canadian GAAP, as the deemed cost at January 1, 2014, the transition date to IFRS. In circumstances where parts of an item of property, plant and equipment have different useful lives they are accounted for as separate components of property, plant and equipment. The Corporation provides for depreciation using the straight-line method at rates designed to depreciate the cost of the property, plant and equipment over their estimated useful lives. A full year's depreciation is recorded in the year of acquisition. No depreciation is recorded in the year of disposal. The carrying amount of an item of property, plant and equipment is derecognized on disposal. The annual depreciation rates and useful lives are reviewed annually and are as follows:

Buildings	50 years
Furniture and equipment	5-10 years
Vehicles	15 years
Transmission and distribution equipment	40-60 years

Construction in progress includes assets not currently in use and therefore not yet subject to depreciation.

In certain cases, non-refundable contributions are received in aid of construction or acquisition of property, plant and equipment. Contributions in aid of construction are classified as liabilities and are amortized at the same rate as the assets to which they relate.

2. **Significant accounting policies, continued**

(f) **Impairment of non-financial assets**

At the end of each reporting period, the Corporation reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in operations.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in operations.

(g) **Provisions**

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate, net of tax, that reflects current market assessments of the time value of money and the risks specific to the liability.

(h) **Borrowing costs**

Borrowing costs directly attributable to the acquisition or construction of property, plant and equipment, which take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized in operations in the period in which they are incurred.

2. **Significant accounting policies, continued**

(i) Asset retirement obligations

Accounting standards require the Corporation to determine the fair value of future expenditures required to settle legal obligations to remove property, plant and equipment. If reasonably estimable, the Corporation recognizes a liability for the estimated current value of future expenditures required to settle obligations for the retirement of property, plant and equipment. Decommissioning liabilities are recorded at fair value, with a corresponding increase to the recorded amount of property, plant and equipment. Accretion of decommissioning liabilities is included in operations. Differences between the recorded amount of decommissioning liabilities and the actual decommissioning costs incurred are recorded as a gain or loss in the period of settlement.

Some of the Corporation's distribution system assets may have asset retirement obligations. As the Corporation expects to use the majority of its installed assets for an indefinite period, no removal date can be determined and consequently a reasonable estimate of the fair value of the related asset retirement obligation cannot be made at this time. If, at some future date, it becomes possible to estimate the fair value cost of removing assets that the Corporation is legally required to remove, an asset retirement obligation will be recognized at that time.

(j) Pension plan

The Corporation provides a pension plan for all its full-time employees through the Ontario Municipal Employees Retirement System (OMERS). OMERS is a multiemployer pension plan that provides pensions for employees of Ontario municipalities, local boards and public utilities. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund.

OMERS is a defined benefit plan, however it does not segregate its pension asset and liability information by individual employers, there is insufficient information available to enable the Corporation to directly account for the plan. Consequently, the plan has been accounted for as a defined contribution plan. Obligations for contributions to defined contribution pension plans are recognized as an expense in net operations when they are due.

2. **Significant accounting policies, continued**

(k) **Revenue recognition**

Distribution and energy related revenues attributable to the supply and distribution of electricity are based on OEB approved rates and revenue is recognized as electricity is delivered to customers based on periodic meter readings. At the end of an accounting cycle, there is energy used by consumers for which meter readings are not available and no bills have been issued. This unbilled revenue is estimated and recorded in current assets on the statement of financial position at the end of each fiscal year. The related cost of energy is recorded on the basis of energy used.

The difference between the amount paid by the Corporation to Hydro One for the purchase of energy and related service costs and the amount billed by the Corporation to its customers for energy sales based on regulated rates are recorded on the statement of financial position as regulatory assets and liabilities until their final disposition is decided by the OEB. In accordance with IFRS 14, the change in these regulatory assets and liabilities are reported, net of tax, with regulatory balances in the statement of comprehensive earnings.

Labour, rental and other charges revenue is recognized in the period in which these services are provided.

(l) **Payment in lieu of taxes**

Pursuant to the EA, the Corporation is required to compute taxes under the Income Tax Act (Canada) (ITA) and remit such amounts computed there under to the Ontario Electricity Financial Corporation (OEFC). These amounts, referred to as payments in lieu of taxes (PILs) under the EA, are applied to reduce certain debt obligations of the former Ontario Hydro now owing by the OEFC.

Payment in lieu of deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amount of assets and liabilities and their tax bases. Payment in lieu of deferred tax assets are also recognized for the benefit of any deductions or losses available to be carried forward to future periods for tax purposes that are likely to be realized. These amounts are measured using enacted or substantively enacted tax rates and are re-measured annually for changes in these rates. Any payment in lieu of deferred income tax assets are reassessed each year to determine if a valuation allowance is required. Any effect of the re-measurement or reassessment is recognized in operations in the period of the change.

As prescribed by regulatory rate order, payment in lieu of taxes are recovered through customer rates based on the taxes payable method. Therefore, rates do not include the recovery of payment in lieu of deferred taxes related to temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. Accordingly, payment in lieu of deferred tax regulatory assets or liabilities are recognized for the amount of payment in lieu of deferred taxes which are expected to be included in future rates and recovered from or refunded to customers in future periods through the rate setting and approval process.

2. Significant accounting policies, continued

(m) Employee future benefits

The Corporation's net obligation in respect of its employee future benefit plan is calculated by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods, that benefit is discounted to determine its present value. Any unrecognised past service costs are deducted. The discount rate is the interest rate at the reporting date on high quality debt instruments with duration similar to the duration of the plan.

The cost of these employee future benefits is expensed as earned by employees through employment service. The accrued benefit obligation and the current service costs are actuarially determined by applying the projected unit credit method and incorporate management's best estimate of certain underlying assumptions. Re-measurements arising from employee benefit plans are recognized immediately in operations. When the benefits of a plan are improved, these increases are recognized immediately in operations.

2. **Significant accounting policies, continued**

(n) **Financial instruments**

(i) **Measurement of financial instruments**

Financial assets and financial liabilities are initially measured at fair value. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities, other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL"), are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss. Transactions to purchase or sell these items are recorded on the trade date.

Financial instruments are measured at their amortized cost subsequent to initial recognition. Amortized cost is the amount at which the financial instrument is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount. Net gains and losses arising from changes in fair value are recognized in operations upon de-recognition or impairment.

The Corporation has classified its cash equivalents, accounts receivable, unbilled revenue, accounts payable and accrued liabilities, payable for energy purchases, long-term obligations, and notes payable as financial instruments measured at amortized cost.

(ii) **Impairment**

A financial asset measure at amortized cost is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Interest on the impaired assets continues to be recognized through the unwinding of the discount.

All impairment losses are recognized in operations. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in operations.

2. **Significant accounting policies, continued**

(o) **Measurement uncertainty**

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, these estimates are subject to measurement uncertainty. The effect of changes in such estimates on the financial statements in future periods could be significant, including changes as a result of future decisions made by the Ontario Energy Board (OEB). All estimates are reviewed periodically and adjustments are made and recognized in operations, as appropriate, in the year they become known. Accounts specifically affected by estimates and assumptions in these financial statements are as follows:

(i) **Property, plant and equipment**

Amounts recorded in the financial statements for depreciation are based on the estimated useful lives of the Corporation's property, plant and equipment. These useful lives are management's best estimate of the service lives of these assets and are reviewed annually. Changes to these estimated useful lives could materially affect the amount of depreciation recorded in the financial statements.

The Corporation's policy relating to property, plant and equipment is described in note 2(e). In applying this policy, management uses judgment in determining whether certain costs are additions to the carrying amount of property, plant and equipment or expensed in operations as repairs and maintenance. Judgment is also necessary in determining the appropriate componentization structure of the Corporation's property, plant and equipment.

(ii) **Decommissioning liabilities**

The Corporation recognizes a liability for the estimated current value of future expenditures required to settle obligations for the retirement of property, plant and equipment. Decommissioning liabilities are recorded at fair value, with a corresponding increase to the recorded amount of property, plant and equipment. Accretion of decommissioning liabilities is included in operations. Differences between the recorded amount of decommissioning liabilities and the actual decommissioning costs incurred are recorded as a gain or loss in the period of settlement.

(iii) **Employee future benefits**

The Corporation provides certain health and dental benefits to retired employees. The estimated cost of providing these benefits is accounted for on an accrual basis in the period in which employees render their services and are actuarially determined using the projected benefit method pro-rated on service and include management's best estimate of salary escalations, retirement ages and expected health care cost escalations.

2. **Significant accounting policies, continued**

(o) **Measurement uncertainty, continued**

(iv) **Regulatory assets and liabilities**

When recognizing regulatory assets and liabilities management assumes that such credits or costs will be recovered from customers or refunded to customers in future years through the rate setting and approval process. Refund or recovery of these regulatory assets and liabilities are subject to the review and approval of the OEB. Consequently, there is risk that some or all of the regulatory assets and liabilities will not be approved by the OEB which could have a material affect on the Corporation's comprehensive income in the year of the OEB decision.

3. Future changes to significant accounting policies

The Corporation has not yet adopted the following new and revised International Financial Reporting Standards that have been issued but are not yet effective:

Leases IFRS 16

In January 2016, IFRS 16 - Leases was issued. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 replaces IAS 17 and is effective for periods beginning on or after January 1, 2019. The Corporation is assessing the impact of IFRS 16 on its results of operations, financial position and disclosures.

Uncertainty Over Income Tax Treatments IFRIC 23

In June 2017, IFRIC 23 - Uncertainty Over Income Tax Treatments was issued. IFRIC 23 provides guidance on the accounting for current and deferred tax assets and liabilities in situations in which there is uncertainty over income tax treatments and is effective for periods beginning on or after January 1, 2019. The Corporation is assessing the impact of IFRIC 23 on its results of operations, financial position and disclosures.

4. Accounts receivable

	2018	2017
Electrical energy receivables	$ 748,997	$ 720,775
Water and sewer receivables	206,397	213,578
Other receivables	196,388	92,913
	$ 1,151,782	$ 1,027,266

	2018	2017
Aging of accounts receivable		
Current	$ 1,109,920	$ 964,371
30 days	15,764	13,904
60 days	8,018	10,950
Over 90 days	18,080	38,041
	$ 1,151,782	$ 1,027,266

Notes to the Financial Statements
Year ended December 31, 2018 with comparative figures for 2017

5. Property, plant and equipment

2018

	Land	Buildings	Transmission & Distribution Equipment	Vehicles	Furniture and Equipment	Construction In Progress	Total
Cost							
Balance, beginning of year	$ 88,880	183,831	4,509,168	315,642	31,451	106,501	$ 5,235,473
Additions	-	-	421,259	-	1,619	1,207	424,085
Transfers	-	-	56,524	-	-	(56,524)	-
Disposals	-	-	-	-	-	-	-
Balance, end of year	88,880	183,831	4,986,951	315,642	33,070	51,184	5,659,558
Accumulated Amortization							
Balance, beginning of year	-	18,087	474,275	83,596	19,470	-	595,428
Depreciation	-	4,572	153,163	22,592	3,588	-	183,915
Disposals	-	-	-	-	-	-	-
Balance, end of year	-	22,659	627,438	106,188	23,058	-	779,343
Net book value	$ 88,880	161,172	4,359,513	209,454	10,012	51,184	$ 4,880,215

2017

	Land	Buildings	Transmission & Distribution Equipment	Vehicles	Furniture and Equipment	Construction In Progress	Total
Cost							
Balance, beginning of year	$ 88,880	183,831	3,929,058	315,642	31,451	54,100	$ 4,602,962
Additions	-	-	635,376	-	-	58,815	694,191
Transfers	-	-	6,414	-	-	(6,414)	-
Disposals	-	-	(61,680)	-	-	-	(61,680)
Balance, end of year	88,880	183,831	4,509,168	315,642	31,451	106,501	5,235,473
Accumulated Amortization							
Balance, beginning of year	-	13,515	359,120	61,004	15,864	-	449,503
Depreciation	-	4,572	144,827	22,592	3,606	-	175,597
Disposals	-	-	(29,672)	-	-	-	(29,672)
Balance, end of year	-	18,087	474,275	83,596	19,470	-	595,428
Net book value	$ 88,880	165,744	4,034,893	232,046	11,981	106,501	$ 4,640,045

6. Regulatory assets and liabilities

		January 1, 2018		Regulatory activity		December 31, 2018
Settlement variances (a)	$	1,212,814	$	(2,226)	$	1,210,588
Stranded meters (b)		11,501		(2,197)		9,304
Substation (c)		1,456,156		(132,536)		1,323,620
Payment in lieu of deferred tax regulatory assets (d)		70,916		32,016		102,932
Total regulatory assets		2,751,387		(104,943)		2,646,444
Settlement variances (a)		416,893		72,496		489,389
Payment in lieu of deferred tax regulatory liabilities (d)		10,866		(10,866)		-
Total regulatory liabilities		427,759		61,630		489,389
Net regulatory assets	$	2,323,628	$	(166,573)	$	2,157,055

		January 1, 2017		Regulatory activity		December 31, 2017
Settlement variances (a)	$	846,342	$	366,472	$	1,212,814
Stranded meters (b)		11,460		41		11,501
Substation (c)		1,590,515		(134,359)		1,456,156
Payment in lieu of deferred tax regulatory assets (d)		24,697		46,219		70,916
Total regulatory assets		2,473,014		278,373		2,751,387
Settlement variances (a)		347,483		69,410		416,893
Payment in lieu of deferred tax regulatory liabilities (d)		3,425		7,441		10,866
Total regulatory liabilities		350,908		76,851		427,759
Net regulatory assets	$	2,122,106	$	201,522	$	2,323,628

6. **Regulatory assets and liabilities, continued**

Regulatory assets and liabilities arise as a result of the rate setting and approval process through the OEB.

(a) The difference between the amount paid by the Corporation to Hydro One for the purchase of energy and related service costs and the amount billed by the Corporation to its customers as energy sales based on regulated rates are recorded on the statement of financial position as settlement variances until their final disposition is decided by the OEB. The Corporation recognizes settlement variances as an asset or liability based on the expectation that these amounts will be approved by the OEB for future collection from, or refund to, customers through the rate setting and approval process. The settlement variance asset (liability) represents the excess (deficiency) of amounts billed to the Corporation by Hydro One for the purchase of energy over the amounts charged by the Corporation to its customers as energy sales.

Recovery or refund of the settlement variances is done on an annual basis through application to the OEB. Currently, no amount has been approved for recovery or refund. Accordingly, the timing of the recovery or refund is unknown.

(b) The stranded meter regulatory assets represent the unrecovered net book value of decommissioned analog meters. The net book value of the stranded meters was reclassified to the regulatory asset account for recovery to the end of March 2017.

(c) The substation asset represents the cost of construction of a new substation in the Town of Espanola. The OEB approved the recovery of $168,193 per year in the Corporation's rates until their next cost of service rate order.

(d) The payment in lieu of deferred tax regulatory asset and liability relate to the expected increase in or reduction of distribution rates for customers arising from temporary differences which give rise to payment in lieu of deferred tax assets and liabilities.

For certain of the regulatory assets and liabilities, the expected recovery or settlement period, or likelihood of recovery or settlement, is affected by risks and uncertainties relating to the ultimate authority of the OEB in determining the item's treatment for rate-setting purposes. The Corporation continually assesses the likelihood of recovery of each of its regulatory assets and refund of each of its regulatory liabilities and continues to believe that the OEB will factor its regulatory assets and liabilities into the setting of future rates. If at some future date the Corporation determines that it is no longer probable that the OEB will include a regulatory asset or liability in future rates, the appropriate carrying amount will be charged to operations in the period the determination is made.

7. **Bank credit facilities**

A revolving demand credit facility has been granted by the Royal Bank of Canada to a maximum of $500,000 bearing interest at the bank's prime rate plus 0.8% per annum.

A reducing facility by way of leases has also been granted by the Royal Bank of Canada to a maximum of $200,000, terms of which are governed by separate lease agreements.

The above credit facilities are secured by a first ranking general security agreement.

At the year-end date, no amount has been drawn on these credit facilities.

8. Payment in lieu of taxes

(a) The components of payment in lieu of deferred tax balances are as follows:

		2018	2017
Payment in lieu of deferred tax assets:			
Difference between tax basis of employee future benefits obligation and carrying amount	$	11,392 $	10,510
Payment in lieu of deferred tax liabilities:			
Difference between tax basis of property, plant and equipment and carrying amount		(114,324)	(70,560)
	$	(102,932) $	(60,050)

(b) The provision for payment in lieu of taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 13.5% (2017 - 15.0%) to the earnings for the years as follows:

		2018	2017
Earnings (loss) for the year before payment in lieu of taxes, change in regulatory asset and liability balances and other comprehensive earnings (loss)	$	273,143 $	(144,872)
Change in regulatory asset and liability account balances related to profit and loss		(209,455)	162,744
Remeasurement of employee future benefits liability included in other comprehensive income		(13,956)	(4,327)
	$	49,732 $	13,545
Anticipated income tax	$	6,714 $	2,032
Tax effect of the following:			
Tax effect of change in regulatory assets		27,253	(35,562)
Tax effect of change in payment in lieu of deferred tax regulatory asset		2,110	11,151
Adjustment due to change in tax rate		(9,201)	(2,039)
Provision for (recovery of) payment in lieu of taxes	$	26,876 $	(24,418)

9. Contributions in aid of construction

In certain cases, non-refundable contributions are received in aid of construction or acquisition of property, plant and equipment. Contributions in aid of construction are deferred and amortized to other revenue at the same rate as the assets to which they relate.

		2018		2017
Balance, beginning of year	$	286,384	$	291,194
Contributions received in the year		40,269		3,293
Amortization of contributions in aid of construction		(9,895)		(8,103)
Balance, end of year	$	316,758	$	286,384

10. Employee future benefits

The Corporation pays certain post-employment health and dental benefits on behalf of its retired employees. Accounting standards for employee future benefits require that these post-retirement costs be recognized in the period in which the employees rendered their services. Information about the Corporation's accrued benefit liability and the related expense are based on results and assumptions by actuarial valuation at December 31, 2018 and are as follows:

		2018		2017
Accrued benefit liability, beginning of year	$	70,067	$	65,507
Current service cost recognized in operations		500		530
Interest cost recognized in operations		2,415		2,531
Benefits paid by employer		(2,591)		(2,828)
Net actuarial loss recognized in other comprehensive income		13,956		4,327
Accrued benefit liability, end of year	$	84,347	$	70,067

The main assumptions employed for the valuations are as follows:

The health benefit cost is estimated to increase at rates ranging from 4.0% to 5.3% per annum. The dental benefit cost is estimated to increase at rates ranging from 4.0% to 5.4% per annum.

The obligation at year-end and the present value of future liabilities and the related expense, were determined using an annual discount rate of 4.0% per annum (2017 - 3.50%) representing an estimate of the yield on high quality corporate bonds with a duration similar to the duration of the plan.

Future general salary and wage levels were assumed to increase at 2.5% per annum (2017 - 2.6%).

11. Long-term obligations

	2018	2017
Infrastructure Ontario non-revolving term loan, repayable in blended monthly installments of $2,860 including interest at 2.73% per annum, secured by a general security agreement ranking behind the first ranking general security agreement registered by the Royal Bank of Canada and maturing December 2025	$ 218,423	$ 246,360
Infrastructure Ontario non-revolving term loan, repayable in blended monthly installments of $10,831 including interest at 3.78% per annum, secured by a general security agreement ranking behind the first ranking general security agreement registered by the Royal Bank of Canada and maturing December 2040	1,939,548	1,995,063
	2,157,971	2,241,423
Less current portion	86,359	83,452
	$ 2,071,612	$ 2,157,971

The Ontario Infrastructure loans require the Corporation to meet a debt service coverage ratio of a minimum of 1:25 to 1 and a debt to total assets ratio of less than 60%. At December 31, 2018 the corporation is in compliance with these covenants.

Estimated principal repayments are as follows:

2019	$ 86,359
2020	89,370
2021	92,489
2022	95,718
2023	99,062
Subsequent years	1,694,973
	$ 2,157,971

12. Notes payable

		2018		2017
Note payable to the Town of Espanola	$	1,185,416	$	1,185,416
Note payable to the Township of Sables-Spanish Rivers		339,095		339,095
	$	1,524,511	$	1,524,511

Notes payable to the Town of Espanola and Township of Sables-Spanish Rivers are without security, are due on demand with one year's written notice, include interest at 4.41% per annum (2017 – 4.41%) and are convertible into special shares of the Corporation at a rate of $10,000 per share. During the year, the Corporation paid interest in the amount of $52,277 (2017 - $52,277) to the Town of Espanola and $14,954 (2017 - $14,954) to the Township of Sables-Spanish Rivers.

13. Share capital

		2018		2017
Authorized				
Unlimited number of common shares				
Unlimited discretionary non-cumulative dividend paying, redeemable at $10,000 per share, non-voting special shares				
Issued				
1,000 common shares	$	1,000	$	1,000
228 special shares		2,280,000		2,280,000
	$	2,281,000	$	2,281,000

14. Operating expenses

For internal management reporting purposes the Corporation's operating expenses are reported by function. Operating expenses reported by nature are as follows:

	2018	2017
Salaries, wages and benefits	$ 505,190	$ 421,429
Office and administration	256,809	315,933
Contracted services	452,763	421,995
Operations and maintenance	132,238	157,907
Depreciation	183,915	175,597
Interest on long-term debt and notes payable	148,067	150,875
Bad debts	30,793	58,386
	$ 1,709,775	$ 1,702,122

15. Pension plan

The Corporation provides pension benefits to its employees through the Ontario Municipal Employees Retirement System (OMERS) pension plan. The plan is a multi-employer, contributory, defined benefit pension plan with equal contributions by both employer and employees. During the year the Corporation made employer contributions of $62,624 (2017 - $63,524) to OMERS.

At December 31, 2018 the OMERS pension plan had total assets of $111.8 billion (2017 - $105.7 billion) and an accumulated deficit of $2.64 billion (2017 - $0.77 billion surplus).

16. Commitments

The Corporation has entered into a contract for management, billing, collecting, customer service, software and data hosting services and support with PUC Services Inc. for a five year period ending May 31, 2021, at an annual base cost as follows:

2019	$ 173,949
2020	177,423
2021	74,530

In addition to the above charges, a monthly charge of $5.26 to $5.75 per meter, for up to 3,700 meters for residential and general service customers, will apply.

17. **Related party transactions**

The Corporation is related to the Town of Espanola by virtue of the fact that the Town is an 81% owner of the Corporation's sole shareholder. Likewise, the Township of Sables-Spanish Rivers is a 19% owner of the Corporation's sole shareholder.

In the normal course of business, the Corporation provides electrical energy to the Town of Espanola and the Township of Sables-Spanish Rivers at the same regulated rates and terms approved by the OEB as other similar customers, based on the amount of electricity consumed.

The Corporation also provides water and waste water billing and collection services on behalf of the Town of Espanola. Included in other charges revenue is 18,136 (2017 - $18,136) earned with respect to these services. Also, included in accounts payable and accrued liabilities is $442,210 (2017 - $443,123) relating to amounts collected by the Corporation on behalf of the Town of Espanola for water and waste water billing. Correspondingly, included in accounts receivable is $206,397 (2017 - $213,578) relating to amounts receivable from customers for water and waste water services.

18. **Capital disclosure**

The Corporation's objectives when managing capital are:

(a) Ensure ongoing access to capital at a reasonable cost in order to maintain and improve the electricity distribution system of the Corporation to ensure the continued delivery of safe, reliable electricity services to customers, and to safeguard the Corporation's ability to continue as a going concern and provide a reasonable rate of return to its shareholders;

(b) Align the Corporation's capital structure with the debt to equity structure deemed appropriate by the OEB.

The Corporation's capital consists of shareholder's equity and notes payable to the Town of Espanola and Township of Sables-Spanish Rivers. There have been no changes in the Corporation's approach to managing capital during the year.

19. Financial instruments

Transactions in financial instruments may result in an entity assuming or transferring financial risks to or from another party. The Corporation is exposed to the following risks associated with financial instruments and transactions it is a party to:

(a) Fair value

The fair value of current financial assets and current financial liabilities approximates their carrying value due to their short-term maturity dates. The fair value of long-term financial liabilities approximates their carrying value based on the presumption that the Corporation is a going concern and thus expects to fully repay the outstanding amounts.

(b) Credit risk

Credit risk is the risk that one party to a financial transaction will fail to discharge a financial obligation and cause the other party to incur a financial loss. The Corporation's main credit risks are associated with its cash and accounts receivable.

The Corporation minimizes credit risk associated with its cash balances by ensuring that these financial assets are held with large reputable financial institutions with high credit ratings.

The Corporation incurs amounts due from its customers in the regular course of business and has credit risk associated with its accounts receivable balances of $1,151,782 (2017 - $1,027,266). The Corporation reduces its exposure to credit risk through management's on-going monitoring of its accounts receivable balances and collections. Credit valuations are performed on a regular basis and credit is granted upon a review of the credit history of the applicant. An allowance for bad debts is recorded when applicable.

(c) Liquidity risk

Liquidity risk is the risk that the Corporation cannot repay its obligations when they become due to its creditors. The Corporation has liquidity risk associated with its accounts payable and accrued liabilities, payable for energy purchases, long-term obligations and notes payable. The Corporation reduces its exposure to liquidity risk by ensuring that it documents when authorized payments become due, and budgets to maintain adequate cash resources including a line of credit, to repay creditors including long-term obligations interest and principal as those liabilities become due.

The majority of the Corporation's accounts payable and payable for energy purchases, as reported in the consolidated statement of financial position, are due within 30 days.

20. Changes in accounting policies

IFRS 15 - Revenue From Contracts with Customers

In May 2014, the International Accounting Standards Board (IASB) issued IFRS 15 effective for annual periods beginning on or after January 1, 2018, which replaced existing revenue recognition guidance, including IAS 18 Revenue and IFRIC 18 Transfers of Assets from Customers. IFRS 15 applies to contracts with customers and specifies that revenue is recognized when or as an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled to receive from that customer.

The adoption of IFRS 15 resulted in a $406,683 reclassification in the statement of operations between energy sales and cost of energy for the comparative year ended December 31, 2017, and had no impact to opening retained earnings as at January 1, 2018 as follows:

	December 31, 2017, as originally stated	Change in accounting policy adjustment	December 31, 2017, as restated
Energy sales	$ 6,745,859	$ 406,683	$ 7,152,542
Cost of energy	6,908,603	406,683	7,315,286

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments effective for annual periods beginning on or after January 1, 2018, which replaced IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The Corporation adopted IFRS 9 retrospectively on January 1, 2018. Despite the retrospective adoption of IFRS 9, the Corporation is not required, upon initial application, to restate comparative figures.

IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale financial assets.

Under IFRS 9, on initial recognition, a financial asset is classified and measured at amortized cost, fair value through other comprehensive income, or fair value through profit or loss. The adoption of IFRS 9 has not had a significant effect on the Corporation's accounting policies related to financial instruments. The impact of IFRS 9 on the classification and measurement of financial instruments results in the Corporation's cash and cash equivalents, accounts receivable and unbilled revenue have been reclassified to the amortized cost category.

21. **Subsequent event**

On January 12, 2018 the Town of Espanola and Township of Sables-Spanish Rivers (the municipalities) announced the acceptance of a letter of intent to purchase the shares of Espanola Regional Hydro Holdings Corporation (the Corporation's shareholder) with North Bay Hydro Distribution Ltd. During the year the Municipalities and North Bay Hydro Distribution Ltd. completed the due diligence process and finalized the preparation of a definitive agreement of purchase and sale. At the balance sheet date the agreement of purchase and sale is still awaiting regulatory approval.

Appendix SEC-4 - ERHDC ROE Calculations 2016-2018

2016 ROE Input Appendices

Checklist | **Input Appendices** | ROE Summary | Over Earning Drivers | Under Earning Drivers

Input Appendices 1 to 6

Instructions

The calculations from Appendices 1 to 6 will populate the ROE Summary tab to calculate the Achieved ROE %.

The sign of the input cells are to be aligned with the sign of the accounts reported in RRR 2.1.7. Generally, revenue/gain items are to be entered as negative numbers and expense/loss items are to be entered as positive numbers.

Please complete Appendices 1-5 first before filling in Appendix 6. Please input pre-tax figures in Appendices 1-5.

All inputs are in $.

Please refer to the guide for detailed instruction on the filing of Appendices.

Appendix 1

Non-rate regulated items and other adjustments

CDM revenues (recorded in Account 4375)	aa	
CDM expenses (recorded in Account 4380)	ab	
CDM - Net revenues/expenses	ac=aa+ab	0.00
Renewable generation revenues (recorded in Account 4375)	ad	
Renewable generation expenses (recorded in Account 4380)	ae	
Renewable generation - Net revenues/expenses	af=ad+ae	0.00
Water services revenues (recorded in Account 4375)	ag	
Water services expenses (recorded in Account 4380)	ah	
Water services - Net revenues/expenses	ai=ag+ah	0.00
Non-rate regulated utility rental income/investment income (recorded in Account 4385)	aj	

Depreciation expense on non-rate regulated assets	ak	Please provide USoAs
Other adjustments:		
Please list the other revenue items that were not approved by the OEB (Please specify):		
	al	Please provide USoAs
	am	Please provide USoAs
Please list the other expense items that were not approved by the OEB (Please specify):		
	an	Please provide USoAs
	ao	Please provide USoAs
	ap	Please provide USoAs
Total non-rate regulated items and other adjustments	aq=ac+af+ai+aj+ak+al+am+an+ao+ap 0.00	

Appendix 2

Non-Recoverable Donations

		Data Source
All donations	ba 2265.00	RRR 2.1.7 - Control account USoA 6205
Recoverable donations:		
LEAP Funding	bb 2265.00	RRR 2.1.7 - Sub-account LEAP Funding USoA 6205
Calculated LEAP Funding approved in the distributor's last CoS	bb1 2134.44	CoS Decision and Order (for reference only)
Other recoverable donations approved, please specify:		
	bc	
	bd	
Non-recoverable donations	be=ba-bb-bc-bd 0.00	

Appendix 3

Net interest/carrying charges on Deferral and Variance Accounts (DVAs)

Interest expense on DVAs (recorded in Account 6035)	ca	11675.58
Interest income on DVAs (recorded in Account 4405)	cb	-30926.15
Net interest/carrying charges from DVAs	cc=ca+cb	-19250.57

Appendix 4

Interest Adjustment for Deemed Debt

			Data Source
Interest expense as per RRR 2.1.7	da	165261.20	RRR 2.1.7 - Sum of USoA 6005-6045 inclusive
Less:			
Interest expense on DVAs (recorded in Account 6035)	db = ca	11675.58	Appendix 3 cell (ca)
Unrealized (gains)/losses on interest rate swaps if recorded in Account 6035	db1		
Other adjustments, please specify:			
	db2		
	db3		
Interest expense after adjustments	dc=da-db-db1-db2-db3	153585.62	
Regulated deemed debt, as per ROE Summary tab	dd	3047820.20	ROE Summary tab cell (v1) + (w1)
Weighted average debt rate (%)	% de	4.25	CoS Decision and Order
Deemed interest	df=dd*de	129532.36	
Interest adjustment for deemed debt	dg=dc-df	24053.26	

Appendix 5

Property Plant & Equipment (PP&E)

		Data Source
Prior year "Closing balance - regulated PP&E (NBV)"	ea 3581344.94	Prior year "Closing balance - regulated PP&E (NBV)" data in RRR 2.1.5.6
Adjustments if required, please explain the nature		
	eb	
Opening balance - regulated PP&E (NBV)	ec=ea+eb 3581344.94	
Total PP&E (NBV) - Closing Balance	ed 3862264.85	RRR 2.1.7 - Sum of USoA 1605-2075, 2440, and 2105-2180 inclusive
Adjustment items:		
Construction Work-in-Progress (CWIP)	ee 54099.95	RRR 2.1.7 - USoA 2055
Non-distribution assets (NBV)	ef 0.00	RRR 2.1.7 - USoA 2075 + USoA 2180
Less other adjustments, please specify:		
	eg	
	eh	
	ei	
	ej	
	ek	
Adjusted closing balance - regulated PP&E (NBV)	el=ed-ee-ef-eg-eh-ei-ej-ek 3808164.90	

Appendix 6

Current Tax for Regulatory Purposes

	Tax Provision/(Recovery)
Current Tax Provision/ (Recovery) as per the	fa

Audited Financial Statments (AFS)		-24151.00
Reassessment of taxes from prior years included in current tax provision as per AFS (add Tax Payable/(Recovery))	fa1	
Loss carry forward from prior years included in current tax provision as per AFS	fa2 -779.00	
Actual Tax rate (%)	% xy 15.50	
Current Tax Adjustment required to reconcile to RRR 2.1.7 trial balance		fb
Current Tax Provision/ (Recovery) as per RRR 2.1.7 USoA 6110		fc -24151.00
Check balance - Does fa+fb=fc?		fa+fb = fc? CORRECT

	(Income)/Expense	
Adjustment items		
Non-rate regulated items (Appendix 1)	gd=aq 0.00	fd=gd*xy 0.00
Non-recoverable donations (Appendix 2)	ge=be 0.00	fe=ge*xy 0.00
Activity in Regulatory Accounts included in taxable income on Schedule 1, if applicable	gf -22995.00	ff=gf*xy -3564.22
Net carrying charges on DVAs (Appendix 3)	gg=cc -19250.57	fg=gg*xy -2983.84
Add back Actual interest expense (Appendix 4)	gh=dc 153585.62	fh=gh*xy 23805.77
Deduct Deemed Interest Expense (Appendix 4)	gi=-df -129532.36	fi=gi*xy -20077.52
CCA on Non-rate regulated assets	gj	fj=gj*xy 0.00
CEC adjustment on Goodwill from acquisitions or other intangible assets that were not approved in the distributor's last CoS	gk	fk=gk*xy 0.00
CCA adjustment on PP&E from acquisitions that were not approved in the distributor's last CoS	gl	fl=gl*xy 0.00
Other adjustments		

(Please specify)		
	gm	fm=gm*xy 0.00
	gn	fn=gn*xy 0.00
	go	fo=go*xy 0.00
Total Adjustment Items	gp=gd+ge+gf+gg+gh+gi+gj+gk+gl+gm+gn+go -18192.31	fp=fd+fe+ff+fg+fh+fi+fj+fk+fl+fm+fn+fo -2819.81
Current Tax Provision/ (Recovery) for the purposes of calculating Regulated ROE		fq=fc+fp -26970.81

2016 ROE Summary

Checklist | Input Appendices | **ROE Summary** | Over Earning Drivers | Under Earning Drivers

Instructions

A distributor shall report, in the form and manner determined by the OEB, the Regulated Return on Equity (ROE) earned in the reporting year.

The reported ROE is to be calculated on the same basis as was used in the distributor's last Cost of Service (CoS).

The sign of the input cells are to be aligned with the sign of the accounts reported in RRR 2.1.7. Generally, revenue/gain items are to be entered as negative numbers and expense/loss items are to be entered as positive numbers.

Please read the RRR Filing Guide for the detailed guidance on the inputs of the form and appendices.

Click here for tips and examples (from RRR Filing Guide).

Information from the distributor's last CoS Decision and Order and the successfully submitted RRR 2.1.7 trial balance have been pre-populated in this form.

Please review each input for accuracy and contact Industry Relations Enquiry if you have any questions.

CoS Decision and Order Info

			Data Source
The CoS Decision and Order EB number for the ROE	xx	EB-2011-0319	CoS Decision and Order (last CoS establishing the current reporting year's base rates)
Accounting standard used in CoS Decision and Order	yy	MIFRS	CoS Decision and Order

Regulated Net Income

			Data Source
Regulated net income (loss), as per RRR 2.1.7	a	120215.99	RRR 2.1.7 - USoA 3046 * (-1)
Adjustment items:			
Non-rate regulated items and other adjustments (Appendix 1)	b	0.00	Appendix 1 cell (aq)
Unrealized (gains)/losses on interest rate swaps (Not applicable if recorded in Other Comprehensive Income)	c		Please provide USoAs
Actuarial (gains)/losses on OPEB and/or Pensions not approved by the OEB	d		Please provide USoAs
Non-recoverable donations (Appendix 2)	e	0.00	Appendix 2 cell (be)
Net interest/carrying charges from	f		Appendix 3 cell

DVAs (Appendix 3)	-19250.57	(cc)
Interest adjustment for deemed debt (Appendix 4)	g 24053.26	Appendix 4 cell (dg)
Adjusted regulated net income before tax adjustments	h=a+b+c+d+e+f+g 125018.68	
Add back:		
Future/deferred taxes expense	i 0.00	RRR 2.1.7 - USoA 6115
Current income tax expense (Does not include future income tax)	j -24151.00	RRR 2.1.7 - USoA 6110
Deduct:		
Current income tax expense for regulated ROE purposes (Appendix 6)	k -26970.81	Appendix 6 cell (fq)
Adjusted regulated net income	l=h+i+j-k 127838.49	

Deemed Equity

Rate base:		**Data Source**
Cost of power	m 7846388.19	RRR 2.1.7 - Sum of USoA 4705-4751 inclusive
Operating expenses before any applicable adjustments	n1 1386581.29	RRR 2.1.7 - Sum of USoA 4505-4640, 4805-5695, 6105, 6205, 6210, and 6225, then subtract ROE Summary cell (d) and subtract ROE Summary cell (e)
Other Adjustments:		
	n2	Please provide USoAs
Adjusted operating expenses	n=n1-n2 1386581.29	
Total Cost of Power and Operating Expenses	o=m+n 9232969.48	
Working capital allowance % as approved in the last CoS Decision and Order	% p 15.00	CoS Decision and Order
Total working capital allowance ($)	q=o*p 1384945.42	
PP&E		

Opening balance - regulated PP&E (NBV) (Appendix 5)		r 3581344.94	Appendix 5 cell (ec)
Adjusted closing balance - regulated PP&E (NBV) (Appendix 5)		s 3808164.90	Appendix 5 cell (el)
Average regulated PP&E		t=(r+s)/2 3694754.92	
Total rate base		u=q+t 5079700.34	
Regulated deemed short-term debt % and $	% v 4.00	v1=v*u 203188.01	Cell (v) from CoS Decision and Order
Regulated deemed long-term debt % and $	% w 56.00	w1=w*u 2844632.19	Cell (w) from CoS Decision and Order
Regulated deemed equity % and $	% x 40.00	x1=x*u 2031880.14	Cell (x) from CoS Decision and order

Regulated Rate of Return on Deemed Equity (ROE)

			Data Source
Achieved ROE %		% y=l/x1 6.29	
Deemed ROE % from the distributor's last CoS Decision and Order		% z 9.12	CoS Decision and Order
Difference - maximum deadband 3%		% z1=y-z -2.83	
ROE status for the year (Over-earning/Under-earning/Within 300 basis points deadband)		z2 Within	If the distributor is in an over-earning position as indicated in cell (z2), please complete Appendices 7 & 8. If the distributor is in an under-earning position as indicated in cell (z2), please complete Appendices 9 & 10.

2017 ROE Input Appendices

Checklist | **Input Appendices** | ROE Summary | Over Earning Drivers | Under Earning Drivers

Input Appendices 1 to 6

Instructions

The calculations from Appendices 1 to 6 will populate the ROE Summary tab to calculate the Achieved ROE %.

The sign of the input cells are to be aligned with the sign of the accounts reported in RRR 2.1.7. Generally, revenue/gain items are to be entered as negative numbers and expense/loss items are to be entered as positive numbers.

Please complete Appendices 1-5 first before filling in Appendix 6. Please input pre-tax figures in Appendices 1-5.

All inputs are in $.

Please refer to the guide for detailed instruction on the filing of Appendices.

Appendix 1

Non-rate regulated items and other adjustments

CDM revenues (recorded in Account 4375)	aa	
CDM expenses (recorded in Account 4380)	ab	
CDM - Net revenues/expenses	ac=aa+ab	0.00
Renewable generation revenues (recorded in Account 4375)	ad	
Renewable generation expenses (recorded in Account 4380)	ae	
Renewable generation - Net revenues/expenses	af=ad+ae	0.00
Water services revenues (recorded in Account 4375)	ag	
Water services expenses (recorded in Account 4380)	ah	
Water services - Net revenues/expenses	ai=ag+ah	0.00
Non-rate regulated utility rental income/investment income (recorded in Account 4385)	aj	

Depreciation expense on non-rate regulated assets	ak	Please provide USoAs

Other adjustments:

Please list the other revenue items that were not approved by the OEB (Please specify):

	al	Please provide USoAs
	am	Please provide USoAs

Please list the other expense items that were not approved by the OEB (Please specify):

	an	Please provide USoAs
	ao	Please provide USoAs
	ap	Please provide USoAs

Total non-rate regulated items and other adjustments	aq=ac+af+ai+aj+ak+al+am+an+ao+ap 0.00

Appendix 2

Non-Recoverable Donations

		Data Source
All donations	ba 2080.00	RRR 2.1.7 - Control account USoA 6205
Recoverable donations:		
LEAP Funding	bb 2080.00	RRR 2.1.7 - Sub-account LEAP Funding USoA 6205
Calculated LEAP Funding approved in the distributor's last CoS	bb1 2134.44	CoS Decision and Order (for reference only)

Other recoverable donations approved, please specify:

	bc
	bd

Non-recoverable donations	be=ba-bb-bc-bd 0.00

Appendix 3

Net interest/carrying charges on Deferral and Variance Accounts (DVAs)

Interest expense on DVAs (recorded in Account 6035)	ca	15169.34
Interest income on DVAs (recorded in Account 4405)	cb	-35378.16
Net interest/carrying charges from DVAs	cc=ca+cb	-20208.82

Appendix 4

Interest Adjustment for Deemed Debt

			Data Source
Interest expense as per RRR 2.1.7	da	166043.98	RRR 2.1.7 - Sum of USoA 6005-6045 inclusive
Less:			
Interest expense on DVAs (recorded in Account 6035)	db = ca	15169.34	Appendix 3 cell (ca)
Unrealized (gains)/losses on interest rate swaps if recorded in Account 6035	db1		
Other adjustments, please specify:			
	db2		
	db3		
Interest expense after adjustments	dc=da-db-db1-db2-db3	150874.64	
Regulated deemed debt, as per ROE Summary tab	dd	3182474.94	ROE Summary tab cell (v1) + (w1)
Weighted average debt rate (%)	% de	4.25	CoS Decision and Order
Deemed interest	df=dd*de	135255.18	
Interest adjustment for deemed debt	dg=dc-df	15619.46	

Appendix 5

Property Plant & Equipment (PP&E)

		Data Source
Prior year "Closing balance - regulated PP&E (NBV)"	ea 3808164.90	Prior year "Closing balance - regulated PP&E (NBV)" data in RRR 2.1.5.6
Adjustments if required, please explain the nature	eb	
Opening balance - regulated PP&E (NBV)	ec=ea+eb 3808164.90	
Total PP&E (NBV) - Closing Balance	ed 4353660.72	RRR 2.1.7 - Sum of USoA 1605-2075, 2440, and 2105-2180 inclusive
Adjustment items:		
Construction Work-in-Progress (CWIP)	ee 106501.42	RRR 2.1.7 - USoA 2055
Non-distribution assets (NBV)	ef 0.00	RRR 2.1.7 - USoA 2075 + USoA 2180
Less other adjustments, please specify:		
	eg	
	eh	
	ei	
	ej	
	ek	
Adjusted closing balance - regulated PP&E (NBV)	el=ed-ee-ef-eg-eh-ei-ej-ek 4247159.30	

Appendix 6

Current Tax for Regulatory Purposes

	Tax Provision/(Recovery)
Current Tax Provision/ (Recovery) as per the	fa

Audited Financial Statments (AFS)		-63196.00
Reassessment of taxes from prior years included in current tax provision as per AFS (add Tax Payable/(Recovery))	fa1	
Loss carry forward from prior years included in current tax provision as per AFS	fa2	
Actual Tax rate (%)	% xy 15.50	
Current Tax Adjustment required to reconcile to RRR 2.1.7 trial balance		fb
Current Tax Provision/ (Recovery) as per RRR 2.1.7 USoA 6110		fc -63196.00
Check balance - Does fa+fb=fc?		fa+fb = fc? CORRECT
	(Income)/Expense	
Adjustment items		
Non-rate regulated items (Appendix 1)	gd=aq 0.00	fd=gd*xy 0.00
Non-recoverable donations (Appendix 2)	ge=be 0.00	fe=ge*xy 0.00
Activity in Regulatory Accounts included in taxable income on Schedule 1, if applicable	gf 162744.84	ff=gf*xy 25225.45
Net carrying charges on DVAs (Appendix 3)	gg=cc -20208.82	fg=gg*xy -3132.37
Add back Actual interest expense (Appendix 4)	gh=dc 150874.64	fh=gh*xy 23385.57
Deduct Deemed Interest Expense (Appendix 4)	gi=-df -135255.18	fi=gi*xy -20964.55
CCA on Non-rate regulated assets	gj	fj=gj*xy 0.00
CEC adjustment on Goodwill from acquisitions or other intangible assets that were not approved in the distributor's last CoS	gk	fk=gk*xy 0.00
CCA adjustment on PP&E from acquisitions that were not approved in the distributor's last CoS	gl	fl=gl*xy 0.00
Other adjustments		

(Please specify)

	gm	fm=gm*xy
		0.00
	gn	fn=gn*xy
		0.00
	go	fo=go*xy
		0.00
	gp=gd+ge+gf+gg+gh+gi+gj+gk+gl+gm+gn+go	fp=fd+fe+ff+fg+fh+fi+fj+fk+fl+fm+fn+fo
Total Adjustment Items	158155.48	24514.10
		fq=fc+fp
Current Tax Provision/ (Recovery) for the purposes of calculating Regulated ROE		-38681.90

2017 ROE Summary

Checklist | Input Appendices | **ROE Summary** | Over Earning Drivers | Under Earning Drivers

Instructions

A distributor shall report, in the form and manner determined by the OEB, the Regulated Return on Equity (ROE) earned in the reporting year.

The reported ROE is to be calculated on the same basis as was used in the distributor's last Cost of Service (CoS).

The sign of the input cells are to be aligned with the sign of the accounts reported in RRR 2.1.7. Generally, revenue/gain items are to be entered as negative numbers and expense/loss items are to be entered as positive numbers.

Please read the RRR Filing Guide for the detailed guidance on the inputs of the form and appendices.

Click here for tips and examples (from RRR Filing Guide).

Information from the distributor's last CoS Decision and Order and the successfully submitted RRR 2.1.7 trial balance have been pre-populated in this form.

Please review each input for accuracy and contact Industry Relations Enquiry if you have any questions.

CoS Decision and Order Info

			Data Source
The CoS Decision and Order EB number for the ROE	xx	EB-2011-0319	CoS Decision and Order (last CoS establishing the current reporting year's base rates)
Accounting standard used in CoS Decision and Order	yy	MIFRS	CoS Decision and Order

Regulated Net Income

			Data Source
Regulated net income (loss), as per RRR 2.1.7	a	81067.63	RRR 2.1.7 - USoA 3046 * (-1)
Adjustment items:			
Non-rate regulated items and other adjustments (Appendix 1)	b	0.00	Appendix 1 cell (aq)
Unrealized (gains)/losses on interest rate swaps (Not applicable if recorded in Other Comprehensive Income)	c		Please provide USoAs
Actuarial (gains)/losses on OPEB and/or Pensions not approved by the OEB	d		Please provide USoAs
Non-recoverable donations (Appendix 2)	e	0.00	Appendix 2 cell (be)
Net interest/carrying charges from	f		Appendix 3 cell

DVAs (Appendix 3)	-20208.82	(cc)
Interest adjustment for deemed debt (Appendix 4)	g 15619.46	Appendix 4 cell (dg)
Adjusted regulated net income before tax adjustments	h=a+b+c+d+e+f+g 76478.27	
Add back:		
Future/deferred taxes expense	i 0.00	RRR 2.1.7 - USoA 6115
Current income tax expense (Does not include future income tax)	j -63196.00	RRR 2.1.7 - USoA 6110
Deduct:		
Current income tax expense for regulated ROE purposes (Appendix 6)	k -38681.90	Appendix 6 cell (fq)
Adjusted regulated net income	l=h+i+j-k 51964.17	

Deemed Equity

Rate base:		**Data Source**
Cost of power	m 7112371.97	RRR 2.1.7 - Sum of USoA 4705-4751 inclusive
Operating expenses before any applicable adjustments	n1 1397379.95	RRR 2.1.7 - Sum of USoA 4505-4640, 4805-5695, 6105, 6205, 6210, and 6225, then subtract ROE Summary cell (d) and subtract ROE Summary cell (e)
Other Adjustments:		
	n2	Please provide USoAs
Adjusted operating expenses	n=n1-n2 1397379.95	
Total Cost of Power and Operating Expenses	o=m+n 8509751.92	
Working capital allowance % as approved in the last CoS Decision and Order	% p 15.00	CoS Decision and Order
Total working capital allowance ($)	q=o*p 1276462.79	
PP&E		

Opening balance - regulated PP&E (NBV) (Appendix 5)		r 3808164.90	Appendix 5 cell (ec)
Adjusted closing balance - regulated PP&E (NBV) (Appendix 5)		s 4247159.30	Appendix 5 cell (el)
Average regulated PP&E		t=(r+s)/2 4027662.10	
Total rate base		u=q+t 5304124.89	
Regulated deemed short-term debt % and $	% v 4.00	v1=v*u 212165.00	Cell (v) from CoS Decision and Order
Regulated deemed long-term debt % and $	% w 56.00	w1=w*u 2970309.94	Cell (w) from CoS Decision and Order
Regulated deemed equity % and $	% x 40.00	x1=x*u 2121649.96	Cell (x) from CoS Decision and order

Regulated Rate of Return on Deemed Equity (ROE)

			Data Source
Achieved ROE %		% y=l/x1 2.45	
Deemed ROE % from the distributor's last CoS Decision and Order		% z 9.12	CoS Decision and Order
Difference - maximum deadband 3%		% z1=y-z -6.67	
ROE status for the year (Over-earning/Under-earning/Within 300 basis points deadband)		z2 Under	If the distributor is in an over-earning position as indicated in cell (z2), please complete Appendices 7 & 8. If the distributor is in an under-earning position as indicated in cell (z2), please complete Appendices 9 & 10.

2017 ROE Under Earning Drivers

Checklist | Input Appendices | ROE Summary | Over Earning Drivers | **Under Earning Drivers**

Under-earning Drivers - Appendices 9 & 10

Instructions

If your achieved ROE% is 300 basis points **below** the deemed ROE%, please complete Appendices 9 and 10.

Table 9.2 Regulated Net Income Variances: The revenue/gain variances are to be calculated as the achieved revenue/gain amounts for the reporting year minus the approved amounts in the last CoS.

The cost/expense variances are to be calculated as the approved cost/expense amounts in the last CoS minus the achieved amounts for the reporting year.

Table 9.3 Regulated Deemed Equity Variances: The variances are to be calculated as the achieved working capital allowance/average regulated PP&E for the reporting year minus the approved amounts in the last CoS.

Appendix 9

Drivers for Under-earners

Table 9.1: Breakdown of the ROE difference into Regulated Net Income and Regulated Deemed Equity

Components of the ROE calculation	Deemed last CoS	Achieved	Variance $	Variance %*
ROE Amount ($)	154847.00	51964.17	-102882.83	-66.44
Regulated Deemed Equity ($)	1697894.00	2121649.96	423755.96	24.96
ROE (%)	9.12	2.45		-6.67

* Variance % for ROE Amount and Regulated Deemed Equity are calculated using the following equation:

Variance % = Variance $ / Deemed last CoS * 100

Overall comment on variance between approved and achieved ROE

Achieved ROE is 2.45% or 6.67% lower primarily due to unfavorable Distribution revenue, higher OM&A and increase in Regulated Deemed Debt. These unfavorable items are only partially offset by lower taxes.

Table 9.2: Regulated Net Income Variances

Nature of the Variances	Variance $	Detailed Explanation
Revenue Variances:		
Change in Distribution revenues	ja -51082.00	Distribution Revenue is down due to lower kWh in 2017 (54,516,682) vs COS
Rate riders that are recorded in distribution revenues collected for the year	jb=ki 0.00	
Change in Other revenues	jc -36800.00	Driven by discontinuance of registered mail $29 U and Lower Street light income $5 U.
Cost Variances:		
Change in OM&A expenses	jd -37256.00	Regulatory Expenses $58 U, Bad Debt $50 U, and O&M Supervision $78 U partially
Change in Amortization expense	je	
	jf	

Chnage in Other expenses	-26895.00	Increase in Regulated Deemed Debt from $2,549,647 to $3,182,474 resulted in
Change in Current tax expense	jg 47998.00	2017 Regulatory Loss before Taxes $249,563, at 15.50% , results in tax refund
Other variances for revenues, costs, etc., if any (Please specify the nature of the other variances provided below):		
	jh	
	ji	
	jj	
	jk	
	jl	
Total variance explained for regulated net income in Table 9.2 ($)	jm=ja+jb+jc+jd+je+jf+jg+jh+ji+jj+jk+jl -104035.00	
Total variance for regulated net income per Table 9.1 ($)	jn -102882.83	
Total variance explained (%)	% jo=jm/jn 101.12	

Table 9.3: Regulated Deemed Equity Variances

Nature of the Variances	Variance $	Detailed Explanation
Change in Working capital allowance ($)	jp 138452.00	Primarily due to increase in rate COP expense due increased electricity rates
Change in Average regulated PP&E (NBV)	jq 920938.00	Increase in Capital Expenditures of approximately $1,991,894 from 2012 to
Total variance explained for rate base (A) ($)	jr=jp+jq 1059390.00	
Total variance explained for regulated deemed equity (A X 40%) ($)	js=jr*40% 423756.00	
Total variance for regulated deemed equity per Table 9.1 ($)	jt 423755.96	
Total variance explained (%)	% jv=js/jt 100.00	

Appendix 10

Earning below the 300 basis points per Customer/Connection per month by main rate classes

Table 10.1: Rate riders that are recorded in distribution revenues

Rate riders (Note 1)	Revenue collected (+) / refunded (-) in the year ($)	Effective date	Sunset date
	ka		

Foregone revenue rate rider			
Smart meters disposition rate rider	kb		
Lost revenue adjustment mechanism (LRAM) rate rider	kc		
Other rate riders (Please specify as below):			
	kd		
	ke		
	kf		
	kg		
	kh		
Total	ki=ka+kb+kc+kd+ke+kf+kg+kh 0.00		

Note 1: Please do not include the revenues collected from SMIRR. For the rate rider revenues, please show the calculation by each of the rate rider.

Table 10.2: Net $ for ROE under the 300 basis points excluding rate rider revenues

Regulated Deemed Equity approved in the distributor's last CoS ($)	ROE % below the 300 Basis points deadband	ROE $ below the 300 Basis points deadband	Rate rider revenues collected in the year (Table 10.1)	Net $ for ROE under the 300 basis points excluding rate rider revenues
kj	% kk=z1+3	kl=kj*kk	km=ki	kn=kl - km
1697894.00	-3.67	-62312.71	0.00	-62312.71

Table 10.3: Estimated customer impact (per month) for ROE under the 300 basis points

Rate Classes	Annual Billings Distribution Revenue Account 4080 (RRR 2.1.5.4)	Prior Year number of Customers/Connections (RRR 2.1.2 Q4)	Current Year number of Customers/Connections (RRR 2.1.2 Q4)	Average number of customers/connections	Allocated Net $ for ROE under the 300 basis points per customer/connection per month
Residential	992086.57	2872	2888	2866.50	0.00
General Service < 50 kW	318637.44	388	388	390.50	0.00
General Service >= 50 kW	217052.09	28	27	28.50	0.00
Large User	0.00	0	0	0.00	0.00
Sub Transmission Customers	0.00	0	0	0.00	0.00
Embedded Distributor(s)	0.00	0	0	0.00	0.00
Street Lighting Connections	53023.20	1065	1062	1065.00	0.00
Sentinel Lighting Connections	1998.72	34	34	29.50	0.00

Unmetered Scattered Load Connections	5464.08	21	21	21.00	0.00

Total Annual Billing Distribution

0.00

2018 ROE Input Appendices

Checklist | **Input Appendices** | ROE Summary | Over Earning Drivers | Under Earning Drivers

Input Appendices 1 to 6

Instructions

The calculations from Appendices 1 to 6 will populate the ROE Summary tab to calculate the Achieved ROE %.

The sign of the input cells are to be aligned with the sign of the accounts reported in RRR 2.1.7. Generally, revenue/gain items are to be entered as negative numbers and expense/loss items are to be entered as positive numbers.

Please complete Appendices 1-5 first before filling in Appendix 6. Please input pre-tax figures in Appendices 1-5.

All inputs are in $.

Please refer to the guide for detailed instruction on the filing of Appendices.

Appendix 1

Non-rate regulated items and other adjustments

CDM revenues (recorded in Account 4375)	aa	-117252.85
CDM expenses (recorded in Account 4380)	ab	117252.85
CDM - Net revenues/expenses	ac=aa+ab	0.00
Renewable generation revenues (recorded in Account 4375)	ad	
Renewable generation expenses (recorded in Account 4380)	ae	
Renewable generation - Net revenues/expenses	af=ad+ae	0.00
Water services revenues (recorded in Account 4375)	ag	
Water services expenses (recorded in Account 4380)	ah	
Water services - Net revenues/expenses	ai=ag+ah	0.00
Non-rate regulated utility rental income/investment income (recorded in Account 4385)	aj	

Depreciation expense on non-rate regulated assets	ak	Please provide USoAs
Other adjustments:		
Please list the other revenue items that were not approved by the OEB (Please specify):		
	al	Please provide USoAs
	am	Please provide USoAs
Please list the other expense items that were not approved by the OEB (Please specify):		
	an	Please provide USoAs
	ao	Please provide USoAs
	ap	Please provide USoAs
Total non-rate regulated items and other adjustments	aq=ac+af+ai+aj+ak+al+am+an+ao+ap 0.00	

Appendix 2

Non-Recoverable Donations

		Data Source
All donations	ba 2005.00	RRR 2.1.7 - Control account USoA 6205
Recoverable donations:		
LEAP Funding	bb 2005.00	RRR 2.1.7 - Sub-account LEAP Funding USoA 6205
Calculated LEAP Funding approved in the distributor's last CoS	bb1 2134.44	CoS Decision and Order (for reference only)
Other recoverable donations approved, please specify:		
	bc	
	bd	
Non-recoverable donations	be=ba-bb-bc-bd 0.00	

Appendix 3

Net interest/carrying charges on Deferral and Variance Accounts (DVAs)

Interest expense on DVAs (recorded in Account 6035)	ca	22279.05
Interest income on DVAs (recorded in Account 4405)	cb	-54870.97
Net interest/carrying charges from DVAs	cc=ca+cb	-32591.92

Appendix 4

Interest Adjustment for Deemed Debt

			Data Source
Interest expense as per RRR 2.1.7	da	172491.93	RRR 2.1.7 - Sum of USoA 6005-6045 inclusive
Less:			
Interest expense on DVAs (recorded in Account 6035)	db = ca	22279.05	Appendix 3 cell (ca)
Unrealized (gains)/losses on interest rate swaps if recorded in Account 6035	db1		
Other adjustments, please specify:			
	db2		
	db3		
Interest expense after adjustments	dc=da-db-db1-db2-db3	150212.88	
Regulated deemed debt, as per ROE Summary tab	dd	3337522.83	ROE Summary tab cell (v1) + (w1)
Weighted average debt rate (%)	% de	4.25	CoS Decision and Order
Deemed interest	df=dd*de	141844.72	
Interest adjustment for deemed debt	dg=dc-df	8368.16	

Appendix 5

Property Plant & Equipment (PP&E)

		Data Source
Prior year "Closing balance - regulated PP&E (NBV)"	ea 4247159.30	Prior year "Closing balance - regulated PP&E (NBV)" data in RRR 2.1.5.6
Adjustments if required, please explain the nature		
	eb	
Opening balance - regulated PP&E (NBV)	ec=ea+eb 4247159.30	
Total PP&E (NBV) - Closing Balance	ed 4563457.03	RRR 2.1.7 - Sum of USoA 1605-2075, 2440, and 2105-2180 inclusive
Adjustment items:		
Construction Work-in-Progress (CWIP)	ee 51184.40	RRR 2.1.7 - USoA 2055
Non-distribution assets (NBV)	ef 0.00	RRR 2.1.7 - USoA 2075 + USoA 2180
Less other adjustments, please specify:		
	eg	
	eh	
	ei	
	ej	
	ek	
Adjusted closing balance - regulated PP&E (NBV)	el=ed-ee-ef-eg-eh-ei-ej-ek 4512272.63	

Appendix 6

Current Tax for Regulatory Purposes

	Tax Provision/(Recovery)
Current Tax Provision/ (Recovery) as per the	fa

Audited Financial Statments (AFS)		-16006.00
Reassessment of taxes from prior years included in current tax provision as per AFS (add Tax Payable/(Recovery))	fa1	
Loss carry forward from prior years included in current tax provision as per AFS	fa2	
Actual Tax rate (%)	% xy 15.50	
Current Tax Adjustment required to reconcile to RRR 2.1.7 trial balance		fb 0.00
Current Tax Provision/ (Recovery) as per RRR 2.1.7 USoA 6110		fc -16006.00
Check balance - Does fa+fb=fc?		fa+fb = fc? CORRECT
	(Income)/Expense	
Adjustment items		
Non-rate regulated items (Appendix 1)	gd=aq 0.00	fd=gd*xy 0.00
Non-recoverable donations (Appendix 2)	ge=be 0.00	fe=ge*xy 0.00
Activity in Regulatory Accounts included in taxable income on Schedule 1, if applicable	gf -209455.00	ff=gf*xy -32465.53
Net carrying charges on DVAs (Appendix 3)	gg=cc -32591.92	fg=gg*xy -5051.75
Add back Actual interest expense (Appendix 4)	gh=dc 150212.88	fh=gh*xy 23283.00
Deduct Deemed Interest Expense (Appendix 4)	gi=-df -141844.72	fi=gi*xy -21985.93
CCA on Non-rate regulated assets	gj	fj=gj*xy 0.00
CEC adjustment on Goodwill from acquisitions or other intangible assets that were not approved in the distributor's last CoS	gk	fk=gk*xy 0.00
CCA adjustment on PP&E from acquisitions that were not approved in the distributor's last CoS	gl	fl=gl*xy 0.00
Other adjustments		

(Please specify)

	gm	fm=gm*xy 0.00
	gn	fn=gn*xy 0.00
	go	fo=go*xy 0.00
Total Adjustment Items	gp=gd+ge+gf+gg+gh+gi+gj+gk+gl+gm+gn+go -233678.76	fp=fd+fe+ff+fg+fh+fi+fj+fk+fl+fm+fn+fo -36220.21
Current Tax Provision/ (Recovery) for the purposes of calculating Regulated ROE		fq=fc+fp -52226.21

2018 ROE Summary

Checklist | Input Appendices | **ROE Summary** | Over Earning Drivers | Under Earning Drivers

Instructions

A distributor shall report, in the form and manner determined by the OEB, the Regulated Return on Equity (ROE) earned in the reporting year.

The reported ROE is to be calculated on the same basis as was used in the distributor's last Cost of Service (CoS).

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Please review each input for accuracy and contact Industry Relations Enquiry if you have any questions.

CoS Decision and Order Info

			Data Source
The CoS Decision and Order EB number for the ROE	xx	EB-2011-0319	CoS Decision and Order (last CoS establishing the current reporting year's base rates)
Accounting standard used in CoS Decision and Order	yy	MIFRS	CoS Decision and Order

Regulated Net Income

			Data Source
Regulated net income (loss), as per RRR 2.1.7	a	79694.28	RRR 2.1.7 - USoA 3046 * (-1)
Adjustment items:			
Non-rate regulated items and other adjustments (Appendix 1)	b	0.00	Appendix 1 cell (aq)
Unrealized (gains)/losses on interest rate swaps (Not applicable if recorded in Other Comprehensive Income)	c		Please provide USoAs
Actuarial (gains)/losses on OPEB and/or Pensions not approved by the OEB	d		Please provide USoAs
Non-recoverable donations (Appendix 2)	e	0.00	Appendix 2 cell (be)
Net interest/carrying charges from	f		Appendix 3 cell

DVAs (Appendix 3)	-32591.92	(cc)
Interest adjustment for deemed debt (Appendix 4)	g 8368.16	Appendix 4 cell (dg)
Adjusted regulated net income before tax adjustments	h=a+b+c+d+e+f+g 55470.52	
Add back:		
Future/deferred taxes expense	i 0.00	RRR 2.1.7 - USoA 6115
Current income tax expense (Does not include future income tax)	j -16006.00	RRR 2.1.7 - USoA 6110
Deduct:		
Current income tax expense for regulated ROE purposes (Appendix 6)	k -52226.21	Appendix 6 cell (fq)
Adjusted regulated net income	l=h+i+j-k 91690.73	

Deemed Equity

Rate base:		**Data Source**
Cost of power	m 6487192.01	RRR 2.1.7 - Sum of USoA 4705-4751 inclusive
Operating expenses before any applicable adjustments	n1 1398288.57	RRR 2.1.7 - Sum of USoA 4505-4640, 4805-5695, 6105, 6205, 6210, and 6225, then subtract ROE Summary cell (d) and subtract ROE Summary cell (e)
Other Adjustments:		
	n2	Please provide USoAs
Adjusted operating expenses	n=n1-n2 1398288.57	
Total Cost of Power and Operating Expenses	o=m+n 7885480.58	
Working capital allowance % as approved in the last CoS Decision and Order	% p 15.00	CoS Decision and Order
Total working capital allowance ($)	q=o*p 1182822.09	

PP&E

Opening balance - regulated PP&E (NBV) (Appendix 5)		r 4247159.30	Appendix 5 cell (ec)
Adjusted closing balance - regulated PP&E (NBV) (Appendix 5)		s 4512272.63	Appendix 5 cell (el)
Average regulated PP&E		t=(r+s)/2 4379715.96	
Total rate base		u=q+t 5562538.05	
Regulated deemed short-term debt % and $	% v 4.00	v1=v*u 222501.52	Cell (v) from CoS Decision and Order
Regulated deemed long-term debt % and $	% w 56.00	w1=w*u 3115021.31	Cell (w) from CoS Decision and Order
Regulated deemed equity % and $	% x 40.00	x1=x*u 2225015.22	Cell (x) from CoS Decision and order

Regulated Rate of Return on Deemed Equity (ROE)

		Data Source
Achieved ROE %	% y=l/x1 4.12	
Deemed ROE % from the distributor's last CoS Decision and Order	% z 9.12	CoS Decision and Order
Difference - maximum deadband 3%	% z1=y-z -5.00	
ROE status for the year (Over-earning/Under-earning/Within 300 basis points deadband)	z2 Under	If the distributor is in an over-earning position as indicated in cell (z2), please complete Appendices 7 & 8. If the distributor is in an under-earning position as indicated in cell (z2), please complete Appendices 9 & 10.

2018 ROE Under Earning Drivers

Under-earning Drivers - Appendices 9 & 10

Instructions

If your achieved ROE% is 300 basis points **below** the deemed ROE%, please complete Appendices 9 and 10.

Table 9.2 Regulated Net Income Variances: The revenue/gain variances are to be calculated as the achieved revenue/gain amounts for the reporting year minus the approved amounts in the last CoS.

The cost/expense variances are to be calculated as the approved cost/expense amounts in the last CoS minus the achieved amounts for the reporting year.

Table 9.3 Regulated Deemed Equity Variances: The variances are to be calculated as the achieved working capital allowance/average regulated PP&E for the reporting year minus the approved amounts in the last CoS.

Appendix 9

Drivers for Under-earners

Table 9.1: Breakdown of the ROE difference into Regulated Net Income and Regulated Deemed Equity

Components of the ROE calculation	Deemed last CoS	Achieved	Variance $	Variance %*
ROE Amount ($)	154847.00	91690.73	-63156.27	-40.79
Regulated Deemed Equity ($)	1697894.00	2225015.22	527121.22	31.05
ROE (%)	9.12	4.12		-5.00

* Variance % for ROE Amount and Regulated Deemed Equity are calculated using the following equation:

Variance % = Variance $ / Deemed last CoS * 100

Overall comment on variance between approved and achieved ROE

Overall variance primarily driven by lower volumetric revenue due to lower consumption than 2012 COS and higher operating expenses.

Table 9.2: Regulated Net Income Variances

Nature of the Variances	Variance $	Detailed Explanation
Revenue Variances:		
Change in Distribution revenues	ja -39756.00	Discontinuance of register mail $29k and lower Street light income $5k due to LED
Rate riders that are recorded in distribution revenues collected for the year	jb=ki 0.00	
Change in Other revenues	jc	
Cost Variances:		
Change in OM&A expenses	jd -54266.00	Bad Debt $23K Unfavorable (U), Management O&M Supervision $ 87 (U)
Change in Amortization expense	je -15268.00	Due to increase in Capital assets since 2012 COS.
	jf	

Chnage in Other expenses		
Change in Current tax expense	jg 42910.00	2018 Regulatory Loss before taxex $336,944 at 15.50 % reaulsts in tax refund
Other variances for revenues, costs, etc., if any (Please specify the nature of the other variances provided below):		
	jh	
	ji	
	jj	
	jk	
	jl	
Total variance explained for regulated net income in Table 9.2 ($)	jm=ja+jb+jc+jd+je+jf+jg+jh+ji+jj+jk+jl -66380.00	
Total variance for regulated net income per Table 9.1 ($)	jn -63156.27	
Total variance explained (%)	% jo=jm/jn 105.10	

Table 9.3: Regulated Deemed Equity Variances

Nature of the Variances	Variance $	Detailed Explanation
Change in Working capital allowance ($)	jp 44811.09	Immaterial variance
Change in Average regulated PP&E (NBV)	jq 1272990.96	Due to six years annual spending on new Fixed assets from 2013 to 2018 not in 2012
Total variance explained for rate base (A) ($)	jr=jp+jq 1317802.05	
Total variance explained for regulated deemed equity (A X 40%) ($)	js=jr*40% 527120.82	
Total variance for regulated deemed equity per Table 9.1 ($)	jt 527121.22	
Total variance explained (%)	% jv=js/jt 100.00	

Appendix 10

Earning below the 300 basis points per Customer/Connection per month by main rate classes

Table 10.1: Rate riders that are recorded in distribution revenues

Rate riders (Note 1)	Revenue collected (+) / refunded (-) in the year ($)	Effective date	Sunset date
	ka		

Foregone revenue rate rider

kb

Smart meters disposition rate rider

kc

Lost revenue adjustment mechanism (LRAM) rate rider

Other rate riders (Please specify as below):

kd

ke

kf

kg

kh

ki=ka+kb+kc+kd+ke+kf+kg+kh

Total 0.00

Note 1: Please do not include the revenues collected from SMIRR. For the rate rider revenues, please show the calculation by each of the rate rider.

Table 10.2: Net $ for ROE under the 300 basis points excluding rate rider revenues

Regulated Deemed Equity approved in the distributor's last CoS ($)	ROE % below the 300 Basis points deadband	ROE $ below the 300 Basis points deadband	Rate rider revenues collected in the year (Table 10.1)	Net $ for ROE under the 300 basis points excluding rate rider revenues
kj	% kk=z1+3	kl=kj*kk	km=ki	kn=kl - km
1697894.00	-2.00	-33957.88	0.00	-33957.88

Table 10.3: Estimated customer impact (per month) for ROE under the 300 basis points

Rate Classes	Annual Billings Distribution Revenue Account 4080 (RRR 2.1.5.4)	Prior Year number of Customers/Connections (RRR 2.1.2 Q4)	Current Year number of Customers/Connections (RRR 2.1.2 Q4)	Average number of customers/connections	Allocated Net $ for ROE under the 300 basis points per customer/connection per month
Residential	1036794.22	2872	2888	2880.00	-0.63
General Service < 50 kW	317075.75	388	388	388.00	-1.42
General Service >= 50 kW	211545.08	28	27	27.50	-13.39
Large User	0.00	0	0	0.00	0.00
Sub Transmission Customers	0.00	0	0	0.00	0.00
Embedded Distributor(s)	0.00	0	0	0.00	0.00
Street Lighting Connections	52946.55	1065	1062	1063.50	-0.09
Sentinel Lighting Connections	1991.64	34	34	34.00	-0.10

Unmetered Scattered Load Connections	5464.08	21	21	21.00	-0.45

Total Annual Billing Distribution

1625817.32

SEC-5

Reference: Application, p. 12

Question:

Please confirm that the five-year consolidated distribution system plan to be filed will be for the merged entity, including both the North Bay Hydro and Espanola Hydro service territories.

Response:

Individual five-year distribution system plans will be filed when each respective entity files individual cost of service applications as set out on pages 11 and 12 of the Application.

A five-year consolidated distribution system plan will be filed for the merged entity, including both the NBHDL and ERHDC service territories in 2026, when the merged entity plans on rebasing.

SEC-6

Reference: Application, p. 12

Question:

Please provide a list of all Group I and Group II DVA balances as of December 31, 2018 for Espanola Hydro.

Response:

Please see 'Appendix SEC-6 – 2018 ERHDC DVA Balances' for Group 1 and Group II DVA balances as of December 31, 2018.

Appendix SEC-6 – 2018 ERHDC DVA Balances

Espanola Regional Hydro Distribution Corp
as at December 31,2018

DVA Group 1 Balances
(Principal & Interest)

Account	Dec 31, 2018 Balance
1550	($164,083.47)
1551	($4,938.06)
1580	($84,416.48)
1584	$5,849.63
1586	$710,413.14
1588	$454,732.52
1589	($237,469.89)
1595	$39,593.06
1555	$14,242.25

DVA Group 2 Balances
(Principal & Interest)

Account	Dec 31, 2018 Balance
1508	$1,320,201.05

SEC-7

Reference: Application, p. 22

Question:

Please confirm that there are 37 publicly-funded schools currently served by North Bay Hydro, and 7 publicly-funded schools currently served by Espanola Hydro. If possible, please provide a breakdown of those schools between the GS<50 and GS>50 classes.

Response:

Based on NBHDL's review there are 4 publicly-funded school boards in the City of North Bay. From the information that is provided on the websites of each respective school board, NBHDL confirms that it serves 28 schools: 10 as GS<50 customers and 18 as GS>50 customers.

NBHDL is unable to explain why its figures conflict with the information provided in the question. NBHDL does not know the source of information used by SEC for its question.

ERHDC confirms there are 6 publicly funded schools at 5 distinct locations served by ERHDC. Note: one public school was closed in 2018. 2 of the locations are served at GS<50kW and 3 at GS>50kW.

SEC-8

Reference: Application, p. 25

Question:

With respect to Table 7-1:

(a) Please expand the table to include status quo capital spending and capital synergies. Please include the revenue requirement associated with rate base in each year, so that the total revenue requirement for each year can be seen from the combination of capital and OM&A.

(b) Please provide and explain the assumptions used to estimate status quo OM&A and capital until 2026.

(c) Please confirm that the last Board-approved OM&A for North Bay Hydro is $6,430 in EB-2014-0099, applicable for 2015. Please confirm that the status quo assumption is that OM&A grows at a compound annual growth rate of 2.7% per year from 2015 ($6,430) to 2026 ($8,624).

(d) Please confirm that the last Board-approved OM&A for Espanola Hydro is $1,360 in EB-2011-0319, applicable for 2012. Please confirm that the status quo assumption is that OM&A grows at a compound annual growth rate of 2.2% per year from 2012 ($1,360) to 2026 ($1,843), despite declining load.

(e) Please confirm that total OM&A synergies are expected to be $3,258 over 5 years, a reduction of about 6.5% in total OM&A over the period. Please estimate how much of those savings will be the result of North Bay Hydro providing the same services as PUC Distribution, but at a lower incremental cost.

Response:

(a) Cost savings related to capital investments are not expected to be material and have therefore not been included within the analysis of the transaction or anticipated synergies.

(b) Please see Staff – 7 d) for assumptions.

(c) NBEAI confirms that the last Board-approved OM&A for North Bay Hydro was $6,430 in EB-2014-0099, applicable for 2015. The status quo assumption shows that OM&A has grown at average annual growth rate of 2.76% over the 12-year period of 2015 ($6,430) to 2026 ($8,624).

(d) NBEAI confirms that the last Board-approved OM&A for Espanola Hydro was $1,360 in EB-2011-0319, applicable for 2012. The status quo assumption shows that OM&A has grown at average annual growth rate of 2.36% per year over the 15-year period of 2012 ($1,360) to 2026 ($1,843). While declining load and connections is the reality of ERHDC, costs do not necessarily decline in step with this decline; fixed costs are required to maintain the safety and reliability of service provided regardless of load as well as cover back-office functions related to customer service and billing.

(e) NBEAI confirms that total OM&A synergies are expected to be $3,258 over 5 years, a reduction of approximately 6.5% in total OM&A over the period. Approximately 70% of the synergies will be a result of NBHDL centralizing the back-office functions currently provided by PUC.

SEC-9

Reference: Application, p. 34

Question:

With respect to the proposed rate harmonization in 2027:

(a) Please confirm that the chart set out below represents the current approved rates being charged by North Bay Hydro and Espanola Hydro. (A live Excel version of this chart is being provided with these interrogatories so that the calculations can be seen in detail.)

Comparison of North Bay and Espanola Monthly Bills

Rate Class	*Vol.*	*North Bay*				*Espanola*			
		Fixed	*Variable*	*RTR*	*Total*	*Fixed*	*Variable*	*RTR*	*Total*
Residential (kwh)	700	$29.27	$0.0001	$0.0129	$38.35	$16.25	$0.0224	$0.0103	$39.14
GS<50 (kwh)	2000	$25.15	$0.0190	$0.0120	$87.09	$28.49	$0.0262	$0.0095	$99.89
GS>50 (kW)	250	$310.47	$2.6173	$4.7275	$2,146.67	$215.77	$5.6525	$4.5930	$2,777.15

North Bay from EB-2018-0057 including Riders and LV

Espanola from EB-2014-0071 including Riders and LV

(b) Please provide a table such as that set out above showing the forecast monthly bills, on the same basis, in 2026. Please set out all assumptions used to estimate those forecast bills.

(c) Please confirm that it is the Applicants' intention to ensure that, when rates are harmonized in 2027, none of the customers of either utility will have an increase in their monthly bill because of the merger (i.e. separate from increases due to increasing costs to serve applicable to all customers). Please confirm that, as a result, the Applicants expect that the bulk of the merger savings will be allocated to Espanola Hydro customers in order to bring their rates down to the levels charged by North Bay Hydro.

Response:

(a) Note: the Applicant intends to harmonize rates in 2026 (not 2027).

The chart provided represents the most current approved rates being charged by NBHDL.

The rates for ERHDC are correct with the exception of the Smart Meter Entity charge. ERHDC customers are being billed at the IESO posted rate of $.57, not $.79. NBEAI would also note that the GS>50 customer class has two distinct RTR rates for non-interval and interval metered customers. The table provided provides the RTR costs for interval metered customers.

(b) The Applicant is unable to provide the requested information because it is unable to perform the requested calculations.

In particular, at this time the Applicant is unable to forecast load for 2026, the Applicant is unable to complete a cost allocation study for all customers for 2026, and the Applicant is unable to complete the rate design process for 2026.

(c) It is the Applicant's intention to ensure that, when rates are harmonized in 2026, none of the customers of either utility will have an increase in their monthly bill solely because of the merger.

It is the Applicant's intention that merger savings will benefit both North Bay Hydro customers (largely by spreading the existing costs over a larger base of customers) and Espanola Regional Hydro customers (largely by eliminating the PUC Contract).

These savings will affect the underlying cost structures of the merged utility, and will go to the benefit of all customers.

By contrast, rate harmonization is a process by which the actual rates paid by North Bay Hydro customers and the rates paid by Espanola Regional Hydro customers are harmonized. In the Applicant's view it would not be correct to suggest that merger savings flow more to the benefit of particular customer group simply as a result of the rate harmonization process.

SEC-10

Reference: Application, p. 35

Question:

Please explain why the low ROE being experienced by Espanola Hydro was not reflected in the price being paid by North Bay Hydro for the shares, as is normally the case in commercial transactions, as opposed to being recovered by the purchaser by way of an extra rebasing application, contrary to Board policy. Please provide any documents in the possession of the Applicants showing the impact of Espanola Hydro's low ROE on the purchase price.

Response:

The low historical ROE of Espanola Hydro is one of the motivators for the transaction that is currently before the Board for approval. It has been accounted for between the parties in the commercial negotiations to the extent it affects the existing net book value of the company.

The Applicant has put forth a credible plan to right the course for what is otherwise a financially distressed utility. The need for a rebasing of Espanola Regional Hydro is driven by considerably more than fixing the low ROE into the future (although it is one consideration).

It is also driven by the fact that Espanola Regional Hydro has been operating under an effective rate freeze for the past four (4) years, contrary to any published OEB policy.

It is the Applicant's understanding that the only way to get out of this rate freeze situation is to bring forward a complete cost-of-service application, which is exactly what the Applicant is proposing to do.

It is also driven by the fact that Espanola Regional Hydro has been operating under interim rates since May 2016. With interim rates in effect the Board is not bound by the traditional rules regarding no retroactive ratemaking. This creates a level of revenue uncertainty that makes it impossible for management to operate the utility and control costs in a profitable manner.

It is the Applicant's understanding that the only way to resolve this interim rate issue is to bring a complete cost-of-service application, which is exactly what the Applicant is proposing to do.

It is not reasonable to assume that Espanola Regional Hydro could continue as a financially viable company with such a low ROE into the future. The utility would be bankrupt in short order, as it would be impossible to attract financing from any sustainable source.

The Applicant offers a sustainable source of financing, on the condition that the regulatory uncertainty described above gets resolved and utility ROE performance can credibly be returned to industry standards.

SEC-11

Reference: Application, p. 35

Question:

Normally there is no rebasing during the period in which transition costs are being incurred. The Applicants are proposing an exception to that norm in this case. Please detail how the transition costs related to these transactions will be excluded from the costs included in the two rebasing applications for 2020 and 2021.

Response:

Transition costs are explained in Staff – 1. These costs are not, and will not, be recovered from ratepayers through underlying OM&A cost structures in the two rebasing applications for 2020 and 2021.

SEC-12

Reference: Application, p. 37

Question:

(a) Please provide a copy of the commitment letter from the Toronto-Dominion Bank.

(b) Please provide a summary of the impacts of the proposed borrowing on the financial ratios of North Bay Hydro.

Response:

(a) Please see Staff-3 for the commitment letter from TD.

(b) There are no impacts on the financial ratios of NBHDL as a result of the proposed acquisition financing from TD as the two companies are separate. Please see Staff – 4 for a summary of financial covenants as a result of the acquisition financing.

SEC-13

Reference: Application, p. 37

Question:

The Applicants are proposing an eight-year period between the transaction and the first rebasing that includes merger savings. Given this fact, please explain why, consistent with Board policy, there should not be an ESM in the last three years of that period.

Response:

Phase 1 of this transaction does not contemplate requesting a rebasing deferral period greater than five years and therefore ESM is not required. The intent is to file a full cost of service application for ERHDC and NBHDL in order to have distribution rates adjusted well before five years.

Phase 2 of this transaction includes a proposal for a rebasing deferral period of five (5) years from the date of closing Phase 2. The rates in each of the two service territories will continue to be set by the Board's Price Cap IR during the rebasing deferral period with the intention of filing a cost of service application in 2026 with a plan to propose rate harmonization.

However, if the Board approves the Application including the proposed Rate Making Framework, the Applicant is willing to agree to share any earnings above the 300 basis point deadband with ratepayers on a 50:50 basis starting in the first full year that occurs 5 years after the approval of Phase 1 (e.g. 2025).

SEC-14

Reference: Application, p. 38

Question:

(a) Please clarify the intent that the ICM rate riders continue only until the rebasing of Espanola Hydro for 2021 rates.

(b) Please confirm that, at that time, it is proposed that the ICM capital will be added to rate base, and the ICM collected will be trued up to the actual revenue requirement from 2013 to 2020 of the assets included in the ICM, with any excess collected refunded to customers at that time.

Response:

(a) The intent is that the ICM rate riders will continue only until the rebasing of NBEAI for 2021 rates.

(b) NBEAI confirms the intent that at the time of NBEAI rebasing, ICM capital will be added to rate base.

SEC-15

Reference: Application, p. 40

Question:

Please advise whether there are any material tax impacts expected (current or future costs or benefits) as a result of the proposed acquisition structure (share purchase plus amalgamation, then later amalgamation into North Bay Hydro), and, if so, describe and quantify those tax impacts.

Response:

There are no material tax impacts expected (current or future costs or benefits) as a result of the proposed acquisition structure (share purchase plus amalgamation, then later amalgamation into North Bay Hydro).

SEC-16

Reference: Appendix C, Amending Agreement, p. 2

Question:

Please confirm that any incremental costs for the transition from PUC Distribution services will be considered transaction costs, and will not, directly or indirectly, be for account of customers.

Response:

To the extent that PUC performs services under the existing contract, costs will be incorporated into ERHDC's underlying OM&A cost structure. NBEAI can confirm that the $150k in transition costs as explained in Staff – 1 will not be included in the underlying OM&A cost structure and do not include PUC contract costs.

SEC-17

Reference: Appendix D, s. 7.10

Question:

Please file the "current capital plan" referred to.

Response:

This provision was intended to ensure that future capital spending was maintained at a level that was consistent with historical spending (excluding substation work). In this context, the current capital plan was intended to refer to ERHDC's historical capital spending patterns.

SEC-18

Reference: Appendix D, Schedule Q

Question:

(a) Please confirm that the requisite consents have been received.

(b) Please provide details of any conditions attached to either consent.

(c) If either consent has not been received, please provide an explanation of when that is expected, and the current status today.

Response:

(a) The Third Party Consents (as such term is defined in the Securities Purchase Agreement which is attached as Appendix D to this Application) have not yet been received. Please see also the response to Staff-12.

(b) The Third Party Consents are not anticipated to contain any conditions.

(c) For the Third Party Consents a process is underway with Ontario Infrastructure and Lands Corporation and Royal Bank of Canada and such consents are anticipated to be received prior to or shortly after the receipt of the Required Approval (as such term is defined in the Securities Purchase Agreement).

SEC-19

Reference: Appendix D, Schedule R

Question:

Please confirm that the tax audit has been completed, and there is no material impact on the transactions or on Espanola Hydro. If the audit has not been completed, please provide details.

Response:

NBEAI confirms that the tax audit has been completed and there is no material impact on the transaction or on ERHDC.

SEC-20

Reference: Appendix I, Espanola 2017, Note 6

Question:

Please advise whether the gross assets of Espanola Hydro were revalued to net book value on the transition to IFRS. If so, please provide the amount of the revaluation adjustment, and the year made.

Response:

ERHDC elected the exemption allowed for under IFRS 1 and used the carrying amount of property, plant and equipment under Canadian GAAP as deemed cost on the transition date to IFRS (January 1, 2014). ERHDC addressed all IFRS transition costs and changes to rate base in its 2012 cost of service application

SEC-21

Reference: Appendix I, Espanola 2017, Notes 8 and 11

Question:

(a) Please confirm that the general security agreements will continue in place after the Phase I transaction.

(b) Please confirm that the general security agreements will not continue in place after the Phase II transaction or, if they do, they will not be a charge against the current assets of North Bay Hydro.

Response:

(a) The general security agreement in favour of Ontario Infrastructure and Lands Corporation is anticipated to continue after the Phase I transaction. The general security agreement in favour of Royal Bank of Canada is anticipated to be terminated on or shortly after completion of the Phase I transaction.

(b) The general security agreement in favour of Ontario Infrastructure and Lands Corporation is anticipated to continue after the Phase II transaction as the obligations under the financing agreement that are secured by it are projected to remain outstanding. All of the assets, liabilities and obligations of North Bay Hydro and ERHDC will constitute the assets, liabilities and obligations of the amalgamated distributor (without legal segregation) after completion of the Phase II transaction.