**North Bay (Espanola) Acquisition Inc**

**EB-2019-0015**

**Procedural Order No. 3**

**Donald D. Rennick - Reply Submissions**

**May 23, 2019**

**Preamble**

The purpose of this motion and the queries made were not related to any agreement or disagreement with the IRR’s submitted by the Applicant.

In order to make submissions on this application it is necessary to gain an understanding of the arguments being presented as evidence. The IR’s submitted were an attempt to clarify those particular arguments which appeared unsupported, contradictory or without basis in fact. The IRR’s in question did not provide the clarifying information required and in some cases appeared to avoid responding directly to them.

The Applicant suggests that its IRR’s were adequate and no further responses are required but has, nevertheless, provided further responses which are discussed below.

DDR-1 (a)

The application indicated that NBHDL customers would benefit with respect to price, among other things, due to the efficiencies expected to be generated from the transaction. While the application suggested a reduction in OM&A costs, a closer examination demonstrated that there would be virtually no change in the per customer cost for NBHDL customers whether or not the amalgamation occurs. The application evidence appeared contradictory and the interrogatory requested specific details of the benefits that would accrue to NBHDL customers because of the amalgamation. The IR response did not supply those details.

The motion request was to provide the Applicant with an opportunity to provide additional support for the views expressed. The suggestion in the IRR that the fixed costs would be spread over a larger number of customers is stating the obvious. The numbers and calculations indicate that cost per customer will not change for NBHDL customers whether or not the amalgamation is approved. The response confirms my original feelings on the matter.

DDR-1 (b)

The application indicated that the amalgamation would benefit customers of both NBHDL and ERHDC because of the sharing of engineering and operational expertise. The evidence provided no details of the engineering and operational expertise unique to ERDHC that would be available to NBHDL as a result of the amalgamation.

The motion request was provided the Applicant with an opportunity to supply additional support for the views expressed. The general comments in the motion reply confirm my original thoughts on the matter.

DDR-2 (b)

The application included evidence of the director’s approval of the proposed transaction. In order to comply with their mandate, directors must necessarily be made aware of the details of that transaction. The IR was an attempt to discover what details of the transaction or other information was presented to board members in order to obtain their approval.

The Applicant’s response simply provided a description of the general mandate of all corporate board members. The motion request was to provide the Applicant with the opportunity to expand on the IRR. The motion response supplies nothing in this regard and confirms my original thoughts on the matter.

DDR-3

The IRR referenced responses to other intervenors. Based on the evidence the responses were not adequate. The pro-forma statements did not provide the information requested.

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DDR-5

The application suggested that NBHDL customers would benefit from lower OM&A per customer costs following the amalgamation. The evidence failed to highlight the fact that any per customer savings would accrue to ERHDC customers and the per customer cost for NBHDL customers would be unchanged whether or not the amalgamation took place. The IR was an attempt to get an acknowledgment of that fact from the Applicant.

The IRR suggested that it would be a benefit to NBHDL customers from having a larger customer base without a change in the OM&A. The motion query was to give the Applicant an opportunity to expand on that suggestion.

The motion response suggests that in spite of the fact that there are no OM&A savings to NBHDL customers they will benefit as a result of the amalgamation because there will be a larger customer base. The response confirms my original thoughts on the application’s evidence regarding OM&A savings.

DDR-7

The IR requested an indication that the OM&A savings resulting from the amalgamation accrued to ERDHC customers only. The IRR relied on the response given in DDR-5.

The motion request was to provide an opportunity for the Applicant to provide a further explanation for stance taken. The matter will be addressed in the submission phase.

DDR-8

The application suggests that ERHDC customers will benefit from NBHDL’s expertise in the design, planning and execution of future planned substation rebuilds. The IR asked the Applicant to provide an explanation to NBHDL customers regarding the monetary costs, which includes NBHDL staff time and effort, to pay for these rebuilds and how they would not be harmful. The IRR suggested that there would be no cost to NBHDL customers for supplying design, planning or execution skills and the financial costs arising from this 10 year endeavour would be fully paid by ERHDC customers.

The motion query asked that the Applicant confirm directly that no costs would be borne by NBHDL customers. The motion response fails to confirm that fact.

DDR-11

The IR requested details of the thinking that initiated the plan and came to the conclusion that this would not be harmful to NBHDL customers. The IRR suggested that this was part of NBHDL mission statement. The IRR also suggested that all customers will be better off because of the economies of scale and the benefits of synergies created.

Since the efficacy of these statements was not obvious to me, the motion query provided a further opportunity for the Applicant to provide more information. The motion response confirmed my original understanding of the evidence.

DDR-12

The application suggested that the transaction and transitional costs would not be included in rates. While the statement may be technically true, it could be taken to infer that customers would not be paying for the costs. The IR asked the Applicant to confirm that the funds for these expenditures were or will be paid out of delivery rates at some point and that all costs would indeed be paid for by customers. The IRR incorrectly suggested that costs would be funded through retained earnings.

The motion query was a further attempt to clarify the understanding of the original evidence in the application. The response to the query agrees there was an error in the wording in the application but suggests a further explanation of the original evidence is not required. The response confirms my original understanding of the evidence.

DDR-13

The motion query was not posed because of a disagreement with the Applicant’s response. The query was posed because the IRR appeared to be trying to suggest that customers would not be funding the legal and financial costs associated with this transaction.

The motion query was an attempt to discover if there was some information that I was missing or not understanding from the evidence provided. The response confirmed my understanding of the original evidence.

DDR-14

The IR requested some clarification of the purchase price calculation. The purchase price appears to be a result of using two methods to calculate the transaction valuation. The purchase price may not be of interest to the OEB but it is surely of interest to the NBHDL customers.

The motion query was intended to provide the Applicant with the opportunity to provide further evidence that the purchase price was reasonable. It is instructive to note that the Applicant promotes the benefit of saving of one dollar per NBHDL customer per year in OM&A expenses following seven years of operations but balks at providing an explanation for what appears to be a purchase price overvaluation of $1.6 million. The response confirms my understanding of the original evidence.

DDR-15

The IRR reference to Staff – 4 (a) provided the figures requested in the IR but did not provide the requested detail in support of the improvement in financial strength suggested in the application.

The motion query was an attempt to understand, more fully, the point being made by the application that more optimal debt to equity ratios would result from this amalgamation. The response to the motion query also omitted this information. The response confirms my understanding of the original evidence.

DDR-16 (a)

Proper submissions cannot be made unless there is an understanding of the evidence. Other than a single mention that the $8 million purchase price will be financed, the application provides no evidence regarding the term, interest rate or total cost to NBHDL customers and its affect on their pocketbooks. The IR was an attempt to solicit some response from the Applicant regarding those details. The response confirms my understanding of the original evidence.

Respectfully submitted on this May 23, 2019

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