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February 25, 2022
Our File: EB20210312

Attn: Nancy Marconi, Registrar

Dear Ms. Marconi:

Re: NBHDL and ERHDC MAADs Application

We are counsel for the School Energy Coalition (“SEC”). Pursuant to Procedural Order No.1, these are SEC’s submissions on the Application.

Overview

North Bay Hydro Distribution Limited (“NBHDL”) and Espanola Regional Hydro Distribution Corporation (“ERHDC”) (collectively the “Applicants”) filed a MAADs application with the Ontario Energy Board (“OEB”) on November 24, 2021 (the “Application”). The Application is “Phase 2” of a series of transactions with the purpose of consolidating electricity distributors serving customers in the City of North Bay, the Township of Espanola, and the Township of Sables-Spanish Rivers. The present Application requested, *inter alia*, the approval of the amalgamation of NBHDL and ERHDC into a single electricity distribution company (the “Proposed Transaction” and “New NBHDL”).

In the “Phase 1” application, which was approved by the OEB on August 22, 2019, the OEB approved the acquisition of Espanola Hydro Holdings and Espanola Hydro by North Bay Acquisition Inc., and then the amalgamation of the two utilities with North Bay Acquisition Inc. to form the new ERHDC, one of the Applicants in the present Application.¹

SEC generally supports MAADs applications where the applicants can demonstrate the consolidation of the electricity distributors will benefit customers through cost reduction, without negatively affecting reliability and service quality. The Applicants in this Application, unlike

¹ *Decision and Order*, EB-2019-0015, p.9

many other MAADs applicants who are neighboring utilities, are two hundred kilometers apart physically. With that said, SEC believes the Proposed Transaction has merit.

As identified in SEC’s submission in Phase 1 application, it is too costly for ERHDC to serve its distribution territory on a stand-alone basis. SEC believes the Proposed Transaction will bring synergies to the New NBHDL and benefit ratepayers.

Nonetheless, the Applicants still need to demonstrate to the OEB that the Proposed Transaction in this Application satisfies the “no harm” test. The “no harm” test assesses whether the proposed transaction will have an adverse effect on the attainment of the OEB’s statutory objectives as set out in section 1(1) of the Ontario Energy Board Act, principally, protecting customers with respect to “prices and the adequacy, reliability and quality of electricity service.”² The Proposed Transaction should only be approved if it will have no adverse effect on customers.³

In our submission, the Applicants have provided sufficient evidence in the Application and Interrogatory Responses to demonstrate that the Proposed Transaction is likely to benefit customers in both service territories. SEC therefore submits that, subject to our comments below, the Proposed Transaction will benefit or at least cause no harm to the customers, and should be approved by the OEB.

Synergies and Cost Reduction

The Applicants anticipate the synergies of the Proposed Transaction will be \$657,000 to \$686,000 per year starting from 2027.⁴ Based on the evidence filed, all of these synergies will be derived from the OM&A costs of the New NBHDL, as shown in the table below.⁵

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Table 6-1: Forecasted Synergies

OM&A Costs ('000)	2021	2022	2023*	2024	2025	2026	2027
ERHDL	1,573	1,603	1,634	1,665	1,696	1,729	1,762
NBHDL	7,816	7,912	8,059	8,212	8,368	8,527	8,689
Status Quo OM&A Costs	9,389	9,515	9,693	9,877	10,065	10,256	10,451
Synergies	75	-572	-657	-667	-676	-686	-686
Proposed OM&A Costs	9,464	8,943	9,036	9,210	9,388	9,570	9,765
<i>*Amalgamation = partial year 2022 ~ full year 2023</i>							
Efficiency Forecast							
ERHDL Customers	3,328	3,328	3,328	3,328	3,328	3,328	3,328
OM&A/customer	\$472.79	\$481.77	\$490.92	\$500.25	\$509.75	\$519.44	\$529.31
NBHDL Customers	24,290	24,290	24,290	24,290	24,290	24,290	24,290
OM&A/customer	\$321.78	\$325.72	\$331.78	\$338.09	\$344.51	\$351.05	\$357.72
New NBHDL Customers							27,618
OM&A/customer							\$353.57
	2020	Customer	Proposed	Proposed	Status	Variance	Variance
	Customers	Proration	OM&A	OM&A	Quo -	(\$/Customer)	(%)
			Cost	Cost/	OM&A /		
			Customer	Customer	Customer		
ERHDL	3,328	12%	1,176,668	\$353.57	\$529.31	(\$175.74)	-33%
NBHDL	24,290	88%	8,588,124	\$353.57	\$357.72	(\$4.16)	-1%
	27,618	100%	9,764,793				

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² [Ontario Energy Board Act, 1998](#), section 1(1)1

³ [Handbook to Electricity Distributor and Transmitter Consolidations](#), pages 3-4.

⁴ Application, p.28

⁵ Table 6-1, Application p.27

Currently, ERHDC outsources to PUC Services Inc. for management, customer and IT services.⁶ The Applicants propose to bring these responsibilities in-house after the Proposed Transaction and the expiration of the PUC Service Agreement.⁷ This creates savings in OM&A costs and on rebasing will benefit ratepayers by reducing bill cost. In fact, reduction of the costs related to the PUC Service Agreement is the main source of OM&A reduction for the New NBHDL.

SEC initially was concerned that assuming the functions under the PUC Service Agreement would become burdensome, and force New NBHDL to increase its FTE level in response to the incremental responsibilities. The Applicants state in interrogatory response that “NBHDL will not be increasing its FTEs for the incremental responsibility of assuming the functions under the PUC Services Agreement.”⁸ As such, SEC believes NBHDL, especially with a new management team on board, can deliver on the OM&A saving forecast while maintaining the FTE level in the most recent Cost of Service applications for each legacy utilities.

SEC was also concerned that the termination of PUC contract will only benefit customers in the ERHDC service territory, and negatively impact customers in the NBHDL service territory. With that said, based on the filed evidence and interrogatory responses, SEC is convinced that is unlikely to happen, and the synergy will benefit, or at least have neutral effect on, customers of both legacy utilities in 2027. For ERHDC service territory customers, the Applicants anticipate the Proposed Transaction will reduce 2027 OM&A cost on a per customer basis from \$529 to \$354, representing a 39.8% reduction, and for legacy NBHDL customers 2027 OM&A cost per customer will be reduced from \$358 to \$354, or 1.2% reduction.⁹ SEC therefore expects the New NBHDL will translate the OM&A cost reduction into bill cost savings for all customers.

Reliability and Quality of Service

SEC notes that NBHDL has better reliability performance than ERHDC, as indicated by its lower SAIDI and SAIFI numbers.¹⁰ SEC also understands that the outage statistics are measured differently for ERHDC and NBHDL. With that said, SEC believes the Proposed Transaction presents the Applicants with an opportunity to further improve service reliability in both territories. SEC therefore encourages the Applicants to allocate some of the savings from synergies to invest in areas that improve service reliability.

In addition, the customers of ERHDC have long been accustomed to the experience of having a utilities company with strong local presence. SEC was concerned that the Proposed Transaction would lose some of the “local connection” that ERHDC currently has with its ratepayers. The Proposed Transaction will move the management service and control center of ERHDC from Sault Ste. Marie to North Bay, while maintaining ERHDC’s Operations Centre at its current location.¹¹

⁶ Application, p.7

⁷ Ibid

⁸ Interrogatory Responses, SEC-3

⁹ Application Page 27-28

¹⁰ Application, p.31

¹¹ Application, p.34



SEC notes that the Applicants have expressed commitments in the Application to maintain at least the current level of local presence that ERHDC customers experience.¹² SEC therefore encourages the Applicants to develop strategies that facilitate communication and promote transparency between employees physically located in each service territory and those located in the headquarters in North Bay.

Conclusion

SEC submits that the Application should be approved, subject to the comments set forth above.

SEC submits that it has participated responsibly in this proceeding, and requests that the OEB order reimbursement of its reasonably incurred costs.

All of which is respectfully submitted.

Yours very truly,
Shepherd Rubenstein P.C.

Fred Zheng

cc: Ted Doherty, SEC (by email)
Interested Parties (by email)

¹² Application, p.30, 34, 35