By Email and RESS

February 26, 2022

The Registrar
Ontario Energy Board
27 – 2300 Yonge Street
Toronto, ON M4P 1E4

Attn Nancy Marconi

Dear Ms. Marconi:

**EB-2021-0312**

**NBHDL and ERHDC MAAD's application**

Pursuant to Procedural Order No. 1, these are my submissions on the above-noted application

**DDR – 1**

The Applicant provides a dissertation on debt ratios prior to and those following the proposed amalgamation. This information is not responsive to the question which was to "*provide a cash flow statement specifically related to the repayment of $10,417,694*". The Applicant failed to provide that information.

In its response, the Applicant relies on ERHDC's cost of capital component amounts to cover the amount of interest payments but neglects to include the funds required to cover the principal payments.

The Applicant suggests that future increases in cost of capital funding[1] can be used to reduce any shortage of funds resulting from the required debt payments. Increases in income due to automatic indexing and subsequent CoS applications are provided to fund future cost increases not current cash requirements. Simply put, if current cash requirements did not increase there would be no need for any revenue increases. The cash outlays required for current principal and interest payments are known and fixed.

It follows that when assessing the financial viability of this amalgamation only current funding levels can be used to address the potential harm to NBHDL customers. The applicant's attempt to use cost of capital increases to support the current cash flow shortage is flawed reasoning.

---

[1] IRR – p 4 of 32 - para 7

The terms of the purchase price loan include interest only payments for the first three years with combined principal and interest payments due for the remainder of the term. Beginning in year four the principal and interest payments on ERHDC current debt will amount of approximately $683k which is well short of the $387k [2] 2020 cost of capital amount provided by ERHDC customers.

The lack of funds being provided by ERHDC customers results in a $1.5 million[3] cash shortage over 25 years and these funds will have to be provided by NBHDL customers. Considering the entire ERHDC debt burden, the cash shortage amounts to $5.1 million[4]. NBHDL customers will be providing the cash to service those debt payments.

**Synergies and cost reductions**

The Applicant's condescending reply to the forecasted synergies question posed in DDR – 2 highlights its reluctance and obvious inability to provide a reasonable explanation other than the inference[5] in the interrogatory that NBHDL has over estimated the OM&A savings resulting from the amalgamation.

The sudden realization by NBHDL expressed in EB-2020-0043 that it was harrowingly short of administrative staff appears to be the result of the impact that an additional 3,300 customers would have on its operations.

Since 2010 the Applicant has experienced less than a 1.5% increase in residential customers and actually has 16 fewer >50 kW customers including one large > 3000 kW user. In the 2010 and 2015 applications the Applicant expressed complete confidence in its ability to operate with a staff of fewer than 50 persons. Inexplicably in the 2021 application filing which followed the 2019 purchase of ERHDC, the Applicant claimed to have a severe shortage of staff for its operations.

The Applicant suggests that this matter is clearly out of the scope of the issues. I would suggest that the matter is most assuredly with in the scope of these interrogatories and that the savings estimate included in the application at Table 6-1 fails to take into account the costs of additional staff that will be hired by NBHDL while attributing the hiring to claims of being it being understaffed.

The Applicant's suggestion that "*NBHDL required that additional FTE capacity to support its business regardless of whether the proposed transaction took place*." [6] has no basis in fact and there has never been any evidence presented which explains the

---

[2] EB-2020-0020 - ERHDC_2021_Rev_Reqt_Workform_20201231.xlsm – 7. Cost of Capital
[3] DDR – IRR Submissions - Loan Payment Cash Flow.xlxs – ERHDC ROE – cell F33
[4] Ibid – Loan Summary – cell D15
[5] IRR – p 6 of 32 – para 6
[6] IRR – p 7 of 32 – para 4

sudden request for additional administrative staff or that any additional staff whatsoever is required to support operations.

The hiring of three additional persons at the current yearly average of $160k being paid to NBHDL administrative personal would reduce the estimated savings from $686k [7] to $206K and result in an OM&A cost of $370.95 per year for NBHDL customers compared to $357.73 if no amalgamation took place. This would be harmful to NBHDL customers.

Meanwhile, the applicant has suggested in its most recent application that it actually requires 6 additional employees[8] for its current operations. All of the proposed positions are administrative which, if filled, would turn the result in additional costs for NBHDL customers as a result of this amalgamation.

A recommendation by the Macdonald Committee quoted in the *Renewing Ontario's Electricity Distribution Sector" Putting the Consumer First* (Report) recommended "shoulder-to-shoulder distribution utilities" [9] and the Report itself also cautioned against a "*patchwork of widely separated areas*" [10] and contains numerous other statements and quotes from interested parties stressing this factor as being a major issue for any amalgamation to be successful. The distance disconnect between these two operations is a mitigating factor which has not been given enough deliberation as to the harm that will result to NBHDL customers

The applicant has been asked through a Freedom of Information (FOI) request to provide the calculations which were supplied to their Board of Directors in order for them to determine that this purchase/amalgamation was not harmful to NBHDL customers. To date this request has been refused in a format that can be used to verify the information. The Applicant has variously indicated incorrectly that the information is proprietary or that the release of the information would subject it to manipulation for nefarious purposes. This failure to disclose would indicate that the Applicant was less than outright in obtaining the board approval required before this amalgamation was attempted.

The Applicant's actions surrounding this process have been characterized by a reluctance and failure to provide pertinent information. This fact has hampered the effective challenge of the evidence presented in the application.

---

[7] NBHDL_ERDHC_IRR- Appendix C_Table 6-1_20220215.xlxs – cell H7
[8] IRR - p 5 – para 8 & p 6 – para 1
[9] Report – p 5 – para 5
[10] Report – p 8 – para 2

Based on the timing of the request for more administrative staff[11] and the lack of evidence to support the request, it appears that following the purchase of ERHDC the Applicant has realized that it overestimated the savings that would result from combining these operations and intends now to correct the situation by increasing the staff at NBHDL. This would result in that the miniscule benefit now being estimated for NBHDL customers quickly becoming a disadvantage.

**Impact on Financial Viability**

The decision In the Hydro One Inc./Norfolk Power Distribution noted: *"In applying the "no harm" test, it is not relevant for the Board to consider whether the purchase price of NPI has been set at an appropriate level. The issue for the Board to consider is whether the purchase price is set at a level that would create a financial burden on the acquiring utility and* ***whether any premium in the purchase price finds its way into rates****."* [12]

To get a true picture of the impact of the purchase price and the premium paid the total debt to equity ratio for the should be calculated as follows using figures from the 2023 combined pro-forma financial statements.[13]

Shareholders Equity: $43,277, 780 minus Goodwill $3,350, 696 = $39,927,084
divided by
Long Term debt $58,470,571($49,380,989+$2,395,531+$6,624,051).

This gives a ratio of 1.46, a ratio which future lenders will be using to assess the company's financial strength and therefore applicable interest rates. This ratio is perilously close to the line which the Applicant describes as may "*indicate that an electricity distributor may have difficulty generating sufficient cash flows to make its debt payments.*" [14]

This will affect future borrowing and because of the fact that the Espanola distribution system is in need of extensive capital upgrades the bulk of any borrowing would be paid for by NBHDL customers and harmful to them.

---

[11] IRR - DDR – 2 – p 5 – para 9 and p 6 – para 1
[12] Hydro One Inc./Norfolk Power Distribution Inc. Decision and Order and Procedural Order No. 8 – OEB File No. EB-2013-0196/EB-2013-0187/EB-2013-0198
[13] EB-2021-0312 - Application – p 231 of 255
[14] IRR – p 3 of 32 – para 8

The cost of ERHDC requirements for the upgrade of distribution equipment will necessarily impact NBHDL customers not only because principal payments but also increases in interest and amortization charges included in rates.

**Conclusion**

The theory of amalgamating operations to save administrative costs is generally sound. The theory does not hold in all cases where amalgamation is considered. In this case there are problems that indicate that this attempt is one of the latter.

The cash contribution required by NBHDL customers necessary to fund debt payments as a result of the negative debt/equity ratio over the next 25 years is over $5 million[15] and harmful to NBHDL customers.

The resulting debt/equity ratio calculated above will be 1.46 which is detrimental to all future borrowings of the combined operations and therefore to NBHDL customers as compared to the present status.

The Applicant has offered a scenario in the application that indicates 'no harm' as to OM&A costs but the evidence based on other independent but related actions, applications and comments indicate that this scenario is inaccurate.

This amalgamation will forever link NBHDL customers to the fate of the Espanola region. Five years into the future or during a combined rate application when the current estimates of savings and 'no harm' prove unrealistic it will be too late to rectify the situation and NBHDL customers will pay the cost.

I suggest that the should OEB deny this application and send it back to the Applicant.

I propose an alternative safer solution than amalgamation of the two entities at this time. The companies can be allowed to operate separately under the proposed Service Agreement between NBHDL and Espanola Hydro until 2027 being the date that is suggested for the combined rate application. This can be done without the legal marriage of the two corporations and will ensure that customers from both areas will be responsible for their own costs and cash requirements.

In the meantime, NHBDL should attempt to market ERHDC to a new buyer. The Applicant would have no problem recovering the $600k plus already paid for by NBHDL

[15] IRR submissions re Loan Payment cash flow.xlsx – Loan Summary – cell D14

customers for this venture. The benefits suggested would surely be evident to new owners closer to the Espanola region such as HONI or the Greater Sudbury Hydro Inc.

All of which is respectfully submitted

Yours very truly,

D. D. Rennick
392 Surrey Drive
North Bay, ON   P1C 1E3
(705) 476-2007
ddrennick@cogeco.ca

cc: Interested parties (email)