By Email and RESS

March 7, 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

Following the reply submissions of the NBHDL, these are my submissions on the above-noted application

Reply Submission (RP) 10.

Contrary to their statement, the Applicants did not answer the question requesting a cash flow statement showing the funds required to repay existing long-term liabilities. The fact that they provided other information suggests they prefer to ignore the reality that it will be NBHDL customers who will be paying to support any financial viability of the former ERHDC operations to the tune of $5.1 million

RP 11

The interest is covered by the cost of capital but it does not cover the principal payments. As early as the 4th year the loan payments will total $683,844[1] which is almost 75% more than the amount that will be provided by the cost of capital levy.

RP 12

Unless the Applicant is suggesting it will be defaulting on the loans, it will most certainly be paying 100% of the long-term debt over a 25-year period. The idea that refinancing

[1] DDR - IRR submissions re Loan Payment cash flow.xlsx – Loan Summary – cell D36

would be a major factor in reducing payments is speculation especially in the current climate of pending interest rate increases.

RP 13

The Applicant introduces a straw-man scenario and then attempts to argue against it. The Applicant will surely require additional loans over the 25-year period and the artificial connection suggested between paying off current liabilities and being without capital provides no rebuttal to the arguments that there will be a cash shortage and it will be NBHDL customers who will be putting up the cash for these payments.

RP 14

The unrealistic scenario referred to by the Applicant consists of a payment amortization schedule. Lenders across the country will be dismayed to hear this description of the accepted method of calculating loan payments since the inception of blended payments.

The cash flow comparisons made were consistently nominal not nominal and real as suggested by the Applicant.

The nominal cash outflow is $14.8 million [2] not $11.3 million as suggested by the Applicant. The assumption that the cost of capital increases at the rate of inflation is faulty.

Please note that the actual cost of capital for NBHDL actually decreased from $3,759,511 [3] in 2015 to $3,603,853 [4] in 2021. Increases in the cost of capital funding are not guaranteed and cannot be assumed to be available to provide extra cash.

RP 15

The funds generated by the amortization of fixed asserts will certainly provide funds. The $5.5 million representing the undepreciated value of ERHDC's Property, Plant and Equipment as of December 31, 2020 5 will make its way into rates over the next 20 years. These funds presumably could be used to cover any funding cash shortages. The issue is that in this scenario all the forecasted available cash will have been allocated to service existing debt.

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[2] DDR - IRR submissions re Loan Payment cash flow.xlsx – Loan Summary – Cell D10
[3] EB-2014-0099 - North Bay 2015_Rev_Reqt_Work_Form_V5_Decision on WCA_20151119 – Cost of Capital – Cell P58
[4] EB-2020-0043 - NBHDL_2021 Rev Reqt Workform_DRO_20210915 – Cost of Capital – Cell P58
[5] EB-2021-0312 - NBHDL_ERHDC_MAADs_20211124 Application – p 200 of 255

This presumption would leave no funds available for future purchases or debt payments for the purchase or replacement of distribution asset required by ERHDC over the next 25 years which are admitted to be substantial. [6]

In spite of the Applicants attempts to justify the situation, it is obvious that there is not enough money being contributed by ERHDC customers to cover all the funding requirements and the slack will be borne by NBHDL customers

RP 16

The subject of funding and who will be paying for it is most assuredly relevant to this proposal. Except for the purchase loan guarantee given by NBHDL, Phase 1 of this proposal was not harmful to NBHDL customers since no comingling of customers, assets or operations had taken place. Following Phase 1, ERHDC customers have been paying their own expenses and loan payments not the customers of NBHDL

RP 18

The suggestion that replacing NBHDL's guarantee of the purchase price loan with an actual liability will not impact the financial viability of the new NBHDL is facetious. Any harm to NBHDL's financial viability occurred when the guarantee was put in place. The fact that it will now be an actual liability on the books does not change the situation.

RP 19 – 25

The Applicants discussion of the debt-to-equity ratio is suspect. Goodwill is worth zero as a factor in equity calculations and prospective lenders ignore it completely.

The mark to market amount is properly included as part of the debt calculation in this formula. It is curious that the Applicant would suggest otherwise since it used exactly the same method in calculating the debt-to-equity ratio 1.14 noted on the 2020 Scorecard [7] which was based on the amounts shown on the December 31, 2020 financial statements.

The evidence remains that the financial viability of NBHDL is being harmed by this amalgamation since the debt-to-equity ration will increase from 1.14 in 2020 to a pro-forma figure of 1.46 as noted in the IRR submissions

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[6] EB-2021-0312 - NBHDL_ERHDC_MAADs_20211124 - Application – p 29 para 1
[7] Ibid – p 66 of 255 – 2020 Financial Ratios

RP 26

This case is relatively simple. The savings attributed to the cancellation of the PUC contract have not taken the additional staff compliment planned by NBHDL to handle the extra customers into account. The Applicant's request for additional staff members only became an issue following the purchase of ERDHC.

Following these planned administrative additions to staff the suggested OM&A savings of $4 per year per customer after 4 years will evaporate resulting in an OM&A per customer for NBHDL customers that will be higher and therefore harmful than it would have been without amalgamation.

RP 27 - 29

The attempt here by the Applicant to give the impression that the OEB is in agreement with or has approved NBHDL's request for additional staff and therefore the matter is settled is misleading and false.

The OEB decision in NBHDL's latest CoS application stated "The OEB finds that the increase to the utility's operations and maintenance budget resulting from the additional staffing is not justified." [8]

The point being made is that in EB-2020-0043 the claim was made that six additional employees were required [9] to "align with the management structures of other LDCs and fill NBHDL's resource gaps: "along with many other comments suggesting a "lean workforce" and the need for more staff. The relevance of these facts, which the Applicant appears to be naively unaware of and has neglected to explain, is that the "lean workforce" claims and the request for additional employees appeared out of the blue following a ten-year period when the employee compliment was considered more than adequate. In spite of denials by the Applicant, the claim is obviously to pave the way for the hiring of more staff to service ERHDC customers.

The Applicant has offered no real evidence that this sudden need for additional employees other than the fact that some similar LDC's have more employees. They apparently considered this to constitute sufficient evidence for the request.

RP 30

The Applicant suggests that it offered business cases for the additional staff in EB-2020-0043 and established that they are required regardless of the amalgamation or not.

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[8] EB-2020-0043 - dec_order_North Bay_CoS_20210909 – p 9 – para "Findings"
[9] DDR – IR - NBHDL MAAD - 20220117 – p 2 para 6

What these “business cases” consisted of were statements from the Applicant that “NBHDL is an extremely lean organization” [10] and “In reviewing similar size LDCs, and counterparts in the north, NBHDL considered the addition of the following positions to align with the management structures of others” [11].

These statements are in complete opposition to the Applicants claims in previous years concerning staff levels and simply a comparison to other LDC’s who apparently have more employees than NBHDL. Based on the fact that the customer base is virtually unchanged during the past ten years and large customers numbers have actually decreased these statements provide no evidence that could be characterized as supporting or compelling evidence.

RP 31

The Applicant is fond of dismissing questions or statements that refer to former filings and evidence as being inappropriate. Please be assured no one is asking for a “rehashing” of evidence. Their attitude is understandable since without any changes in customer or service levels, it is very difficult to defend claims for additional staff which are complete reversal of former claims

RP 32

There has been no casual dismissal of facts. This interrogatory as a whole has questioned the claims made by the Applicant and relied on their replies and other evidence submitted by them to question their responses.

Conclusion

The evidence is that in order to obtain the necessary approval from their board of directors, the Applicant misled them as to the benefits of this purchase and amalgamation. The Applicant suggested to their Board that this purchase and amalgamation would be beneficial to NBHDL or its customers

This fact is important considering an approval would not have been obtained based on the unorthodox approval basis of “no harm” employed by the OEB. Absent that approval, this application would not have been made. The Applicant is still refusing to honour a request to supply the calculations supporting the benefits it suggested were forthcoming. This would indicate that the benefits were non-existent or unlikely.

The evidence is that the Applicant intends to hire additional administrative staff which will reduce the estimated savings as a result of amalgamation and result in a higher OM&A cost to NBHDL customers as a result of the amalgamation. The Applicant’s

[10] EB-2020-0043 – Exhibit 1 – p 99 of 134 para “New Resources”
[11] Ibid

assertion that these additional staff numbers are necessary to run its own organization has not been proven and this novel claim is suspect.

The evidence is that the funding requirements for the existing debt and future capital requirements are not able to be realized from cost of capital and amortization charges without compromising further funding for capital assets. This will result in harm to NBHDL customers who will be providing funds for any shortfall. The fact that principal debt payments funds are not OM&A expenses does not eliminate their effect on the "underlying cost structure of the consolidating utilities" [12] that must be considered by the OEB.

The evidence is that NBHDL's debt-to-equity ratio and therefore future borrowing costs will be negatively affected by this amalgamation to the detriment of NBHDL customers.

This was a terrible idea right from the beginning fostered by previous management that promoted a "punching above-its-own-weight" culture simply to enhance its own image with little regard for its customers.

The request is that the OEB deny this application.

All of which is respectfully submitted

Yours very truly

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[12] Handbook to Electricity Distributor and Transmitter Consolidations - 20160119– p 6 – para "Price"