

Special City Council as Shareholder of Guelph Municipal Holdings Inc. Meeting Agenda



Wednesday, February 15, 2017 – 6:00 p.m.
Council Chambers, Guelph City Hall, 1 Carden Street

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Call to Order – 6:00 p.m.

Disclosure of Pecuniary Interest and General Nature Thereof

Guelph Municipal Holdings Inc.: Strategies and Options

GMHI-2017.1 Assessment of Strategies and Options Relating to Guelph Hydro

Presentation:

Strategies and Options Committee Phase 1 Report – Derrick Thomson, Chief Administrative Officer

(Presentation to be provided under separate cover)

Recommendation:

1. That the Strategies and Options Committee (the "SOC") of Guelph Municipal Holdings Inc. ("GMHI") further examine the following options for Guelph Hydro Electric Systems Inc. ("Guelph Hydro"):
 - (a) Sale of all or part of Guelph Hydro to one or more interested purchasers; and,
 - (b) Merger of Guelph Hydro with one or more other local electricity distribution companies ("LDCs").

2. That in carrying out Recommendation 1, the SOC:
 - (a) conduct an environmental scan of potential transaction partners and potential transactions, with the assistance of an independent advisor, in

- order to compare the sale and merger options against maintaining full ownership;
- (b) enter into preliminary discussions with potential transaction partners to discover whether a sale or merger could satisfy the decision-making criteria adopted by the SOC; and
 - (c) continue its public and stakeholder engagement to inform its work,

but, without receiving further Council direction, SOC shall not make commitments to any potential transaction partner, whether binding or not, apart from entering into confidentiality agreements and other ancillary agreements to complete its preliminary assessment of a potential transaction.

3. That the SOC report back to Council by mid-2017 with the results of the examination and a recommendation regarding next steps.

Adjournment

To Council as the Shareholder of GMHI

Service Area Guelph Municipal Holdings Inc.

Date February 15, 2017

Subject Assessment of Strategies and Options Relating to Guelph Hydro

Report Number GMHI-2017-01

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Report:

Background

The City of Guelph (the “City”), through GMHI, established the SOC to investigate buy, sell, merge and maintain full ownership options for Guelph Hydro. The SOC replaced the former Mergers and Acquisitions Committee.

On October 24, 2016, the SOC presented a report to Council as shareholder of GMHI, outlining the objectives of the SOC and presenting an overview of the SOC’s engagement and communications strategy. At that time, the SOC informed Council that it planned to make recommendations to Council early in 2017.

In this report, the SOC presents its work to date (Phase 1), with recommendations for next steps (Phase 2). Specifically, this document outlines:

1. Guelph Hydro’s current environment;
2. The long-term options for Guelph Hydro (buy, sell, merge, maintain full ownership);
3. The decision-making criteria developed by the SOC for assessing options;
4. Preliminary financial modelling work;
5. Public and stakeholder engagement results;
6. An assessment of the options against the decision-making criteria;
7. The Guelph Hydro board’s support for the work of the SOC; and
8. Recommended next steps.

For reference, the SOC has the following members:

1. Derrick Thomson, CAO, City of Guelph (Co-Chair)
2. Pankaj Sardana, CEO, Guelph Hydro (Co-Chair)
3. Bob Bell, Board Vice Chair, Guelph Hydro
4. Mark Goldberg, Entrepreneur-in-Residence, Innovation Guelph
5. Richard Puccini, Former Managing Director and Consultant, Dillon Consulting

The SOC is supported by City and Guelph Hydro staff and by a financial consultant and communications and engagement advisors.

Guelph Hydro’s Current Environment

Guelph Hydro is a financially and operationally sound LDC with an exemplary employee community, fully capable of meeting near-term challenges in the electricity marketplace. As a result, the SOC can operate from a position of strength in assessing and pursuing appropriate options for the future of Guelph Hydro, as

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In considering the long-term value and future of Guelph Hydro, it is important to note that regulators, policymakers, industry experts and LDCs across North America are all increasingly concerned about the approaching changes in the electricity industry that are challenging existing utility business models.

The SOC has explored the drivers of change in the LDC sector and their potential impacts on Guelph Hydro. These changes fall into the following two categories, both of which should be considered in evaluating options for Guelph Hydro:

1. Policy and industry environment (government policy and regulation, LDC consolidation)
2. Advances in technology (renewables, distributed generation, energy storage, energy automation and control, electrified transportation)

The SOC believes it is essential to address these emerging challenges proactively and, while it can proceed from a position of strength, ensure the ongoing strength of electricity distribution in Guelph and Rockwood by preparing now to meet the challenges ahead.

The question facing Guelph Hydro today is not whether a change in its historically successful business model will be required, but rather what new form it will take, how rapidly it will have to alter course, and how to ensure Guelph Hydro has the technical resources and the financial capacity to transform in order to thrive in the long term.

Policy and industry environment

There has been considerable consolidation activity among Ontario LDCs. The expanded financial and management resources and geographic scale of now larger LDCs helps to allow these new LDCs to respond more effectively to changes in the industry in the medium- to long-term. The Province of Ontario has been encouraging such activity and is expected to continue to do so in the future.

In 1996, Ontario had 307 LDCs, the majority of which were owned and operated by Ontario municipalities, and regulated by Ontario Hydro.

Today there are about 70 LDCs, and this number is expected to be closer to 60 LDCs once active mergers and acquisitions are completed in the next few months. Between 1996 and 2001, Hydro One bought 89 LDCs, absorbing 88 of them and establishing Brampton Hydro as a separate subsidiary. Larger LDCs were created when their municipal owners were amalgamated, as in the case of Chatham-Kent Hydro, Greater Sudbury Hydro, Hamilton Hydro, Hydro Ottawa and Toronto Hydro. Other LDCs merged with neighbouring ones, such as the merger of Vaughan, Richmond Hill and Markham to form PowerStream.

Following the release of the Ontario Distribution Sector Review Panel report in December 2012 (http://www.energy.gov.on.ca/en/files/2012/05/LDC_en.pdf) and the report of the Premier's Advisory Council on Government Assets in April 2015 (<https://www.ontario.ca/page/improving-performance-and-unlocking-value-electricity-sector>), and with the general policy direction of the Government of Ontario and the Ontario Energy Board (the "OEB"), there has been significant consolidation activity in the Ontario distribution sector, driven in part by a desire to expand financial and management resources in response to rapid changes in the electricity industry. Recent and current merger and sale transactions are listed below; summary terms of selected transactions appear in Attachment A.

Recent merger activity

1. In December 2016, the OEB approved an application by Enersource, Horizon and PowerStream to merge and for the merged entity to acquire Hydro One Brampton, to form a combined LDC named Alectra. (Two of the merger partners – Horizon and PowerStream – are themselves the products of previous mergers.)
2. In 2016, Oshawa Power, Whitby Hydro and Veridian entered into a Memorandum of Understanding ("MOU") with a view to negotiating a merger agreement. Also in 2016, Kenora Hydro and Thunder Bay Hydro did the same.
3. In December 2016, Chatham-Kent based Entegrus Powerlines and St. Thomas Energy announced that they plan to merge.
4. Erie Thames Powerlines and Goderich Hydro are also considering a merger.

Recent sales activity

1. In 2014, Cambridge and North Dumfries Hydro bought Brant County Power to form Energy+, which is owned by the municipalities of Cambridge and North Dumfries.
2. Hydro One bought Norfolk Power in 2013 and Woodstock Hydro and Haldimand County Hydro in 2014. It currently has an application before the OEB to acquire Orillia Power. In December 2016, Peterborough City Council approved the sale of Peterborough Distribution Inc. to Hydro One.
3. In November 2016, Midland Town Council authorized preparation of a Request for Proposals and Confidential Information Memorandum for the sale of Midland Power. Also in 2016, the Town of Collingwood issued a closed Request for Proposals for the sale of its 50% interest in Collus PowerStream.
4. The Town of Wasaga Beach is considering the sale of Wasaga Distribution.

Climate Change Action Plan

The Government of Ontario's five-year *Climate Change Action Plan 2016-2020* (http://www.applications.ene.gov.on.ca/ccap/products/CCAP_ENGLISH.pdf) also bears heavily on transformation in the electricity sector. Elements of the plan that have a bearing on the electricity industry include:

1. Electrification of transportation, including electric vehicles and electric vehicle charging stations
2. Reducing emissions from buildings by switching from fossil fuels to electricity and using net-zero technologies
3. Increasing the use of renewable generation for clean manufacturing
4. Acting on opportunities to make government operations carbon neutral

Advances in technology driving changes in consumer behaviour

The major technological drivers of transformational change in the electricity sector and their potential to change consumer behaviour and challenge the existing utility business model were outlined in the Guelph Hydro 2016-2018 Strategic Plan, and are illustrated in the diagram in Attachment B.

The following excerpt from a report by the Deloitte Center for Energy Solutions (*Beyond the math: Preparing for disruption and innovation in the U.S. electric power industry*, <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/energy->

[resources/us-enr-beyond-the-math.pdf](#)) provides some context for some of the advances highlighted in the illustration:

The electric power industry could soon be facing its most disruptive period of change since the commercialization of electricity in the 19th century. The time is ripe for significant transformation because the potential for dramatic disruption to the existing electricity operating model is coming not from one direction, but from many—demand, technology, regulation, new products, and new competitors.

The single most powerful force, however, is likely the wave of energy-related technologies that are breaking long-established boundaries—most critically, the lines that separate electricity providers from customers. Distributed generation, for instance, is turning the tables on traditional business models by enabling many customers to produce and consume their own electricity, as well as to sell excess production to electric companies. In parallel, increasingly intelligent hardware and software systems are allowing consumers and businesses to smartly manage and thus significantly shift and reduce their electricity consumption. Continuing advancements in energy storage also have the potential to alter the traditional electricity customer/supplier relationship. In the not-too-distant future, homes and businesses may rely on energy storage units, fed by local renewable sources and distributed generation, as their primary sources of power.

These fast-paced technological changes, when added to the gathering forces of moderating demand, extreme weather, and costly regulation, are starting to shake the foundation of the traditional electricity operating model: the provision of safe, reliable, and affordable electricity to customers in exchange for steady, predictable returns. And when affordability and reliability are called into question, so too are the efficacy and viability of the current electric sector value proposition.

Threat or opportunity?

Although Ontario LDCs are just beginning to feel the impact from these disruptive forces, change is taking place at a more rapid pace in other jurisdictions. In many markets, the intensity of these disruptive changes is already having a transformational impact (for example, Hawaii, Nevada, California and New York). This fact has important implications when considering the long-term strategies and future purpose, role and positioning of LDCs like Guelph Hydro.

The SOC believes the speed and magnitude of the changes facing the industry will require LDCs to expand from the traditional “poles and wires” business model to take on new and different roles.

The emerging impacts of technological advances and changes in consumer behavior coupled with the current policy environment and ongoing consolidation of the LDC sector in Ontario, have led the SOC to recommend further examination of the sell and merge options in order to ensure that Guelph and Rockwood are positioned for success in the future electricity marketplace.

Description of the Options for Guelph Hydro

The options for the future of Guelph Hydro that the SOC has investigated are:

1. **Buy.** Guelph Hydro would acquire all or part of one or more other LDCs and would continue to be wholly-owned and controlled by the City. Current Guelph Hydro ratepayers would continue to be Guelph Hydro ratepayers (although Guelph Hydro’s name could change to reflect its broader geographic service area).
2. **Sell.** The City would sell all or part of Guelph Hydro to another party or parties, such as another LDC, a strategic investor (an investor with existing active electricity distribution operations), or a financial investor (an investor such as a pension fund that invests in infrastructure assets but does not operate them). In the case of a sale of part of Guelph Hydro, current Guelph Hydro ratepayers would continue to be Guelph Hydro ratepayers. In the case of a sale of all of Guelph Hydro, current Guelph Hydro ratepayers could become ratepayers of the acquirer.
3. **Merge.** Guelph Hydro would merge with one or more LDCs, and their respective shareholders (including the City) would take proportional ownership interests in the new merged utility. Current Guelph Hydro ratepayers would become ratepayers of the new merged utility.
4. **Maintain full ownership.** Guelph Hydro would continue operating as it does today, wholly-owned by the City. It would consider entering into collaborative business arrangements with other LDCs, building on work done to date by GridSmartCity (<http://gridsmartcity.com/>).

These options could occur in combination, concurrently or over time. For example, two LDCs could merge and buy a third LDC concurrently, or two LDCs could merge and their owners could sell to a third party sometime in the future.

Common to all options is that the OEB would continue to regulate Guelph Hydro's distribution rates (or any successor's under the buy, sell or merge options). OEB approval of any buy, sell or merge transaction based on its "no harm" test would also be required before the transaction is completed.

Assessment Criteria

Decision-making criteria

In the work it is doing, the SOC is seeking to achieve value for customers (Guelph Hydro ratepayers), the community, and the City (both as shareholder with an economic interest and as a policy maker with a broad public policy interest), in addition to meeting OEB requirements, within the context of the overriding goal of continuing to supply critical energy to Guelph Hydro customers.

The SOC's decision-making criteria are based on the OEB's "no harm" test discussed below and the guiding principles adopted by the SOC (Attachment E). The criteria are presented in the discussion paper (Attachment D), which is summarized in the presentation to community stakeholders (Attachment C).

The SOC has gathered community feedback about the decision-making criteria in the hopes of understanding what is most important to the community before considering potential changes to Guelph Hydro's business model. Engagement findings are presented in Attachment F and are discussed in brief below.

The decision-making criteria are:

1. Value for customers
 - a. Protect consumers with respect to electricity distribution rates
 - b. Meet or exceed current quality, safety and reliability of service
 - c. Meet or exceed current customer service standards
 - d. Maintain or enhance service and systems through innovation and technology

2. Value for the community
 - a. Continue or enhance conservation and demand management programs
 - b. Support development of provincial smart grid
 - c. Encourage use and generation of electricity from renewable sources
 - d. Advocate for local interests among regulators, industry and other levels of government
 - e. Provide local jobs

3. Value for the City of Guelph
 - a. Realizing the best financial return and overall value
 - b. Supply electricity efficiently and cost-effectively
 - c. Contribute capital funds for reinvestment
 - d. Support long-term community planning and economic development

Guelph Hydro and the City will continue treating Guelph Hydro employees with fairness and respect, and engage in open, honest communication with all industry and community stakeholders.

Preliminary assessments of the options against some of these criteria are included in the discussion paper (Attachment D). Following the financial advisory and stakeholder consultation work that has ensued, the preliminary assessments made in the discussion paper have been substantially affirmed by the SOC.

The SOC believes that all the options, properly executed, could satisfy the decision-making criteria and meet the conditions for OEB approval.

Ontario Energy Board approval mandatory for any transaction

Under the buy, sell and merge options, approval from the OEB is required to complete a transaction. That approval would be sought through a Merger, Acquisition, Amalgamation and Divestiture (MAAD) application. A MAAD application is started upon execution of legally binding agreements between the parties. Generally six to nine months are required before the OEB decision is received. If the OEB approves the transaction, the transaction would then be completed.

In assessing a MAAD application, the OEB applies its “no harm” test as described in its *Handbook to Electricity Distributor and Transmitter Consolidations*. The “no harm” test assesses whether a proposed transaction will have an adverse effect on the attainment of the OEB’s statutory objectives under the *Ontario Energy Board Act*, specifically:

1. To protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service.
2. To promote economic efficiency and cost effectiveness in the generation, transmission, distribution, sale and demand management of electricity and to facilitate the maintenance of a financially viable electricity industry.
3. To promote electricity conservation and demand management in a manner consistent with the policies of the Government of Ontario, including having regard to the consumer’s economic circumstances.

4. To facilitate the implementation of a smart grid in Ontario.
5. To promote the use and generation of electricity from renewable energy sources in a manner consistent with the policies of the Government of Ontario, including the timely expansion or reinforcement of transmission systems and distribution systems to accommodate the connection of renewable energy generation facilities.

The OEB would continue to regulate distribution rates regardless of the outcome of a MAAD application.

For more information, see: <http://www.ontarioenergyboard.ca/OEB/Industry>.

Financial criteria

Financial considerations are included in the decision-making criteria. Ultimately, the selected option should provide value to Guelph Hydro ratepayers in the form of equal or lower distribution rates than the alternatives, and value to the City (and therefore indirectly to its taxpayers) in the form of equal or higher financial returns from electricity distribution.

In the event the buy, sell or merge options are pursued, some of the financial considerations could be satisfied because a new, larger LDC could rationalize business and distribution infrastructure, realize economies of scale, and borrow at lower cost. Maintaining full ownership and exploring collaborative business arrangements with other LDCs could also achieve some of these benefits but in a more limited way. Depending on the option pursued, there will be associated transaction and implementation costs. Any such costs will need to be more than offset by other financial benefits for the option to make sense from a financial perspective.

Availability of financial resources is also a consideration. The buy option requires available money, while the sell option creates it. Proceeds from a sale of Guelph Hydro could be dedicated to the City's strategic priorities or invested in a fund for use over time, or both. Either the City or Guelph Hydro would need to borrow money to fund an acquisition, as surplus cash is not immediately available. As the SOC understands that neither the City nor Guelph Hydro has appetite for significant borrowing, it recommends against the buy option. Moreover, as LDCs have been attracting premium pricing, it is not opportune to buy at this time.

While not strictly a financial criterion, the City's degree of control over Guelph Hydro will vary across the options. Under the buy and maintain full ownership options, control would be retained. Under the sell (in whole) option, control would

be given up. Under the merge and sell (in part) options, control would be diluted, as there would be more than one shareholder.

Criteria as negotiating objectives

Whether and how well a specific option meets a criterion will depend in significant measure on what outcomes the SOC achieves through commercial negotiations. If the SOC is unable to arrive at outcomes that can satisfy the decision-making criteria, it will not recommend a transaction.

As such, the decision-making criteria can also be cast as negotiating objectives. These negotiating objectives would be put forward in discussions with potential transaction partners.

Financial Modelling

The SOC has retained Henley International (Henley) to provide initial financial advisory services. Henley has been actively involved in the electricity distribution business since the beginning of the restructuring of the Ontario electricity market, and has worked with over 40 LDCs. Henley built and applied a financial model to benchmark the comparative financial impacts of potential transactions. Because specific transaction partners and specific transactions are not yet on the table, Henley populated the financial model with indicative parameters. As the SOC engages potential transaction partners about specific potential transactions in the next phase of its work, it will populate the model with “real” parameters to provide more definitive financial information in support of SOC assessments and Council decision-making.

Public and Stakeholder Engagement

The goal of public and stakeholder engagement has been to ensure stakeholders and the community at large are well informed of the work the SOC is conducting in exploring available options and to understand the values of the community.

For Phase 1 the engagement approach was designed to allow people to participate in whichever way is most convenient and comfortable for them. The City began engagement very early in the project, well before any transactions are considered, to understand community values ahead of any further exploration. The SOC’s commitment to engaging early and often goes beyond the engagement efforts seen in other municipalities.

The questions asked of the community were consistent regardless of the approach and were accompanied by thorough educational components to ensure participants could provide informed feedback. The SOC asked the community about what

decision-making criteria were most important to them, whether the SOC's decision-making framework was right, and whether there was anything the SOC should keep in mind as it explored options.

In-person engagement included:

- Three public open houses, one in Rockwood in the evening, and two in Guelph, one in the evening and one in the afternoon
- Presentations and focus group conversations with three community organizations and the Downtown Guelph BIA and the Guelph Chamber of Commerce
- Presentations and group discussions with large customers of Guelph Hydro and the Guelph Wellington Seniors' Association
- Town hall presentations and Q&A sessions with Hydro employees

Other engagement included:

- The Energizing Tomorrow website (<http://energizingtomorrow.ca/>) which included a Q&A platform
- An online poll on the Energizing Tomorrow website
- A random selection telephone survey (conducted in Guelph and Rockwood) designed to generate a quick-read and the initial opinions of people who may have not chosen to voluntarily participate in other engagement activities

All engagement was promoted widely using a comprehensive communications strategy to encourage a range of awareness and participation with our diverse community.

The findings of engagement are presented in Attachment F. Five key themes were identified:

1. **Rates.** Rates were a top concern of participants in engagement, which includes frustration at current electricity rates in Ontario and concerns about the impact a potential transaction could have on rates.
 2. **Efficient and reliable service.** People want to ensure Guelph Hydro's positive track record of efficient and reliable service is preserved.
 3. **Potential transaction.** Though Phase 1 engagement questions focused on decision-making criteria and did not include questions about options, some respondents nonetheless used the platform to voice early opinions about the potential for a transaction. At this stage in the process, a large segment of those who commented want to maintain local control and public ownership, and there is low-level support for a sale, especially with a privately-owned
-

utility. There is no support for Guelph Hydro to buy other utilities. If a merger is considered, participants prefer other utilities in the region and those who are “like-minded” with Guelph Hydro.

4. **Environmental sustainability.** The use and generation of electricity from renewable sources, as well as energy conservation programs, were important to a notable segment of participants.
5. **Public information sharing.** People want more information about the options being considered, such as financial analysis. Participants want the City to continue seeking public input throughout the asset review process.

Appropriate and meaningful community education and engagement is planned for all phases of the project.

Options Assessment

The SOC’s current assessment of the options using its decision-making criteria appears in Table 1: Assessment of Options against Decision-making Criteria.

Note that the summary assessments made in the “MAINTAIN” (maintain full ownership) column refer to anticipated outcomes in the long term if no action is taken, and not to the situation in the short term. The noted threats (where the assessment is shown as “Challenged”) would arise due to external impacts and changes to the industry environment in which Guelph Hydro operates, and not in any way due to a lack of dedication and service on the part of Guelph Hydro employees.

Table 1: Assessment of Options against Decision-making Criteria

	BUY	SELL	MERGE	MAINTAIN
Value to customers				
Electricity prices	Could decrease somewhat	Should decrease somewhat	Should decrease somewhat	Status quo prices
Quality, reliability	Preserved	Preserved	Preserved	Preserved
Customer service	Preserved	Preserved	Preserved	Challenged
Innovation, tech	Enhanced	Enhanced	Enhanced	Challenged
Value to the community				
Conservation	Preserved	Preserved	Preserved	Preserved
Smart grid	Preserved	Preserved	Preserved	Preserved
Renewables	Preserved	Preserved	Preserved	Preserved
Advocacy	Enhanced	Challenged	Enhanced	Challenged
Local jobs	Depends on specifics	Depends on specifics	Depends on specifics	Preserved
Value to the City				
Best value	Pay to buy now, increase dividends over time	Get paid to sell now, lose dividends over time	Should increase dividends over time	Status quo dividends
Cost-effectiveness	Enhanced	Enhanced	Enhanced	Challenged
Contribute capital	Challenged	Enhanced	Challenged	Challenged
Econ development	Preserved	Depends on specifics	Depends on specifics	Preserved

Guelph Hydro Board's Support for the Work of the SOC

A letter of support for the work of the SOC to date from Jane Armstrong, chair of Guelph Hydro's board, is attached as Attachment G.

Recommendations

The SOC has considered all the information available to it which is summarized in this report.

While maintaining full ownership remains an option in the short term, it does not address the long-term challenges and opportunities facing Guelph Hydro in Ontario's evolving electricity distribution market. The SOC is of the opinion that options which enhance Guelph Hydro's ability to meet those challenges and thrive on those opportunities must be explored more fully to determine if there is a potential transaction that could satisfy all the decision-making criteria.

The buy option is not recommended due to lack of appetite, and possibly ability, by the City and Guelph Hydro to borrow sufficient capital for a significant LDC purchase. Moreover, the purchase prices for LDCs are currently elevated and thus, it is not opportune to buy at this time.

The sell and merge options, properly negotiated and executed, provide an opportunity for Guelph Hydro to enhance its financial, performance and other outcomes for ratepayers, the City, and other stakeholders, while providing the tools necessary to meet the long-term challenges and embrace the opportunities facing the industry.

As a result, it is the recommendation of the SOC that Council authorize it to further examine the sell and merge options within the parameters of the decision-making criteria adopted by the SOC.

Next Steps

If Council approves the recommendations presented in this report, the SOC will proceed with the program of work for Phase 2 described below.

Public and stakeholder engagement

The SOC would continue asking community stakeholders what matters most, and would report results to Council.

Environmental scan

The SOC's work in this Phase would begin with an environmental scan conducted with the assistance of an independent advisor, which would assist in identifying potential transaction partners. The environmental scan would assess the interest of nearby LDCs, other LDCs, and industry consolidators known to be active in Ontario to enter into a sale or merger transaction with Guelph Hydro. Coupled with the environmental scan would be a news release in appropriate media channels to help ensure all potentially interested transaction partners are identified.

Market engagement

The SOC anticipates that the results of the environmental scan would support the start of more detailed discussions with one or more potential transaction partners.

The SOC would engage with potential partners that have been identified by the results of the environmental scan as likely to meet the decision-making criteria. The process would be initiated by the SOC chairs and any necessary advisors entering into discussions with the potential partners to explore more deeply whether the

criteria could be met. These discussions would occur within the context of a confidentiality agreement between the parties and would involve preliminary reciprocal due diligence and discussions to assess the likelihood of the parties agreeing on mutually acceptable terms.

Reporting back to Council

The SOC anticipates reporting to the Guelph Hydro board and then to Council by mid-2017 with recommendations regarding further next steps, based on the foregoing market engagement.

Such further next steps could include negotiation of an MOU with appropriate partners. Such an MOU would be expected to address general transaction structure, negotiation of valuation, due diligence procedures, transaction timetable, exclusivity, termination (including expiry), and confidentiality. Such an MOU, with supporting rationale, would be presented to Council as shareholder for further approval prior to execution.

If such an MOU is approved by Council, the City and Guelph Hydro would participate in comprehensive due diligence and negotiation of final legal documentation. The final agreement and a supporting business case would be presented to Council for further approval prior to execution. During the due diligence and negotiation process, the parties would undertake the preparatory work for a MAAD application to the OEB.

Partners for a specific transaction should be identified by the end of June 2017 if the City's intention is to complete a transaction within the current term of Council.

ATTACHMENTS:

- A – Summary Terms of Selected Transactions
- B – Disruptions to Existing Utility Business Model
- C – Presentation to Community Stakeholders
- D – Discussion Paper
- E – Guiding Principles
- F – Engagement Report
- G – Letter from Jane Armstrong, Chair of the Guelph Hydro Board

Strategies and Options Committee
Guelph Municipal Holdings Inc.

Per:  _____
Derrick Thomson, Co-Chair


Per: _____
Pankaj Sardana, Co-Chair

ATTACHMENT A – SUMMARY TERMS OF SELECTED TRANSACTIONS

Alectra (merger and acquisition) (approved by OEB)

Enersource, Horizon and PowerStream are amalgamating, and the amalgamated entity is acquiring Hydro One Brampton for \$607 million with a five-year anti-flip provision. The shareholders of Enersource, Horizon and PowerStream are receiving proportionate interests in the amalgamated entity and broadly proportionate board representation, with governance subject to a unanimous shareholders' agreement.

Existing OEB rate orders are being transferred to the amalgamated entity with rate rebasing being deferred 10 years. The business plan shows that existing facilities will be retained but that is not guaranteed. Considerable savings in personnel costs are anticipated.

For more information,

see: http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/search/rec?sm_udf10=EB-2016-0025&sortd1=rs_dateregistered&rows=200

Orillia Power (sale to Hydro One) (currently before OEB)

Hydro One will pay \$26 million in cash for Orillia Power's shares and will assume \$15 million in Orillia Power debt.

In the first five years, distribution rates will be reduced by 1%. In the following five years, distribution rates will align with the rate of inflation.

Active Orillia Power employees will be offered continued employment in the City of Orillia for one year.

In a separate but related deal, Hydro One paid \$3 million for 16 acres of city land, where it plans to establish an advanced technology hub. Hydro One's investment could reach \$300 million, including \$150 million for construction of three buildings.

For further information,

see: http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/search/rec?sm_udf10=EB-2016-0276&sortd1=rs_dateregistered&rows=200

Peterborough (sale to Hydro One) (not yet before OEB)

Peterborough will receive net cash proceeds of \$50 million to \$55 million, after paying debt, taxes and other sale-related costs.

In the first five years, distribution rates will be reduced by 1%. In the following five years, distribution rates will align with the rate of inflation.

All existing employees will be offered employment with a one-year service and location guarantee as well as recognition of past service for seniority purposes. Existing staff will also benefit from local and province-wide positions available with Hydro One.

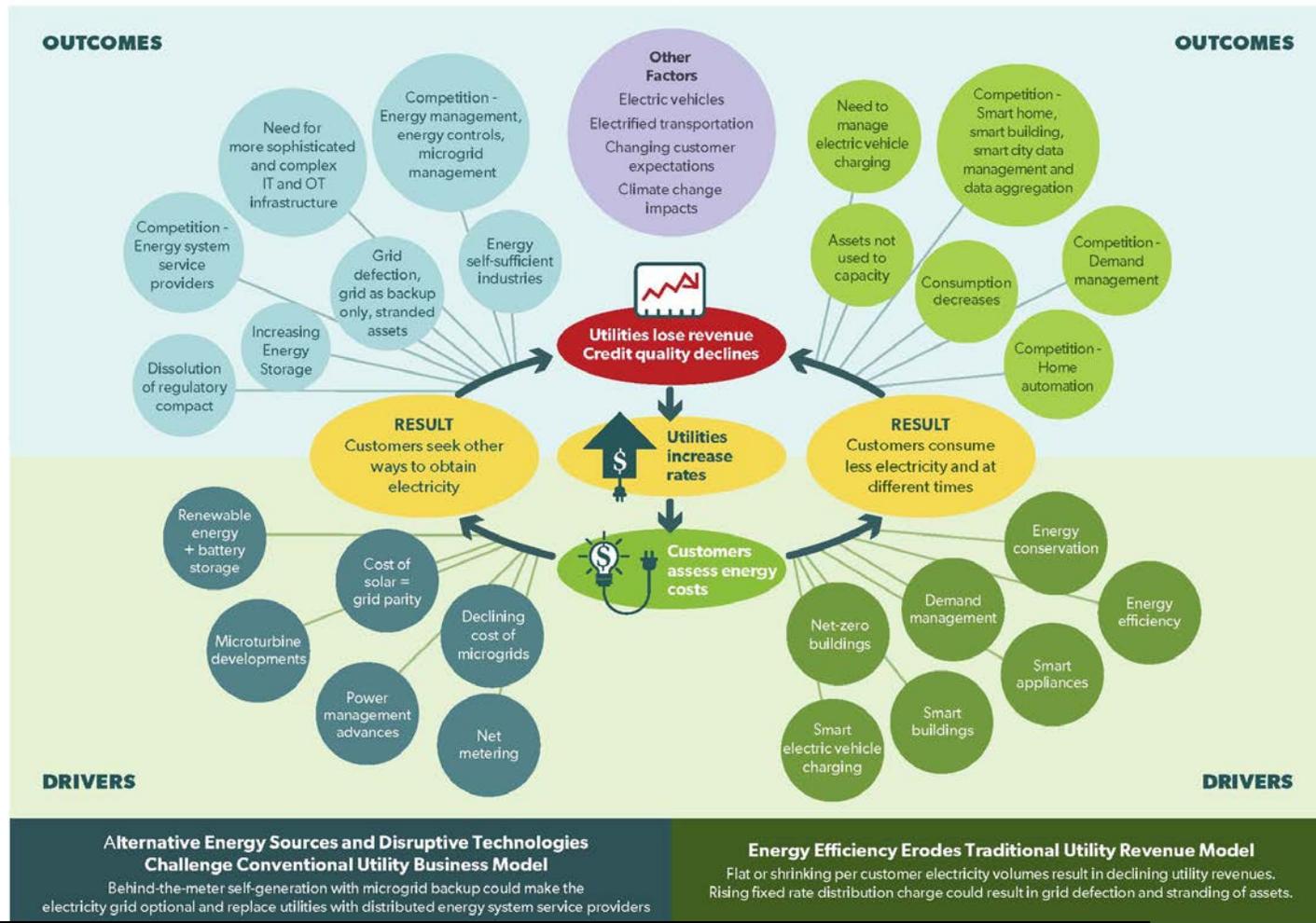
Hydro One will locate a new Regional Operations Centre and a new Fleet Maintenance Garage in Peterborough. These new facilities are expected to create 30 new jobs. They are expected to bring economic activity of between \$100 million and \$150 million over the next five years.

For further information,

see: <http://www.peterboroughutilities.ca/Assets/PUSI+Assets/Documents/Corporate/CoPHI+PDI+Sale+Recommendation+Letter.pdf>

ATTACHMENT B – DISRUPTIONS TO EXISTING UTILITY BUSINESS MODEL

Disruptions to the Existing Utility Business Model



ATTACHMENT C – PRESENTATION TO COMMUNITY STAKEHOLDERS



**ENERGIZING
TOMORROW**

IT'S TIME TO REVIEW OUR OPTIONS

Ontario's electricity distribution sector is changing. We want to make sure we're getting the best value and service for Guelph Hydro customers, the City of Guelph and our community.

WHAT ARE WE DOING?

We are researching the risks and benefits associated with:

- Maintaining full ownership
- Buying another electricity utility
- Selling all or part to a public or private organization
- Merging with another utility

WHY?

Because

- it's our responsibility to make sure we keep getting great service and value for Guelph Hydro customers and our community

WHY NOW?

Because

- the energy landscape is changing as utilities across Ontario make changes
- We must rise to meet increasing customer expectations
- Preparing for more frequent and severe storms requires continuous and increasing investment
- We can take advantage of new developments and technologies

WHY NOW?

Premier Wynne quoted in Toronto Star—Nov. 19, 2016:

“People have told me that they’ve had to choose between paying their electricity bill and buying food or paying the rent. That is unacceptable to me.”

While the Premier was short on specifics about what will be done to bring (electricity) rates down, she suggested there could be streamlining of the more than 70 local electricity utilities operating in Ontario to find efficiencies.

WHY NOW?

Key reports supporting consolidation have been issued:

Renewing Ontario's Electricity Distribution Sector: Putting the Consumer First by the Ontario Distribution Sector Review Panel (2012)

Striking the Right Balance: Improving Performance and Unlocking Value in the Electricity Sector in Ontario by the Premier's Advisory Council on Government Assets (2015)

WHAT IS THE PROCESS?

The City of Guelph established a Strategies and Options Committee to make recommendations to Guelph City Council regarding which course of action will provide the best long-term value for Guelph Hydro customers, our community and the City of Guelph.

- Phase One – initiate community engagement; research and develop criteria; explore options; provide high-level recommendations to Council
- Phase Two – initial Council decision whether to investigate market to identify feasible options or maintain full ownership; continue community engagement

WHAT IS THE PROCESS?

- Phase Three – Council decision whether to pursue preliminary negotiations or maintain full ownership; continue community engagement
- Phase Four – Council decides whether to approve a business transaction and request Ontario Energy Board approval, or maintain full ownership

WHAT ARE THE OPTIONS?

Guelph City Council will decide whether to maintain ownership, buy another electricity utility, sell to a public or private organization, or merge with another utility.

Preliminary research is based on previous electricity utility transactions and consolidations across Ontario.

In all cases, the Ontario Energy Board will continue to set rates for Guelph and Rockwood.

MAINTAINING FULL OWNERSHIP

Guelph Hydro could continue operating as it does today, wholly-owned by the City of Guelph, and make continuous improvements such as small acquisitions and collaborative business arrangements (e.g. shared services and/or a cooperative model to realize economies of scale.)

Positive	Negative
<ul style="list-style-type: none">• No major acquisition investment required• No implementation costs• Preserve existing community presence• Retain local jobs• Guelph Hydro continues to maintain control of its local electricity distribution assets• Guelph Hydro maintains current influence over local distribution rates and infrastructure upgrades• Current dividend payments continue in the short term	<ul style="list-style-type: none">• Electricity distribution rates may go up• Guelph Hydro customers may not get the same services people get from larger utility companies• Guelph Hydro may be less able to invest in system maintenance, upgrades, major back office systems and new technologies• Guelph Hydro may be less able to continue to find new efficiencies• Dividends to the City could decrease• Guelph Hydro equity value might not increase

BUY

Guelph Hydro would acquire all or part of one or more other electricity distribution utilities and would continue to be wholly-owned by the City of Guelph.

Positive	Negative
<ul style="list-style-type: none">• Larger scale of operations could create efficiencies and have positive impact on electricity distribution rates• Larger utility could invest more in system maintenance and upgrades• Likely to increase dividends to City• Likely to increase equity value of Guelph Hydro• Guelph may maintain influence over local electricity distribution assets• Larger utility would have a stronger position if negotiating future consolidation	<ul style="list-style-type: none">• It would be difficult for the City of Guelph and Guelph Hydro to raise the substantial cash investment required to buy a utility that could achieve the potential benefits• Market values for electric utility companies are currently high, increasing cost of acquisition• Potential job redundancies

SELL TO PUBLIC OR PRIVATE ORGANIZATION

The City of Guelph could sell some or all of Guelph Hydro shares to another party or parties.

Positive	Negative
<ul style="list-style-type: none">• City of Guelph would receive substantial cash that could fund ongoing community investments• Depending on the details of the transaction, other potential benefits include:<ul style="list-style-type: none">• Lower electricity distribution rates• Improved services• Access to better financing rates, and more capacity to invest in system maintenance and upgrades• Administration and operational efficiencies	<ul style="list-style-type: none">• City of Guelph would no longer receive annual dividend• Potential loss of local operations and/or responsiveness• Some transfer tax may apply to cash received (private)• Guelph Hydro would no longer influence local distribution rates or infrastructure upgrades• Guelph Hydro would not participate in future consolidation negotiation(s)• Potential job redundancies

MERGE

Guelph Hydro would merge with one or more utilities, and their respective shareholders (including the City of Guelph) would take proportional ownership interests in the new merged utility.

Positive	Negative
<ul style="list-style-type: none">• Cash investment not likely required• Potential positive impact on electricity distribution rates• Increased scale of operations could create efficiencies• Access to better financing rates, and more capacity to invest in system maintenance and upgrades• Retain some community presence, local operations and responsiveness• Could participate in future consolidation• Likely increase to dividend payments• Likely increase in equity value	<ul style="list-style-type: none">• Potential discord between merged partners• Potential challenges with employee retention, productivity and engagement during transition and implementation• Guelph Hydro would have less influence on local distribution rates and infrastructure upgrades• Potential job redundancies

IMPORTANT CONSIDERATIONS

About electricity rates

- About **20%** of the charges on an average residential bill are related to Guelph Hydro's costs of distributing electricity to the community.
- 80% of the bill goes to generators, transmitters, government agencies and sales taxes
- The Ontario Energy Board (OEB) will continue to monitor and set electricity rates in the public interest regardless of which ownership arrangement exists in Guelph.

IMPORTANT CONSIDERATIONS

Any proposal to buy, sell or merge electricity utility assets must be approved by the OEB. That means the proposal must show it will not have an adverse effect on ratepayers based on the following objectives:

- To protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service
- To promote economic efficiency and cost effectiveness
- To promote electricity conservation and demand management
- To facilitate the implementation of a smart grid in Ontario
- To promote the use and generation of electricity from renewable energy sources

DECISION-MAKING CRITERIA

In addition to meeting the Board's statutory requirements, we developed Guelph-specific criteria to evaluate potential transactions.

We will continue treating Guelph Hydro employees with fairness and respect, and engage in open, honest communication with community and industry stakeholders.

Ultimately, the selected option should provide value to Guelph Hydro customers, the shareholder (the City of Guelph) and the community as a whole.

DECISION-MAKING CRITERIA

Value for customers

Protect consumers with respect to electricity distribution rates

Meet or exceed current quality, safety and reliability of service

Meet or exceed current customer service standards

Maintain or enhance service and systems through innovation and technology

Value for community

Continue or enhance conservation and demand management programs

Support development of provincial smart grid

Encourage use and generation of electricity from renewable sources

Advocate for local interests among regulators, industry and other levels of government

Provide local jobs

Value for the City

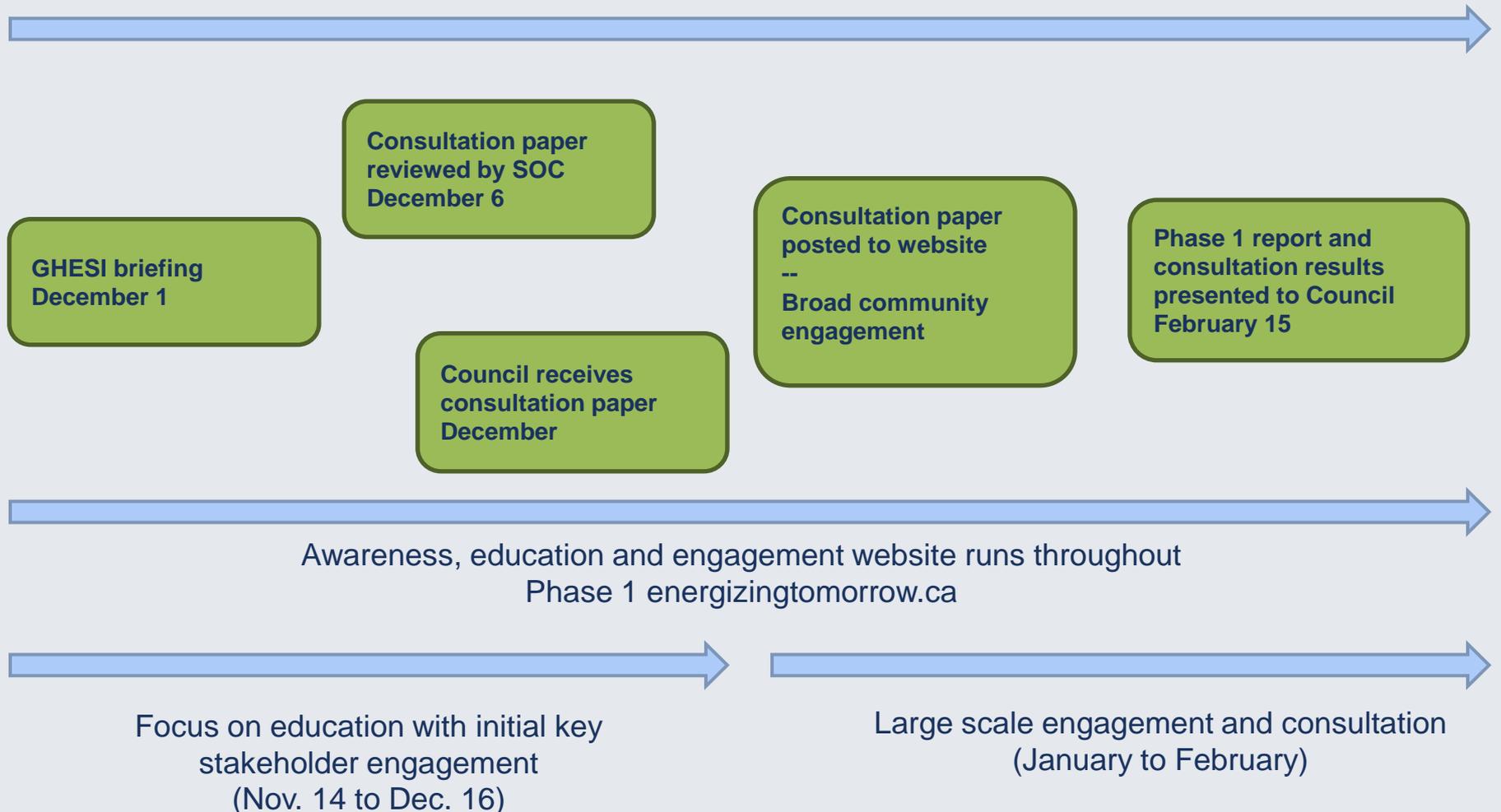
Realize the best financial return and overall value

Supply electricity efficiently and cost-effectively

Contribute capital funds for reinvestment

Support long-term community planning and economic development

SOC SHORT-TERM ROADMAP NOVEMBER TO FEBRUARY 15



COMMUNITY PARTICIPATION

A community engagement strategy has been developed, and activities include:

- Website engagement: Q & A and digital engagement opportunities
- Public information and feedback sessions in Guelph and Rockwood
- Public meetings of Guelph City Council
- Key stakeholder and customer focus group sessions including:
 - Internal City of Guelph and Guelph Hydro stakeholders
 - Business community
 - GHESI employee meetings
 - Rockwood customers
 - Large Guelph Hydro customers

STAKEHOLDERS

- Council (Guelph & Rockwood)
- GHESI
 - Senior Team
 - Board
 - Employees
 - Retirees
- City of Guelph Employees
- Community Organizations
- Downtown BIA
- Guelph Chamber of Commerce
- Guelph Hydro Customers:
 - Large
 - Commercial
 - Residential (Guelph and Rockwood)
- Guelph Wellington Seniors Association (GWSA)
- Key Community Mobilizers
- Older Adults
- Strategies and Options Committee (includes community members)
- Unions
 - IBEW
 - Professional Engineers
 - Other Unions

QUESTIONS

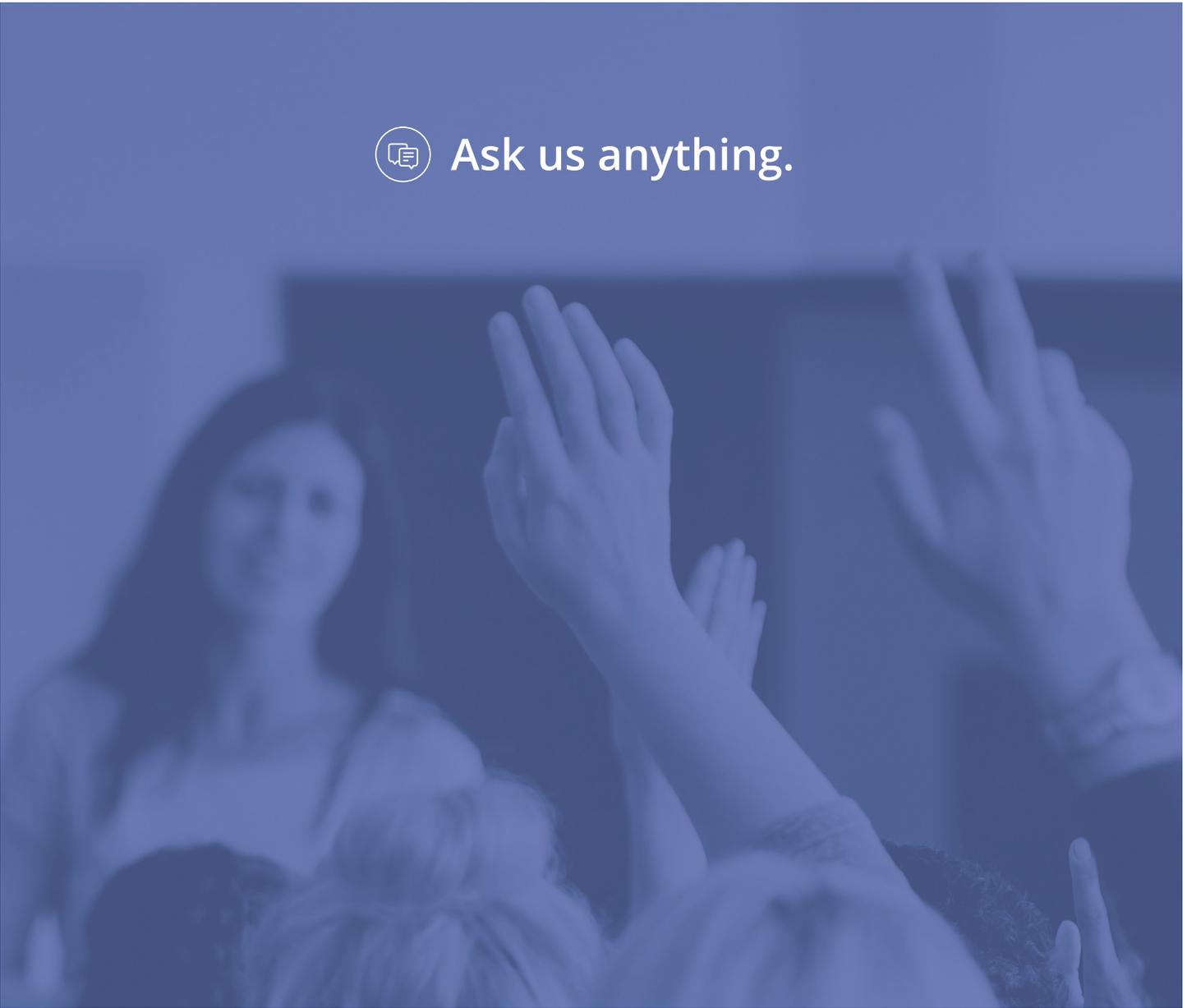
ATTACHMENT D – DISCUSSION PAPER



ENERGIZING
TOMORROW



Ask us anything.



Ontario's energy landscape is changing.

It's time to review options
for Guelph Hydro.



Many Ontario cities have consolidated their electricity distribution companies.

The provincial government continues to encourage electricity utilities to reduce duplication, manage costs and modernize service.

With utilities consolidating across Ontario, now is the time to think about future opportunities for Guelph Hydro.

Small and mid-sized utilities like Guelph Hydro are under pressure to keep rates affordable while looking for ways to:

- meet changing customer expectations
- cover costs of delivering safe, reliable electricity service
- invest in local infrastructure expansions, maintenance and upgrades
- fund major office system upgrades
- take advantage of modern technologies
- improve the resiliency of the electrical grid to minimize damage from more frequent and severe storms

To make sure we keep getting the best value and service for Guelph Hydro customers, the City of Guelph and our community, we are researching the risks and benefits associated with:

- Maintaining full ownership
- Buying another electricity utility
- Merging with another utility
- Selling some or all of Guelph Hydro to a public or private organization

A regular asset management review is a common business practice designed to ensure assets are achieving maximum value. The City of Guelph manages all of its assets to ensure reliable service and to enhance decision making and sustainable planning.

Like any asset management review, we must consider the current value (based on market conditions) and the impact any transaction could have on dividends paid to the City of Guelph.

What is the process?

The pace of the process is designed to be flexible to respond to market conditions.

Phase One - underway

- Research the risks and benefits associated with buying, selling, merging, sharing services and maintaining full ownership.
- Begin community consultation to ensure the principles and criteria we use to make a decision are aligned with our community values and priorities.
- On February 15, 2017, present research findings, initial community feedback and recommendations to Guelph City Council for consideration.

Phase Two

- If City Council decides to maintain full ownership, the exploration process would end at this point.
- If Guelph City Council decides not to maintain full ownership, the committee would conduct more specific research, engage industry and community stakeholders, and make a recommendation to City Council.
- If approved by Guelph City Council, the committee would pursue the option(s) with the most potential benefit for Guelph Hydro customers, the community and the City of Guelph.

Phase Three

- In mid-2017, Guelph City Council would consider the committee's recommendation and decide whether to maintain full ownership or pursue specific business transactions with other electricity utility companies and/or investors.
- The City and Guelph Hydro would begin negotiations with potential buyers, sellers and/or partners, continue engaging community and industry stakeholders, and evaluate potential transactions using agreed upon criteria and conditions.

Phase Four

- If negotiations are successful, Guelph City Council could decide whether to approve the business transaction in late 2017 or earlier.
- If Guelph City Council approves the business transaction, the Ontario Energy Board would review the details of the agreement to ensure it protects the interests of electricity customers.

What are the options?

The committee is not considering or negotiating a specific business transaction at this time. The committee has researched utility consolidations and business transactions in Ontario's electricity sector to describe the possible results associated with each option. In all cases, the Ontario Energy Board will continue to set electricity rates for Guelph and Rockwood.



Maintain full ownership

Guelph Hydro could continue operating as it does today, wholly-owned by the City of Guelph, and make continuous improvements such as small acquisitions and collaborative business arrangements (e.g. shared services and/or a cooperative model to realize economies of scale).

Positive	Negative
<ul style="list-style-type: none"> No acquisition investment required No implementation costs Preserve existing community presence Retain local jobs Guelph Hydro continues to maintain control of its local electricity distribution assets Guelph Hydro maintains current influence over local distribution rates and infrastructure upgrades Current dividend payments continue in the short term 	<ul style="list-style-type: none"> Electricity distribution rates may go up to meet increasing regulatory and capital requirements Guelph Hydro customers may not get the same services people get from larger utility companies Guelph Hydro may be less able to invest in system maintenance, upgrades, office systems and new technologies Guelph Hydro may be less able to continue to find new efficiencies Dividends to the City could decrease Guelph Hydro equity value might not increase



Buy other electricity utilities

Guelph Hydro could acquire all or part of one or more other electricity distribution utilities and would continue to be wholly-owned by the City of Guelph.

Positive	Negative
<ul style="list-style-type: none"> Larger scale of operations could create efficiencies and have positive impact on electricity distribution rates Larger utility could invest more in system maintenance and upgrades Likely to increase dividends to City Likely to increase equity value of Guelph Hydro Guelph may maintain influence over local electricity distribution assets Larger utility would have a stronger position if negotiating future consolidation 	<ul style="list-style-type: none"> It would be difficult for the City of Guelph and Guelph Hydro to raise the substantial cash investment required to buy a utility that could achieve the potential benefits Market values for electric utility companies are currently high, increasing cost of acquisition Potential job redundancies



Sell to a public or private organization

The City of Guelph could sell some or all of Guelph Hydro shares to another party or parties:

- another electricity distribution utility or municipality
- a strategic investor with existing active electricity distribution operations
- a financial investor that owns infrastructure assets but does not operate them
- a corporation such as Hydro One (combination of private and public ownership)

Positive	Negative
<p>City of Guelph could receive substantial cash for reinvestment</p> <p>Depending on the details of the transaction, other potential benefits include:</p> <ul style="list-style-type: none"> • Lower electricity distribution rates • Improved services • Access to better financing rates, and more capacity to invest in system maintenance and upgrades • Administration and operational efficiencies 	<p>City of Guelph would no longer receive annual dividend</p> <p>Potential loss of local operations and/or responsiveness</p> <p>Some transfer tax may apply to cash received (private)</p> <p>Guelph Hydro would no longer influence local distribution rates or infrastructure upgrades</p> <p>Guelph Hydro would not participate in future consolidation negotiation(s)</p> <p>Potential job redundancies</p>



Merge with other utilities

Guelph Hydro could merge with one or more utilities and their respective shareholders (including the City of Guelph) would take proportional ownership interests in the new merged utility.

Positive	Negative
<p>Cash investment not likely required</p> <p>Potential positive impact on electricity distribution rates</p> <p>Increased scale of operations could create efficiencies</p> <p>Access to better financing rates and more capacity to invest in system maintenance and upgrades</p> <p>Retain some community presence, local operations and responsiveness</p> <p>Could participate in future consolidation</p> <p>Likely increase to dividend payments</p> <p>Likely increase in equity value</p>	<p>Potential discord between merged partners</p> <p>Potential challenges with employee retention, productivity and engagement during transition and implementation</p> <p>Guelph Hydro would have less influence on local distribution rates and infrastructure upgrades</p> <p>Potential job redundancies</p>

Approving changes to utilities in Ontario

Any plan to buy, sell or merge electricity utility assets must be approved by the Ontario Energy Board. That means the proposal must demonstrate it will not have an adverse effect on ratepayers based on the Board's statutory objectives or what is known as the No Harm Test.



What is most important to you?

In addition to meeting Ontario Energy Board requirements, we've added Guelph-specific criteria.

Ultimately, the selected option should provide value to Guelph Hydro customers, the shareholder (the City of Guelph) and the community as a whole.

Value for customers

Protect consumers with respect to electricity distribution rates

Meet or exceed current quality, safety and reliability of service

Meet or exceed current customer service standards

Maintain or enhance service and systems through innovation and technology



Value for community

Continue or enhance conservation and demand management programs

Support development of provincial smart grid

Encourage use and generation of electricity from renewable sources

Advocate for local interests among regulators, industry and other levels of government

Provide local jobs



Value for the City

Realize the best financial return and overall value

Supply electricity efficiently and cost-effectively

Contribute capital funds for reinvestment

Support long-term community planning and economic development



We will continue treating Guelph Hydro employees with fairness and respect, and engage in open, honest communication with community and industry stakeholders.

Tell us what matters most to you at energizingtomorrow.ca



Background

Utilities consolidating across Ontario

In 1996, Ontario had 307 separate electricity utilities. Today, that number is closer to 70 because many cities have consolidated their electric distribution companies to reduce duplication and manage the increasing cost of delivering power to customers.

Provincial policy initiatives continue to encourage local electricity utility companies to explore new ways to manage costs and modernize electricity services to benefit their customers.

Applications subject to Ontario Energy Board approval

- Enersource, Horizon and PowerStream currently have an application before the Ontario Energy Board for approval to merge, and for the merged entity to acquire Hydro One Brampton. Two of the merger partners—Horizon and PowerStream—are themselves the products of previous mergers.
- Hydro One currently has an application before the Ontario Energy Board to acquire Orillia Power.
- Peterborough Distribution has approved a sale to Hydro One.
- The Town of Midland is considering selling Midland Power.
- Wasaga Distribution is considering retaining, merging or selling the utility.
- The Town of Collingwood is accepting bids for its remaining 50 per cent stake in Collus PowerStream.

Ontario Energy Board No Harm Test

Any plan to buy sell or merge electricity utility assets must be approved by the Ontario Energy Board. That means the proposal must show it will not have an adverse effect on ratepayers based on the Board's statutory objectives:

- To protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service.
- To promote economic efficiency and cost effectiveness in the generation, transmission, distribution, sale and demand management of electricity and to facilitate the maintenance of a financially viable electricity industry.
- To promote electricity conservation and demand management in a manner consistent with the policies of the Government of Ontario, including having regard to the consumer's economic circumstances.
- To facilitate the implementation of a smart grid in Ontario.
- To promote the use and generation of electricity from renewable energy sources in a manner consistent with the policies of the Government of Ontario, including the timely expansion or reinforcement of transmission systems and distribution systems to accommodate the connection of renewable energy generation facilities.

Learn more about the Ontario Energy Board No Harm Test in the *Handbook to Electricity Distributor and Transmitter Consolidations*.

Understanding Electricity Charges

When you pay your Guelph Hydro bill*, 79 per cent goes to electricity generators, transmitters and provincial government agencies. These charges are related to the amount of electricity you use, and Guelph Hydro has limited control over them.

Guelph Hydro keeps 21 per cent of your payment to cover the cost of distributing electricity here in our community. Guelph Hydro manages these distribution charges carefully.



79%
of charges on a monthly bill, or \$105.41, are collected on behalf of other organizations



Hydro One and other transmitters
Costs paid to Hydro One and others to transmit power from generating stations to Guelph and Rockwood



Revenue Canada
13% Harmonized Sales Tax (HST)
-8% rebate for Ontario electricity consumers

6%

5%

64%



Generators
The cost of building, maintaining, and operating power generating stations (nuclear, hydro, gas, wind, solar and bioenergy)

4%



Government and Government Agencies***
Regulatory charges to administer Ontario's electricity system and maintain the reliability of the provincial grid

21%
of charges on a monthly bill, or \$28.02, is used by Guelph Hydro

21%

Guelph Hydro Distribution Charges

- Infrastructure**—Design, construction, operation and maintenance of poles, wires, underground cables, meters, transformers and transformer substations
- Customer services**—Administrative services including billing and maintaining a call centre in Guelph
- Emergency services**—24/7/365 power outage emergency services
- Operating costs**—Property taxes, water and wastewater fees, employee compensation and payments in lieu of taxes
- Financial costs**—Debt service costs and payment of a fair return on equity to the City of Guelph

Any changes to Guelph Hydro distribution rates must be approved by the Ontario Energy Board.

* Charges for water, waste water and storm water fees are not included in these calculations

** Source: Ontario Energy Board—Based on an average residential customer on the Regulated Rate Plan paying Time-of-Use rates for 750 kilowatt hours of electricity—2016

*** Ontario Ministry of Energy, Ontario Energy Board, Independent Electricity System Operator

Who is involved in future plans for Guelph Hydro?



Strategies and Options Committee

energizingtomorrow.ca

Guelph City Council established a Strategies and Options Committee to investigate how to get the best value and service for Guelph Hydro customers, the City of Guelph and our community.

- Derrick Thomson, Chief Administrative Officer, City of Guelph (Co-Chair)
- Pankaj Sardana, Chief Executive Officer, Guelph Hydro Electric Systems Inc. (Co-Chair)
- Bob Bell, Board Member, Guelph Hydro Electric Systems Inc.
- Mark Goldberg, Community Member
- Richard Puccini, Community Member

Guelph Hydro Electric Systems Inc.

guelphhydro.com

Guelph Hydro is the electricity distribution utility that delivers a safe, reliable, affordable supply of electricity to more than 54,000 customers in Guelph and Rockwood. Guelph Hydro is wholly owned by the City of Guelph. Guelph Hydro is regulated by the Ontario Energy Board and, according to its 2015 Ontario Energy Board scorecard, Guelph Hydro exceeded industry performance in terms service quality, customer satisfaction, bill accuracy and system reliability.

The City of Guelph

guelph.ca

The City of Guelph is ultimately Guelph Hydro's sole shareholder, and City Council has the authority to make decisions about the future direction of Guelph Hydro. The Strategies and Options Committee will report to Guelph City Council and seek approval for each phase of its work.

Ontario Energy Board

ontarioenergyboard.ca

The Ontario Energy Board is an independent and impartial public agency. As the regulator, the Ontario Energy Board makes sure electricity and natural gas companies in Ontario follow the laws and rules.

The Ontario Energy Board sets electricity rates and measures how well Ontario's electricity distributors are performing each year. The Ontario Energy Board's goal is to promote a sustainable and efficient energy sector that provides consumers with reliable energy services at a reasonable cost.



energizingtomorrow.ca

energizingtomorrow@guelph.ca

519-822-1260 x 3481

TTY 519-826-9771

Alternate formats are available upon request in accordance with the *Accessibility for Ontarians with Disabilities Act, 2005*.

ATTACHMENT E – GUIDING PRINCIPLES

Any transaction that is being explored by the Strategies and Options Committee must support the following commitments to safety, transparency, customers, the community, Guelph Hydro employees, and the City as shareholder of Guelph Hydro.

COMMITMENT TO SAFETY

The transaction must:

- Ensure that the **safety, security and wellness** of Guelph Hydro employees, contractors, and customers as well as the general public will remain as the top priority

COMMITMENT TO TRANSPARENCY

The transaction must:

- Ensure that all **communications** efforts to and from all stakeholders will be open and transparent and adhere to the following principles:
 - Clear, authentic, responsive, accurate, timely, complete, inclusive, easily accessible and in adherence with all applicable privacy laws and regulations

COMMITMENT TO CUSTOMERS AND THE COMMUNITY

The transaction must:

- Ensure that the Ontario Energy Board's "**no harm test**" is met
 - Ensure **competitive distribution rates** now and in the future
 - Ensure **service reliability and outage response times** will be maintained at or exceed current levels
 - Ensure **customer service** levels will continue to meet or exceed existing customer service standards
 - Provide opportunities to further enhance **customer services**
 - Provide opportunities to further improve the quality and efficiency of **administrative and support functions**
-

- Provide enhanced access to **capital investment**
- Ensure adequate investment will be maintained so that **local electricity distribution infrastructure** will be sustainable; will be maintained and upgraded on an ongoing basis to meet best practice design standards, optimum life cycle replacement standards and capacity expansion requirements for growth; and will have the capacity to keep pace with advances in technology
- Provide new opportunities to adopt **best practices** in all functional areas
- Provide expanded opportunities for **innovation** and for continuing to adopt **new technologies** to support customer centric services that meet future expectations (ex. smart grid, smart home, electric vehicles, distributed generation, mobile access)
- Create new opportunities for **savings** through efficiencies and economies of scale/geography
- Ensure responsiveness to the **local community's planning, economic development, social and environmental needs** will be maintained (Guelph and Rockwood)
- Preserve a **local community presence** and ensure the knowledge about and understanding of the community will be maintained (Guelph and Rockwood)
- Ensure that leadership in **energy conservation** will be maintained

COMMITMENT TO GUELPH HYDRO EMPLOYEES

The transaction must:

- Continue Guelph Hydro's caring and respectful employee culture by ensuring that the skills and experience of all **employees** are valued and that employees are treated fairly and in a responsible fashion
- Ensure compliance with provisions of current **union collective agreements** and applicable Ontario labour laws and legislation

COMMITMENT TO THE CITY OF GUELPH AS SHAREHOLDER

The transaction must:

- Maximize **shareholder value** now and in the future
- Create a **stronger voice** with the public, the regulator, governments and the industry
- Ensure protection of the **environment** and support for **community goals** will be maintained
- Ensure ongoing **compliance** with all legislative and regulatory laws, rules and regulations, including compliance with all existing contractual agreements

ATTACHMENT F – ENGAGEMENT REPORT



Preliminary Report: Phase 1 Community Engagement

City of Guelph
Strategies and Options Committee
Public Energy Asset Review

January 30, 2017



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Executive Summary

- The City of Guelph is reviewing its public energy assets to ensure Guelph Hydro is achieving maximum value for the City of Guelph, hydro customers and all community members.
- The City of Guelph launched a community engagement initiative to seek public input on the four options being considered (maintain full ownership, merge, sell and buy), as well as for the criteria used to evaluate any potential transaction. The purpose of the community engagement initiative is also to share information and answer questions from the public.
- Phase 1 community engagement activities:
 - **Public website - [Energizing Tomorrow](#)**
 - Information about asset review, options being considered and decision-making criteria.
 - Questions/comments feature.
 - Dedicated email address and telephone line.
 - **Community engagement poll**
 - Three-question poll on public website to seek input on the decision-making criteria.
 - Open house participants provided with comment cards that included the three polling questions.
 - **Pollara telephone consultation survey**
 - Telephone survey to seek input on the decision-making criteria from 260 randomly-selected residents of the City of Guelph and Rockwood.
 - **Public open houses**
 - City of Guelph (two sessions).
 - Rockwood (one session).
 - **Stakeholder consultations**
 - Community organizations.
 - Local business associations.
 - Large Guelph Hydro industrial customers.
 - Guelph Hydro employees.
 - Guelph Wellington Seniors Association.

- Phase 1 engagement findings:
 1. **Top decision-making criteria** – across all sets of polling data, which includes two online polls and a Pollara telephone consultation survey, the five most important criteria, in priority order, are:
 2. **Rates** – protect consumers with respect to electricity distribution rates; supply electricity efficiently and cost-effectively.
 3. **Service** – meet or exceed current quality, safety and reliability of service.
 4. **Community Planning** – support long-term community planning and economic development.
 5. **Environment** - encourage use and generation of electricity from renewable sources; continue or enhance conservation and demand management programs.
 6. **Local Jobs** – preserve and provide local jobs.

- **Support for decision-making framework** – participants were asked whether the City is “right” in giving equal consideration to Guelph Hydro customers, the City of Guelph as shareholder and the community as a whole:
 - Yes: 67.7 per cent.
 - No: 32.3 per cent.

- **Key themes** - based on all submitted questions, comments and survey responses from all engagement activities, the following five key themes have been identified:
 1. **Rates** – top concern of participants, which includes frustration at current electricity rates in the province, as well as concerns about the impact a potential transaction could have on rates.
 2. **Efficient and reliable service** - people want to ensure Guelph Hydro’s positive track record of efficient and reliable service is preserved.
 3. **Potential transaction** – though phase 1 engagement questions focused on decision-making criteria and did not include questions about options, some respondents voiced early opinions about the potential for a transaction. A large segment of those who commented want to maintain local control and public ownership, and there is low-level support for a sale, especially with a privately-owned utility. There is no support among those who commented for Guelph Hydro to buy other utilities. If a merger is considered, those who commented prefer other utilities in the region and those who are “like-minded” with Guelph Hydro.
 4. **Environmental sustainability** – the use and generation of electricity from renewable sources, as well as energy conservation programs, were important to a notable segment of participants.
 5. **Public information sharing** – people want more information about the options being considered, such as financial analyses; participants want the City to continue seeking public input throughout the asset review process.

Introduction

A regular asset management review is a common business practice designed to ensure publicly-owned organizations, such as Guelph Hydro, are achieving maximum value for the City of Guelph, residential and industrial hydro customers, as well as all community members.

Municipalities across Ontario are conducting similar reviews, or have completed transactions, for their local electricity utility companies. These asset reviews and transactions are happening largely because provincial policy initiatives encourage local electricity utility companies to reduce duplication, better manage costs and modernize service to benefit customers. For utilities of all sizes, numerous Ontario municipalities have found consolidation, whether through mergers, sales or acquisitions, to be the best way forward to achieving greater efficiencies and modernizing services.

To make the best choice for the future direction of Guelph Hydro, Guelph City Council created the Strategies and Options Committee to provide recommendations and citizen input to City Council, which has the ultimate authority to make decisions about Guelph Hydro. The Committee, comprised of five members from the City, Guelph Hydro and the public at large, reviewed the feasibility of four options:

- Maintain full ownership.
- Buy other electricity distribution utilities.
- Sell to a public or private organization.
- Merge with other utilities.

The following is a list of decision-making criteria the City of Guelph of the Strategies and Options Committee sought public input on:

Value for Customers:

- Protect consumers with respect to electricity distribution rates.
- Meet or exceed current quality, safety and reliability of service.
- Meet or exceed current customer service standards.
- Maintain or enhance service and systems through innovation and technology.

Value for Community:

- Continue or enhance conservation and demand management programs.
- Support development of provincial smart grid.
- Encourage use and generation of electricity from renewable sources.
- Advocate for local interests among regulators, industry and other levels of government.

- Provide local jobs.

Value for the City of Guelph:

- Realize the best financial return and overall value.
- Supply electricity efficiently and cost-effectively.
- Contribute capital funds for reinvestment.
- Support long-term community planning and economic development.

At every phase, the City of Guelph and the Strategies and Options Committee remain committed to providing information and ensuring community members and Guelph Hydro customers have a voice in the decision-making process for the future of Guelph Hydro.

Community Engagement

Citizens' expectations of engagement continue to increase as they want to be included in the decisions that stand to impact them. Given the importance of the electricity distribution company for all community members, the City of Guelph designed and activated a community engagement initiative to seek public input on the four options being considered in Phase 1, as well as the decision-making criteria the Strategies and Options Committee will use to evaluate any potential transaction. The purpose of the initiative is also to make information about the asset review process readily available to the public and to answer questions from community members.

From the onset of the public asset review, the following objectives, engagement principles for the Energizing Tomorrow program and methodology have guided the City of Guelph with its community engagement process.

Objectives

1. **Design a process with integrity:** Ensure the community has opportunities to provide input from the onset of the process.
2. **Encourage meaningful engagement:** Through digital communications and direct engagement, drive awareness and participation.
3. **Gather actionable input:** Leverage the engagement initiative to ensure the views of the community are reflected in decisions.
4. **Maintain public confidence:** Earn the public's trust by conducting meaningful engagement.

Energizing Tomorrow Guiding Principles

- Transparent and accountable.
- Clear language and messages.
- Timely.
- Authentic.
- Inclusive.
- Easy to participate.
- Focused on the public interest.

Community Engagement Activities

The overarching approach for the City of Guelph's community engagement initiative at Phase 1 was to inform, engage and seek input from as many residents, hydro customers and stakeholders as possible about the decision-making criteria and framework through a mix of in-person and digital activities.

The following is a list and details for Phase 1 community engagement activities from October 24, 2016 to January 20, 2017:

Energizing Tomorrow Website:

Ask us Anything (questions and comments)

- The City of Guelph launched [Energizing Tomorrow](#), a website designed to provide community members with a channel to learn more about the asset review process, options being considered and decision-making criteria for any potential transaction.
- The City of Guelph created a website feature that allows visitors to [submit comments and questions](#) that are displayed for public viewing. The public can also view the City of Guelph's responses to each question.
- **Timing:** Launched on October 24, 2016 and will be active for the duration of the asset review.

Energizing Tomorrow:

Dedicated Email Address and Telephone Line

- The City of Guelph created a [dedicated email address and telephone line](#) for people to ask questions and receive more information.
- **Timing:** Launched on October 24, 2016 and will be active for the duration of the asset review process.

Energizing Tomorrow Website: Your Voice Matters (three-question poll)

- To better understand what's important to residents as the City of Guelph explores different options for Guelph Hydro, the City launched a [three-question poll](#) on the Energizing Tomorrow website for Phase 1:
- Question 1: Participants are asked to select their top three criteria from a list of 13 that they want City Council to consider when reviewing options for Guelph Hydro.
- Question 2: Participants are asked to respond "yes" or "no" on whether they agree with the decision-making framework that gives equal consideration to Guelph Hydro customers, the City of Guelph as shareholder and the community as a whole. If participants respond "no," they have an opportunity to describe what they believe is missing from the criteria.
- Question 3: Open-ended question providing participants with an opportunity to submit additional input on what they would like City Council and/or the Strategies and Options Committee to consider as part of the asset review.
- See *Appendix A* for polling questions.
- **Timing:** Launched on December 23, 2016.

Public Open Houses: Guelph and Rockwood

- The City held a public open house in Rockwood and two public open houses in Guelph.
- Attendees were asked to complete and submit comment cards, which included the same three-question polling questions from the Energizing Tomorrow website.
- **Timing:** Rockwood – January 16, 2017 (one session); Guelph – January 17, 2017 (two sessions).

Presentation to the Guelph Hydro Electric Systems Inc. Board of Directors

- As Co-Chair of the Strategies and Options Committee, Pankaj Sardana briefed the Guelph Hydro Electric Systems Inc. Board of Directors about the asset review process and the work of the Committee up until December 1, 2016.
- **Timing:** December 1, 2016.

Pollara Telephone Consultation Survey

- Through Pollara, the City of Guelph conducted an Automated Interactive Voice Response (IVR) survey among a randomly-selected, representative sample of N=260 adult (18+) permanent residents of the City of Guelph and neighbouring Rockwood.
- The one-question survey asked participants to indicate the level of priority they feel for each of seven decision-making criteria listed in the survey (major priority, moderate priority, minor priority, not a priority at all and don't know/unsure).
- **Timing:** January 18, 2017.

Community Stakeholder Outreach

- At this initial stage, the City of Guelph briefed and sought input from several community organizations:
 1. eMERGE Guelph.
 2. Downtown Guelph Business Association.
 3. Guelph Chamber of Commerce.
 4. Transition Guelph.
 5. Guelph Wellington Seniors Association.
- **Timing:** December 19, 2016 to January 18, 2017.

Guelph Hydro Large Customer Information Sessions

- At this initial stage, Guelph Hydro briefed and sought input from several large customers:
 1. Canadian Solar Solutions.
 2. City of Guelph.
 3. Hematite Manufacturing.
 4. Hitachi Construction Truck Manufacturing Ltd.
 5. Linamar Corporation.
 6. Magna.
 7. Owens Corning Canada LP.
 8. Polycon Industries.
 9. Union Gas.
 10. University of Guelph.
- **Timing:** December 19, 2016 and January 9, 2017.

Guelph Hydro Employee Town Halls

- Guelph Hydro conducted two employee town halls to discuss and seek input on the asset review process.
- **Timing:** October 25, 2016; December 13, 2016.

Community Awareness Activities

The City of Guelph and Guelph Hydro designed and activated a communications strategy to raise awareness of the asset review and to drive traffic and engagement to the Energizing Tomorrow website and in-person community consultation events.

The following lists Phase 1 community awareness activities from October 24, 2016 to January 20, 2017.

City of Guelph and Guelph Hydro Websites and Social Media Channels

- Messages/banners posted on City of Guelph and Guelph Hydro websites/social media channels, along with links to the Energizing Tomorrow website.
- **Timing:** November 2016 to January 2017.

Amplified Social Media Posts

- Targeted Facebook and Twitter users residing in Guelph through paid social media posts to drive traffic to the Energizing Tomorrow website.
- **Timing:** November 2016.

Local Advertisements

- Print and digital advertisements with Guelph Today, Mercury Tribune, The Wellington Advertiser and snapd Guelph.
- **Timing:** December 2016 to January 2017.

Media Relations

- Issued news releases for key events, including the launch of the Strategies and Options Committee and the Energizing Tomorrow website, as well as for the public open houses and the start of the Pollara telephone consultation survey.
- Participated in media interviews regarding key events, including the launch of the Strategies and Options Committee and the Energizing Tomorrow website, as well as for the public open houses.
- **Timing:** October 2016 to January 2017.

Guelph Hydro Customer Bill Inserts

- Enclosed inserts about the public asset review and the Energizing Tomorrow website with Guelph Hydro customer bills.
- **Timing:** January 2017.

Energizing Tomorrow Booklet

- To complement the website information, the City of Guelph published an [Energizing Tomorrow booklet](#) with all key details about the public asset review and the decision-making criteria and framework. The booklets were shared during open house events and are available for download online.
- **Timing:** November 2016 – ongoing.

City of Guelph Mayor's Blog

- The Mayor of Guelph informed residents about the asset review and the Energizing Tomorrow website through a [blog post](#).
- **Timing:** October 24, 2016.

Guelph City Councillors Social Media

- Members of City Council shared information about the asset review and informed the public about the open house events on their blogs and social media channels.
- [Councillor James Gordon Blog](#)
- [Guelph Mayor and City Council Twitter \(list\)](#)
- **Timing:** October 2016 – ongoing.

Methodology

For the findings within this preliminary engagement report, the City of Guelph considered all community feedback collected through the following engagement activities from October 24, 2016 to January 20, 2017:

- Pollara telephone consultation survey
 - N=260 adult (18+) permanent residents of the City of Guelph (N=236) and Rockwood (N=24).
 - Margin of error of +6.1%, 19 times out of 20.
- Engagement poll (three questions)
 - Polls completed on the Energizing Tomorrow website.
 - Polls completed by attendees at public open houses in the City of Guelph and Rockwood; these polls were entered into the online poll feature.
 - 160 completed polls.
- Public open houses
 - Rockwood: 14 attendees.
 - Guelph (afternoon session): 45 attendees.
 - Guelph (evening session): 25 attendees.

- Energizing Tomorrow website
 - Ask us Anything (questions and comments).
 - 56 comments/questions.
- Guelph Hydro Large Customer Information Sessions
 - Meetings with 10 participants.
- Community Stakeholder Outreach
 - Meetings with five stakeholder groups.
 - 35 participants in total.
- Energizing Tomorrow Dedicated Email and Telephone Line
 - Four received messages.
- Guelph Hydro Employee Town Halls
 - Two town hall meetings.

It is important to note the data reflects feedback collected from a subset of the population in the City of Guelph and Rockwood who engaged in the process by attending open houses and stakeholder meetings, submitting questions and comments on the Energizing Tomorrow website, completing the three-question poll (online or in-person at the open houses) or by participating in the randomly-selected telephone consultation survey. From the feedback collected through these channels, the City of Guelph has identified key themes for City Council and the Strategies and Options Committee to consider as part of the asset review process.

Phase 1 Community Engagement Findings

The findings for Phase 1 of the community engagement initiative are presented in two sections:

1. **Polling results on the decision-making criteria:** Results from the public poll (Energizing Tomorrow website; completed polls from the public open houses) and the Pollara telephone consultation survey.
2. **Key themes:** Summary of key themes gathered from all Phase 1 community engagement activities.

Polling Results on the Decision-making Criteria

There are three data sets from the polling on the Strategies and Options Committee's decision-making criteria for the future of Guelph Hydro:

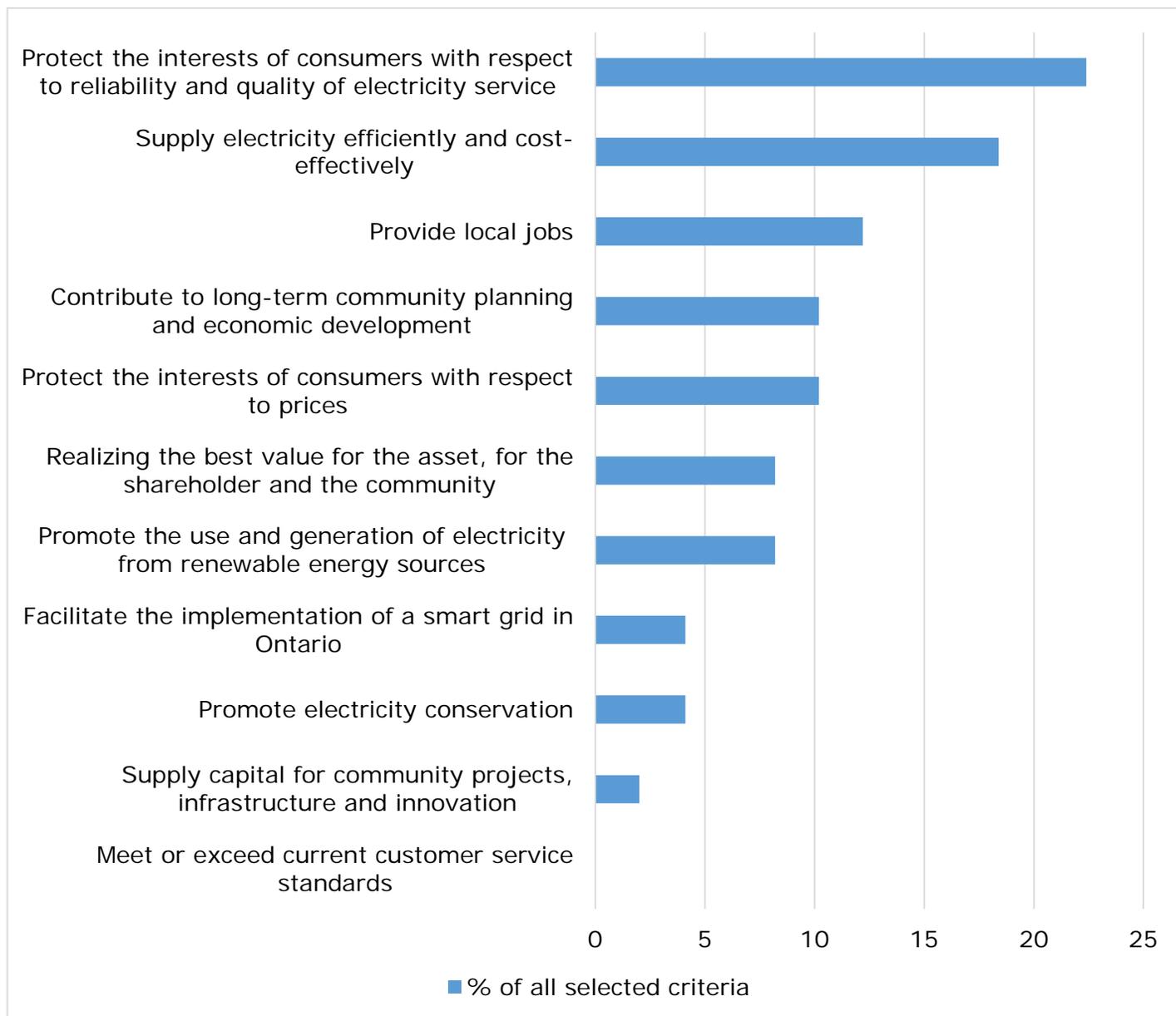
1. **Energizing Tomorrow online poll – Version 1** (December 23, 2016 to January 9, 2017). This includes the original list of 11 criteria for participants to select their top three choices.
2. **Energizing Tomorrow online poll – Version 2** (January 9, 2017 to January 20, 2017). This includes a revised list of 13 criteria for participants to select their top three choices. This data set also includes completed written polls from the public open houses that were submitted into the online polling feature.
3. **Pollara Telephone Consultation Survey** (January 18, 2017). The format for the telephone consultation survey required modifications to how participants rate the criteria. Instead of selecting their top three, participants were asked to score each criteria based on level of importance for them (major priority, moderate priority, minor priority, not a priority at all and don't know/unsure).

Based on the results from the three aforementioned polls, we have identified the following five criteria that respondents most often selected as being important to consider for any potential transaction (in priority order):

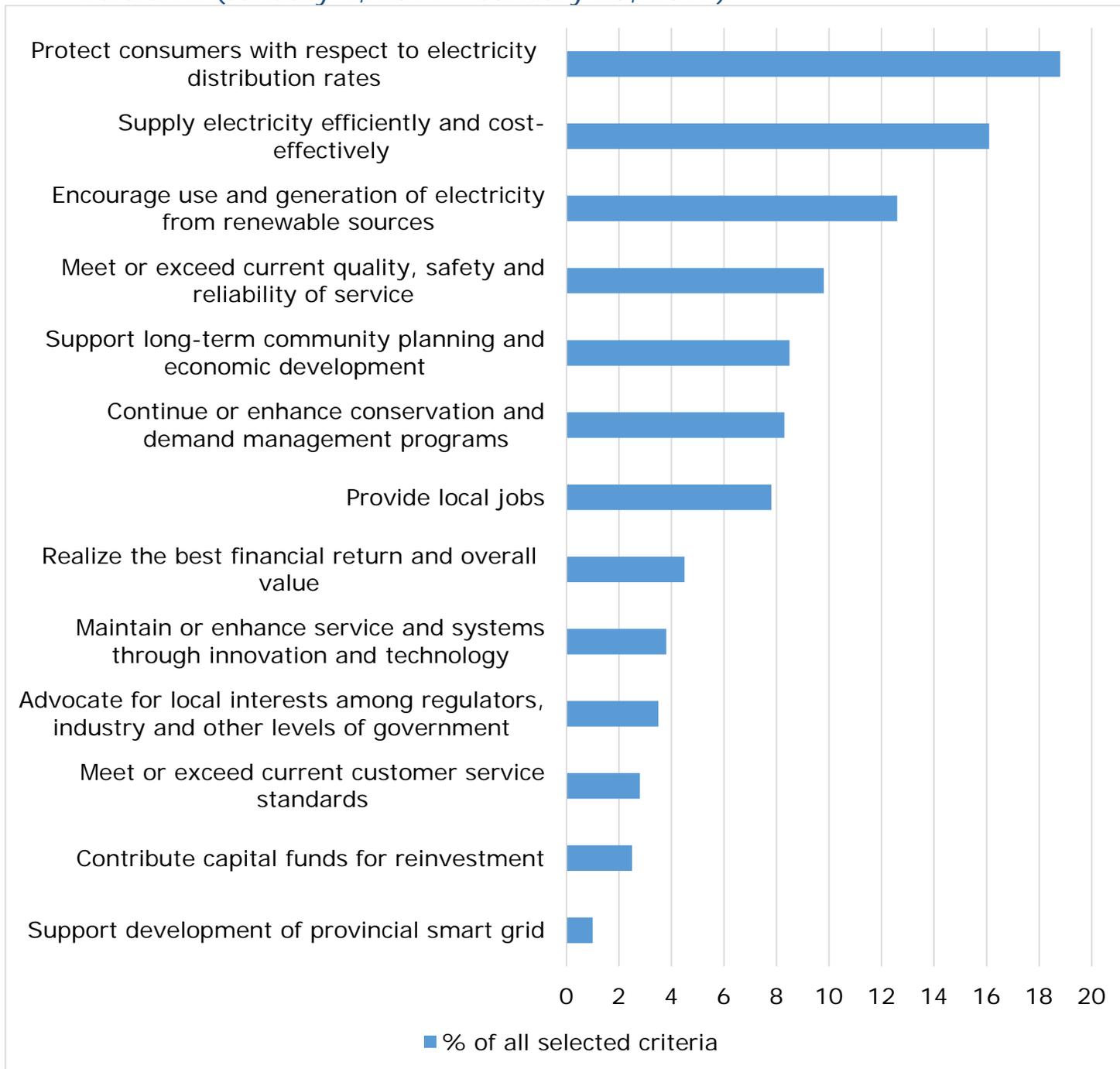
1. **Rates:** Protect consumers with respect to electricity distribution rates; supply electricity efficiently and cost-effectively.
2. **Service:** Protect consumers with respect to electricity distribution rates; supply electricity efficiently and cost-effectively.
3. **Community Planning:** Support long-term community planning and economic development.
4. **Environment:** Encourage use and generation of electricity from renewable sources; continue or enhance conservation and demand management programs.
5. **Local Jobs:** Preserve and provide local jobs.

The following charts provide a breakdown of the rated criteria by data set.

Energizing Tomorrow Online Poll:
Version 1 (December 23, 2016 – January 9, 2017)

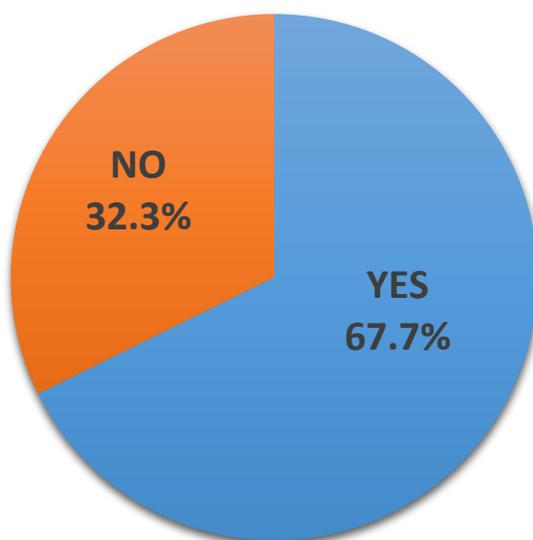


Energizing Tomorrow Online Poll:
Version 2 (January 9, 2017 – January 23, 2017)



Energizing Tomorrow Online Poll:
Overall Framework (December 23, 2016 – January 20, 2017)

In the Energizing Tomorrow online poll and submitted comment cards from the public open houses, participants were asked whether “the decision-making criteria give equal consideration to Guelph Hydro customers, the City of Guelph as shareholder, and the community as a whole. In your opinion, is this right (yes or no)? If not, what or who have we missed?”



Among the 32.3 per cent who selected no, here is a selection of the suggestions from respondents on what the City of Guelph and Strategies and Options Committee could consider as part of the decision-making criteria:

- Maintaining local control of Guelph Hydro is important to a notable segment of respondents.
- Many respondents who value local control think it is best achieved through maintaining full public ownership. And if full public ownership is not an option, many respondents would want to see local control as part of any potential transaction.
- Guelph Hydro employees should also be considered as part of the decision-making criteria.
- The environment should be included as a criteria for the decision-making process.
- Guelph Hydro customers should be prioritized as they are currently paying for service and would be most impacted by any rate and service changes.

Pollara Telephone Consultation Survey (January 18, 2017)

QA1: How about...? Ensuring high-quality, safe, responsive, and reliable service?

- **Major priority: 77 per cent.**
- Moderate priority: 10 per cent.
- Minor priority: 10 per cent.
- Not a priority at all: <1 per cent.
- Don't know: 2 per cent.
- Total priority: 87 per cent.
- Total not a priority: 11 per cent.
- N size: 260.

QA2: How about...? Preserving and providing local jobs?

- **Major priority: 62 per cent.**
- Moderate priority: 26 per cent.
- Minor priority: 9 per cent.
- Not at all a priority: <1 per cent.
- Don't know: 2 per cent.
- Total major/moderate priority: 88 per cent.
- Total minor/not a priority: 10 per cent.
- N size: 260.

QA3: How about...? Achieving the best financial return for the community and for reinvestment?

- **Major priority: 54 per cent.**
- Moderate priority: 34 per cent.
- Minor priority: 7 per cent.
- Not at all a priority: 1 per cent.
- Don't know: 4 per cent.
- Total major/moderate priority: 88 per cent.
- Total minor/not a priority: 8 per cent.
- N size: 260.

QA4: How about...? Improving infrastructure through innovation and technology?

- **Major priority: 51 per cent.**
- Moderate priority: 35 per cent.
- Minor priority: 8 per cent.
- Not at all a priority: 2 per cent.
- Don't know: 3 per cent.
- Total major/moderate priority: 87 per cent.
- Total minor/not a priority: 10 per cent.
- N size: 260.

QA5: How about...? Supporting long-term community planning in the local area?

- **Major priority: 65 per cent.**
- Moderate priority: 22 per cent.
- Minor priority: 9 per cent.
- Not at all a priority: 2 per cent.
- Don't know: 2 per cent.
- Total major/moderate priority: 87 per cent.
- Total minor/not a priority: 11 per cent.
- N size: 260.

QA6: How about...? Encouraging conservation and the generation of electricity from renewable energy sources?

- **Major priority: 51 per cent.**
- Moderate priority: 26 per cent.
- Minor priority: 17 per cent.
- Not at all a priority: 3 per cent.
- Don't know: 3 per cent.
- Total major/moderate priority: 76 per cent.
- Total minor/not a priority: 20 per cent.
- N size: 260.

QA7: How about...? Ensuring that electricity is supplied efficiently and cost-effectively, while protecting consumers with respect to electricity distribution rates?

- **Major priority: 72 per cent.**
- Moderate priority: 23 per cent.
- Minor priority: 2 per cent.
- Not at all a priority: 1 per cent.
- Don't know: 2 per cent.
- Total major/moderate priority: 94 per cent.
- Total minor/not a priority: 4 per cent.
- N size: 260.

Key Themes

Based on all submitted questions, comments and survey responses from all engagement activities, the following five key themes have been identified:

1. Rates
2. Efficient and Reliable Service
3. Potential Transaction
4. Environmental Sustainability
5. Public Information Sharing

Rates

- Across all engagement forums, electricity distribution rates were identified as the top concern.
- Some participants used the community engagement process as a platform to voice concern and frustration about the rising cost of electricity in the City of Guelph – and the province.
- Actual experiences or knowing about the experiences of others who faced high bills and service issues with Hydro One, especially in rural areas, have made some participants, at this early stage, skeptical about any potential deal with the utility.
- A notable segment of participants expressed concern about the impact a potential transaction would have on electricity distribution rates. Some doubt privatization or an acquisition by a larger, outside utility will create economies of scale that would make any significant difference with rates.
- While efficient and reliable service is most important to large industrial customers, increased rates would be a significant factor for companies that are looking to expand.

Efficient and Reliable Service

- It is evident there is a strong sense of pride among participants about Guelph Hydro. People generally believe the utility is well-managed, reliable, provides efficient service and offers competitive rates compared to other municipalities. People want to ensure Guelph Hydro's positive track record of efficient and reliable service is preserved.
- For large industrial customers, efficient and reliable service are the most important criteria, given how critical energy is for business operations.
- Some question whether bigger means better, meaning would a larger utility be able to provide comparable service to what Guelph Hydro customers currently enjoy.

Potential Transaction

- While engagement questions were focused on the decision-making criteria, participants used the platform to voice early opinions on the potential for a transaction.
- Of those who commented on a potential transaction, most expressed support for maintaining local control and public ownership of Guelph Hydro. They want the City to continue benefiting from annual dividends from Guelph Hydro.
- Many participants who voiced support for maintaining local control and public ownership also expressed concerns about selling Guelph Hydro.
- The general feeling is that a sale would provide the City of Guelph with short-term financial benefits while taking away longer-term dividends from Guelph Hydro.
- There is concern about privatization with several participants referencing the Ontario government's partial privatization of Hydro One as an example of what the City of Guelph should avoid.
- If the City were to pursue a merger, participants prefer a combination with other regional utilities and with those that share the same values as Guelph Hydro, such as a commitment to conservation and environmental sustainability. There is significant concern about transactions, including mergers, with a private utility.
- Based on gathered input, the option to buy other electricity distribution utilities has no support. Participants recognize that buying other utilities is impractical and would increase Guelph Hydro's debt load.

Environmental Sustainability

- A notable segment of respondents expressed support for ensuring the City of Guelph supports the use and generation of electricity from renewable sources, as well as for energy conservation programs.
- There is a feeling that maintaining local control would better position Guelph Hydro to meet the expectations some in the community have regarding environmental sustainability, such as renewable energy. If the City were to pursue a merger, some have indicated they would prefer "like-minded" utilities, especially those who are committed to renewable energy sources and environmental sustainability.

Public Information Sharing

- Some participants have expressed appreciation for the early community engagement.
- Some participants have requested that the City of Guelph provide more information about the options being considered, such as financial analyses for each, as well as more financial data on the projected capital requirements for modernizing Guelph Hydro's infrastructure and service.

- A small segment of participants have requested more information on why the City of Guelph is reviewing its options for Guelph Hydro now – some have questioned the “urgency” of the review.
- It is evident that participants want the City of Guelph to continue sharing information and engaging the public throughout the asset review process.

Next Steps: Commitment to Ongoing Community Engagement

From the onset of the asset review for the future of Guelph Hydro, the City of Guelph and the Strategies and Options Committee’s goal was to ensure people are informed and have an opportunity to provide input at each step of the process. For this reason, the City of Guelph activated a community engagement initiative at this early stage to seek citizen input on the decision-making criteria, framework and initial thoughts on the four options being considered.

If the asset review progresses beyond Phase 1, which is expected to be determined at the special meeting of Guelph City Council on February 15, 2017, the City will continue to seek public input throughout the process.

At any time, community members can visit www.energizingtomorrow.ca to learn more about the asset review and to submit comments and questions.

Appendix A: Community Engagement Polling Questions

Online Engagement Polling Questions – Version 1:
(December 23, 2016 to January 9, 2017)

1. As City Council explores options, which of the following criteria do you feel are most important? Please select your top three.
 - Protect the interests of consumers with respect to prices.
 - Protect the interests of consumers with respect to reliability and quality of electricity service.
 - Promote electricity conservation.
 - Facilitate the implementation of a smart grid in Ontario.
 - Promote the use and generation of electricity from renewable energy sources.
 - Provide local jobs.
 - Supply capital for community projects, infrastructure and innovation.
 - Meet or exceed current customer service standards.
 - Contribute to long-term community planning and economic development.
 - Supply electricity efficiently and cost-effectively.
 - Realizing the best value for the asset for the shareholder and the community.

2. The decision-making framework gives equal consideration to Guelph Hydro customers, the City of Guelph as shareholder, and the community as a whole. In your opinion, is this framework right? If not, what or who have we missed? Yes or No?

3. Is there anything else you would like the City and/or the Committee to keep in mind as we continue this process?

Online Engagement/Public Open Houses Engagement Questions – Version 2: (January 9, 2017 to January 20, 2017)

1. As City Council explores options, which of the following criteria do you feel are most important? Please select your top three.
 - Protect consumers with respect to electricity distribution rates.
 - Meet or exceed current quality, safety and reliability of service.
 - Meet or exceed current customer service standards.
 - Maintain or enhance service and systems through innovation and technology.
 - Continue or enhance conservation and demand management programs.
 - Support development of provincial smart grid.
 - Encourage use and generation of electricity from renewable sources.
 - Advocate for local interests among regulators, industry and other levels of government.
 - Provide local jobs.
 - Realize the best financial return and overall value.
 - Supply electricity efficiently and cost-effectively.
 - Contribute capital funds for reinvestment.
 - Support long-term community planning and economic development.

2. The decision-making criteria give equal consideration to Guelph Hydro customers, the City of Guelph as shareholder, and the community as a whole. In your opinion, is this right? If not, what or who have we missed? Yes or No?

3. Is there anything else you would like the City and/or the Committee to keep in mind as we continue this process?

ATTACHMENT G – LETTER FROM GUELPH HYDRO BOARD CHAIR



January 25, 2017

Guelph City Council
Guelph City Hall
1 Carden Street
Guelph ON N1H 3A1

Dear Councillors,

Re: Letter from GHESI Board to Council as Shareholder of GMHI

The Board of Directors of Guelph Hydro Electric Systems Inc. (GHESI) would like to acknowledge the City of Guelph for taking the pro-active step of establishing the Strategies and Options Committee to explore opportunities for GHESI in light of the rapidly changing landscape in which our local distribution company operates.

We agree that during this time of industry transformation, it makes good business sense to carefully evaluate strategies and options to ensure customers, the City of Guelph and the community are getting the best long-term value from this important City asset and that opportunities to ensure a strong future for our utility, in whatever form that might take, are considered.

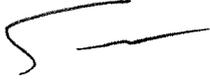
GHESI is a high performing local distribution company well recognized by its peers with a strong customer service record and reputation within our community. It is important to note that these achievements and the value that GHESI brings to our shareholder, our customers and the community today are due in large part to the exemplary work and dedication of our employee community and management team. We wish to ensure that our company continues to be well-positioned to respond to the many potential changes that may impact our future.

We recognize the work accomplished by the Strategies and Options Committee, thus far, in establishing guiding principles, decision-making criteria and success factors that will be used in assessing options and we applaud the Strategies and Options Committee for their commitment to engaging the public and the community in all phases of the evaluation process.

We believe that as we embark on a closer examination of potential options for GHESI that greater involvement of the GHESI Board is necessary and appropriate. Any significant decision impacting the future of GHESI will require the approval of the GHESI board. We acknowledge and have been well served by the excellent work of the GHESI representatives on the Strategies and Options Committee to date, however we submit that it makes good sense and that the process will benefit from greater participation of the industry and subject matter experts who serve as independent members of the GHESI Board as the process proceeds to the next phase.

We support the recommendations of the Strategies and Options Committee contained in their February 15, 2017 Report to Council as Shareholder of Guelph Municipal Holdings Inc. (GMHI), to further examine the options of sale or merger and we look forward to increased representation and participation as we embark on the next steps in this process.

Sincerely,

A handwritten signature in black ink, appearing to read 'S. Jane F. Armstrong', with a stylized flourish at the end.

S. Jane F. Armstrong
Chair
Guelph Hydro Electric Systems Inc.

CC: GHESI Board of Directors
GMHI Strategies and Options Committee