

**City Council as
Shareholder of Guelph
Municipal Holdings Inc.**



Meeting Agenda

Tuesday, June 13, 2017 – 4:00 p.m.
Council Chambers, Guelph City Hall, 1 Carden Street

Please turn off or place on non-audible all electronic devices during the meeting.

Please note that an electronic version of this agenda is available on guelph.ca/agendas.

Authority to move into closed meeting

That the Council of the City of Guelph now hold a meeting that is closed to the public, pursuant to the Municipal Act, to consider:

C-GMHI-2017.1 Environmental Scan regarding Guelph Hydro Merger Options

Section 239 (2) (f) of the Municipal Act related to advice that is subject to solicitor-client privilege, including communications necessary for that purpose.

Open Meeting: – 6:30 p.m.

Disclosure of Pecuniary Interest and General Nature Thereof

Closed Meeting Summary

Guelph Municipal Holdings Inc.: Strategies and Options

GMHI-2017.2 Environmental Scan regarding Guelph Hydro Merger Options

Presentation:

Derrick Thomson, Chief Administrative Officer -presentation

Jane Armstrong, GHESI Board Chair – presentation

Tara Sprigg, General Manager Corporate Communications - presentation

Troy MacDonald, Financial Advisor GMHI, Grant Thornton - presentation

Ron Clark, Solicitor, Aird & Berlis, Solicitor for GMHI - presentation

Delegations:

None at this time

Recommendation:

1. THAT the Strategies and Options Committee (the "SOC") of Guelph Municipal Holdings Inc. ("GMHI") be directed to conduct further discussions, engage in further due diligence, and prepare preliminary business cases to assess potential mergers between Guelph Hydro Electric Systems Inc. ("Guelph Hydro") and potential merger partners.
2. THAT the SOC continue its communications and community engagement to inform its work.
3. THAT the SOC report back to Council in early fall 2017 with the results of further discussions and due diligence, communications and community engagement and preliminary business case, including recommendations regarding next steps.

Adjournment

TO Guelph City Council as the Shareholder of GMHI

SERVICE AREA GUELPH MUNICIPAL HOLDINGS INC.

DATE June 13, 2017

SUBJECT ENVIRONMENTAL SCAN REGARDING GUELPH HYDRO MERGER OPTIONS

REPORT NUMBER GMHI-2017-03

RECOMMENDATION:

- 1. THAT the Strategies and Options Committee (the "SOC") of Guelph Municipal Holdings Inc. ("GMHI") be directed to conduct further discussions, engage in further due diligence, and prepare preliminary business cases to assess potential mergers between Guelph Hydro Electric Systems Inc. ("Guelph Hydro") and potential merger partners.**
- 2. THAT the SOC continue its communications and community engagement to inform its work.**
- 3. THAT the SOC report back to Council in early fall 2017 with the results of further discussions and due diligence, communications and community engagement and a preliminary business case, including recommendations regarding next steps.**

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.

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.

On February 15, 2017, the SOC presented a report to Council as shareholder of GMHI further detailing the options, community engagement results and the decision-making criteria developed by the SOC for assessing the proposed options. Council directed the SOC to conduct an environmental scan for potential mergers with publicly-owned utility companies, and return to Council with the results and recommendations for next steps.

This report presents the results of the scan, and recommendations on the proposed process going forward.

For reference, the SOC has the following members:

- Derrick Thomson, CAO, City of Guelph (Co-Chair)
- Jane Armstrong, Board Chair, Guelph Hydro (Co-Chair)
- Bob Bell, Board Vice Chair, Guelph Hydro
- Mark Goldberg, Community Member
- Douglas Auld, Community Member

The SOC is supported by City and Guelph Hydro staff, and by financial (Grant Thornton), legal (Aird & Berlis) and communications and engagement (NATIONAL) advisors.

Environmental Scan

Objectives

The objectives of the environmental scan were to use available market information, industry intelligence and discussions with potential merger partners to determine potential merger partners to examine more closely (if any), and what approach to follow in so doing.

The scan covered 14 Local Distribution Companies (“LDCs”) near Guelph Hydro’s service territory and assessed the interest, readiness and appropriateness of those LDCs to enter into a merger transaction with Guelph Hydro.

Confidentiality

In support of the environmental scan and the SOC’s work, Guelph Hydro has entered into a series of Non-Disclosure Agreements with potential merger partners. The Non-Disclosure Agreements prohibit the disclosure of confidential information by Guelph Hydro, its affiliates (including GMHI and the City), and representatives thereof (including councillors).

Disclosing the names could cause harm to the other parties who may not yet have direction to proceed or have discussed these opportunities with all of their stakeholders.

Disclosing the names of potential partners could also cause commercial harm to Guelph as the City is still exploring several opportunities; Guelph has not agreed to exclusive, detailed negotiations with potential partner(s).

If, in the fall, Council directs the SOC to pursue the next phase of the process, details about potential merger partner(s) will be shared with the public.

Decision-making criteria and other considerations

In conducting the scan, the SOC applied the decision-making criteria presented in the February 15, 2017 report to City Council.

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

The criteria and principles also include a commitment to continue treating Guelph Hydro employees with fairness and respect, and engage in open, honest communication with community and industry stakeholders.

Other Considerations

Taking into account community feedback and Shareholder direction, the SOC also considered the following factors:

Holistic view of benefit for Guelph stakeholders

It was agreed that it was important to maintain a holistic view of benefit for Guelph stakeholders to ensure all perspectives were considered in evaluation of the merger option.

Degree of control/significant influence and Shareholder Agreements

Control could mean owning the majority of shares in the company. In a multi-shareholder situation, control could also mean no party has control. The strength of the shareholder's agreement will likely be the most important consideration.

A shareholders' agreement documents shareholder rights and obligations, and explains how key decisions will be made. The agreement typically explains which kinds of decisions may require greater levels of approval, such as super-majority or unanimous approvals.

Deal certainty and likelihood of success

Deal certainty refers to the counterparty's engagement and commitment to the merger process, and how likely they are to support a merger with a good business case.

Multi-party mergers

It was also agreed that the process needs to consider possible multi-party mergers, should those opportunities arise and demonstrate merit.

Comparison to maintaining full ownership

The merger options considered need to demonstrate clear value for Guelph Hydro customers, the City and the community, as compared to maintaining full ownership.

Legislated requirements

As noted in the SOC's February 15, 2017 report to Council, the Ontario Energy Board (the "OEB") would also need to approve any proposed merger transaction pursuant to a Mergers, Acquisitions, Amalgamations and Divestitures ("MAADs") application, under which it would apply its "no harm" test. Moreover, the OEB would continue to regulate any merged utility.

Process considerations:

Direct or competitive

Direct engagement with merger candidates was preferred to a formal competitive process. Direct engagement is more aligned with the exploratory nature of the process, and comparing options to maintaining full ownership.

Election timing

The upcoming municipal election was a significant timing consideration for all parties involved.

Cost effective

The process needs to be cost effective while getting Council the information they require to decide how to proceed.

Stakeholder engagement

To ensure all perspectives are considered, stakeholders in Guelph and the potential merger targets' communities will be engaged.

Merger partner

Potential merger partners need clarity on the process, and may limit the information they share in advance of formal, exclusive negotiations.

More information

With strong merger candidates, Council will need more information to assess the merits and concerns of each candidate.

Preliminary business cases:

A proposed next step is the development of a preliminary business case with potential merger partners. Preliminary business cases would address:

Core values and strategic rationale

The SOC would identify the core values of the potential merger partners and assess the strategic rationale for the respective mergers.

High-level financial analysis

Working from financial forecasts provided by the potential merger partners, a financial analysis would determine the impact on shareholders and ratepayers of the respective parties. Shareholder impacts would address dividends, promissory note interest and return on investment. Ratepayer impacts would address customer rates.

Operations and synergies

The SOC would develop a high-level understanding of the potential synergies and operational impacts.

Governance

The SOC would engage in discussions regarding key governance issues and the key terms of a shareholder agreement to understand the degree of alignment between the parties.

Strategy

The SOC would determine the potential business strategy of a merged entity. Matters such as operations, growth, customer experience, non-regulated operations, future consolidation, and people would be addressed.

Process

The SOC would investigate the decision-making requirements and timing of each potential merger to determine if they can be aligned with the City's own process.

Risk

The SOC will identify the risks of each potential merger and potential mitigation of those risks.

Evaluation

The SOC will evaluate the potential merger partners using community-supported decision-making criteria.

Recommendation

The SOC may recommend one or more potential merger candidates.

The preliminary business cases would not address:

- formal valuations;
- detailed rate strategy / analysis;
- a Memorandum of Understanding;
- detailed legal agreements;
- detailed due diligence;
- organizational structure matters;
- detailed governance matters;
- leadership recommendations;
- detailed operational matters; and
- full non-regulated strategy.

Communications and Community Engagement

Since February, the committee has updated its community and industry stakeholders about the decision-making process, the criteria being used to evaluate potential merger opportunities, and opportunities to learn more, ask questions or provide comments.

If City Council decides to continue exploring potential mergers, the SOC will announce this decision and continue its ongoing education and engagement efforts. Between now and the fall, the committee will continue using a multi-channel communications and engagement approach to:

- encourage people to learn more about Ontario's changing energy landscape
- inform people about the process being used to evaluate options for the future direction of Guelph Hydro
- invite people to ask questions and provide comments

If, in the fall, Council directs the SOC to pursue the next phase of the process, details about potential merger partner(s) will be shared with the public. At that time, the SOC will seek public input on the proposed merger. More public and stakeholder engagement will occur to generate that input.

Proposed Timeline

Phase 1 (Complete)

Explore options, begin community consultation, present findings and recommendations to Guelph City Council in early 2017.

Phase 2 (March to June)

Scan the industry for potential merger partners. Consider publicly-owned utility companies likely to provide value to Guelph Hydro customers, the City and the community.

(June to fall) If City Council votes to explore further: engage specific targets, develop a preliminary business case and financial analysis, outline impact on shareholders rate payers, discuss governance, compare to maintaining full ownership, and make recommendation to City Council.

Phase 3 (fall to winter)

If Council decides to pursue a merger: enter into memorandum of understanding, announce the parties involved, continue community engagement, begin exclusive negotiations, conduct financial, legal, operational and regulatory due diligence, develop merger and shareholder agreements, finalize rate impact and make recommendation to City Council.

Phase 4 (late 2017 to 2018)

If City Council approves the transaction: submit a MAADs application to the OEB for approval, develop implementation plan and establish leadership and governance of the new utility. Following OEB approval the transaction would close, the parties would enter into the shareholders' agreement, and the merger would be given full legal effect.

Recommended Next Steps

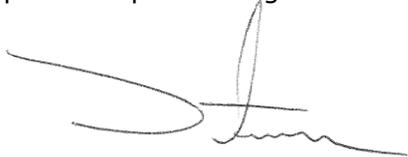
Given the potential cost of developing complete business cases with multiple parties, the SOC recommends developing preliminary business cases with the most promising candidates and making a recommendation to Council in early fall 2017. This approach is a cost effective way to provide Council with more information while being fair and respectful to potential merger partners.

The Guelph Hydro board affirmed the recommendations made at the outset of this report at its May 29, 2017 board meeting.

ATTACHMENTS:

- A – SOC Presentation to Council
- B – SOC Advisors’ Presentation to Council

Strategies and Options Committee
Guelph Municipal Holdings Inc.



Per: _____
Derrick Thomson, Co-Chair

ATTACHMENT A – SOC PRESENTATION TO COUNCIL

STRATEGIES AND OPTIONS COMMITTEE



Shareholder

Update

June 13, 2017

CO-CHAIRS INTRODUCTORY REMARKS

- Purpose of Shareholder meeting:
 - Provide an update on the work of Strategies and Options Committee (SOC) and its advisors, and seek Shareholder direction on recommended next steps
- Previous Shareholder meetings:
 - October 24, 2016: Confirmation of SOC's objectives
 - February 15, 2017: Completion of Phase 1: Assessment of Options –SOC was directed to conduct an environmental scan of potential merger partners
- June 13, 2016:
 - Completion of Phase 2: Environmental Scan
 - Communications and Engagement Update
 - Report from Consultants – Grant Thornton and Aird & Berlis
- New SOC community member: Mr. Douglas Auld
- SOC Co-Chair – Jane Armstrong, Chair of the Guelph Hydro (GHESI) Board
 - Board resolution in support of recommendations

RECOMMENDATIONS

- THAT the Strategies and Options Committee (the “SOC”) of Guelph Municipal Holdings Inc. (“GMHI”) be directed to conduct further discussions, engage in further due diligence, and prepare preliminary business cases to assess potential mergers between Guelph Hydro Electric Systems Inc. (“Guelph Hydro”) and potential merger partners
- THAT the SOC continue its communications and community engagement to inform its work
- THAT the SOC report back to Council in early fall 2017 with the results of the further discussions and due diligence, communications and community engagement, and a preliminary business case , including recommendations regarding next steps



ENERGIZING
TOMORROW

COMMUNICATIONS AND ENGAGEMENT UPDATE

ENGAGEMENT PRINCIPLES





PHASE 2
COMMUNICATIONS AND
ENGAGEMENT

March to fall

PHASE 2: MARCH TO JUNE

Activity	Detail
Communicate and update in advance of June 13 City Council Meeting	<ul style="list-style-type: none">• Website update on key developments and next steps• Social media update• Written update to stakeholder groups• Update Guelph Hydro employees and Union representatives• Update communications toolkit for Councillors

JUNE TO FALL

Activity	Detail
Energizing Tomorrow website	<ul style="list-style-type: none">• Announce Council decision• Post links on Guelph Hydro and City web sites• Promote <i>Ask Us Anything</i> feature• City staff to respond to inquiries
Guelph Hydro Employees	<ul style="list-style-type: none">• Town hall Q&A after City Council meeting
Stakeholder Update	<ul style="list-style-type: none">• Update stakeholders about Council decision• Encourage questions and feedback
Media Relations	<ul style="list-style-type: none">• News release summarizing Council decision• Participate in media interviews
Social Media	<ul style="list-style-type: none">• Use City and Guelph Hydro channels• Post updates about the process• Promote <i>Ask Us Anything</i> feature



ENERGIZING
TOMORROW

PHASE 3 COMMUNICATIONS AND ENGAGEMENT

Fall-winter 2017

FALL 2017

Activity	Detail
Communicate and update in advance of fall City Council Meeting	<ul style="list-style-type: none">• Social media update• Written update to stakeholder groups• Update/meet with Guelph Hydro employees and Union representatives• Update communications toolkit for Councillors• Advertise/promote upcoming community engagement activities

FALL 2017

Activity	Detail
Energizing Tomorrow website	<ul style="list-style-type: none">• Announce Council decision• Post links on Guelph Hydro and City web sites• Promote <i>Ask Us Anything</i> feature• City staff to respond to inquiries
Guelph Hydro Employees	<ul style="list-style-type: none">• Town hall Q&A after City Council meeting
Stakeholder Update	<ul style="list-style-type: none">• Update stakeholders about Council decision• Encourage questions and feedback
Media Relations	<ul style="list-style-type: none">• News release summarizing Council decision• Participate in media interviews
Social Media	<ul style="list-style-type: none">• Use City and Guelph Hydro channels• Post updates about the process• Promote <i>Ask Us Anything</i> feature



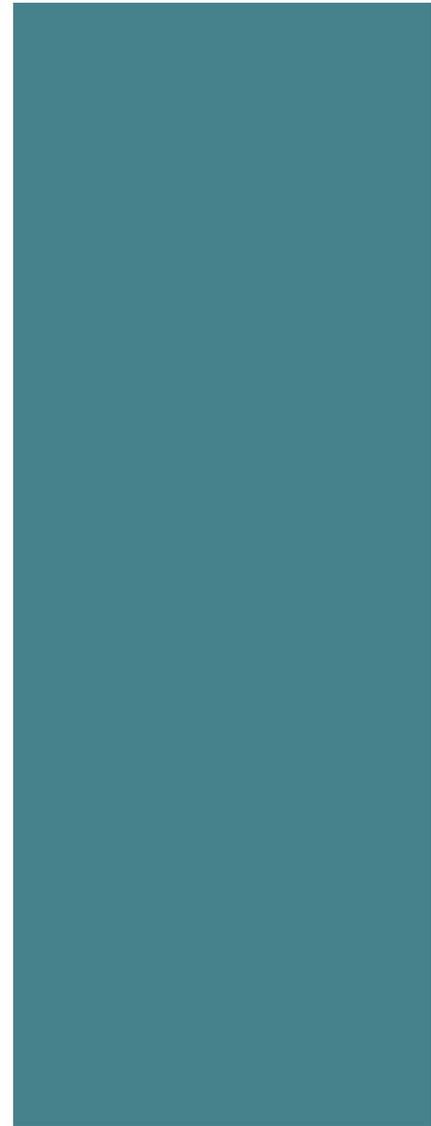
ENERGIZING
TOMORROW

IF COUNCIL DECIDES TO
PROCEED

FALL 2017

Activity	Detail
Energizing Tomorrow website	<ul style="list-style-type: none">• Share info about MOU on the website, focus on process, next steps and timing• <i>Ask Us Anything</i> feature• Inform residents of community engagement activities in the fall/winter
Guelph Hydro Employees	<ul style="list-style-type: none">• Town hall Q&A after City Council meeting
Media Relations	<ul style="list-style-type: none">• Joint media event to announce MOU• CEOs, Chairs and Mayors from respective jurisdictions to participate• Ongoing updates throughout Phase 3
Social Media	<ul style="list-style-type: none">• Use City and Guelph Hydro Channels to update people about the process, next steps, timing• Promote community engagement activities

IF WE GET TO A PROPOSED TRANSACTION



WINTER 2017

Activity	Detail
Communicate and engage all stakeholder groups in advance of City Council Meeting	<ul style="list-style-type: none">• Website update on key information about the proposed transaction, community engagement activities, upcoming Council decision• Update/meet with Guelph Hydro employees/Union reps• Update to stakeholder list• Update communications toolkit for Councillors• Advertise and promote community engagement activities• Social media updates with specifics about proposed transaction

WINTER 2017

Activity	Detail
Guelph Hydro employees	<ul style="list-style-type: none">• Employee town hall Q & A before and after Council meeting
Public/stakeholder meetings Guelph and Rockwood	<ul style="list-style-type: none">• Present information about the proposed transaction, upcoming Council decision• Encourage information sharing among community networks
Pop-up Engagement	<ul style="list-style-type: none">• information kiosk at one or more community events
Telephone/online poll	<ul style="list-style-type: none">• Gather community input in advance of Council decision

QUESTIONS



Ask us anything

[ENERGIZINGTOMORROW.CA](https://energizingtomorrow.ca)

ATTACHMENT B – SOC ADVISORS’ PRESENTATION TO COUNCIL



Guelph Municipal Holdings Inc.
Guelph Hydro Electric Systems Inc.

Environmental Scan Report



June 13, 2017

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Project Background

Project Background

Council Direction

City Council directed the Strategies and Options Committee ("SOC") to (a) conduct an environmental scan of potential transaction partners and potential transactions, with the assistance of independent advisors, in order to compare merger options against maintaining full ownership; (b) enter into preliminary discussions with potential transaction partners to discover whether a merger could satisfy the decision-making criteria adopted by the SOC; and (c) continue its public and stakeholder engagement to inform its work.

Advisors' Role

Grant Thornton ("GT") and Aird & Berlis ("A&B") were engaged as independent financial advisor and legal advisor, respectively, by Guelph Municipal Holdings Inc. ("GMHI") to advise on the potential merger of Guelph Hydro Electric Systems, Inc. ("GHESI", "Guelph" or "Guelph Hydro") as noted above.

Strategic Rationale

Why Consider Merger Alternatives?

As determined in Phase 1, Ontario's energy landscape is changing, and mid-sized utilities like Guelph Hydro are looking for better ways to:

- Meet customer expectations;
- Take advantage of modern technologies;
- Cover costs of delivering safe, reliable electricity service;
- Fund local infrastructure maintenance and upgrades; and
- Prepare and respond to more frequent and severe storms.

Provincial policy initiatives also encourage local electricity utility companies to reduce duplication, manage costs and modernize service to benefit customers. With utilities consolidating across the province, it was agreed that Guelph Hydro should explore its opportunities to determine how best to move forward.

Project Background

Environmental Scan Process

The primary components of the environmental scan included the following:

- Identification of potential merger partners;
- Research and analysis on potential merger partners, including direct discussions with the identified partners to understand their fit, viability and interest in mergers;
 - Non-disclosure agreements were entered into with the potential merger partners;
 - The participants in the meetings generally included municipal representatives and utility CEOs.
 - The agenda for the meetings included understanding shareholder perspectives / engagement on mergers; governance; operational matters; financial matters and rate structures / strategy.

Project Background

Environmental Scan Process (continued)

- Evaluation of merger partners relative to the Phase 1 decision-making criteria and other considerations (relative level of ownership / control and location of potential merger partners);
- Selection of merger partners that warrant further consideration;
- Development of merger process alternatives based on the lessons from the environmental scan and GMHI's objectives, criteria and decision-making process; and
- Development of a recommendation.

Executive Summary - Possible Process Timeline

Phase 2 Environmental Scan (April to June 2017)

- Confirm objectives / key considerations
- Confirm partners
- Preliminary discussion with partners (under NDA)
- Evaluate process
- Recommendations for SOC / Council
- Continued confidentiality of negotiating partners

Phase 3 Preliminary Business Case (June to August 2017)

- Core values / strategic rationale
- Preliminary financial model with partner involvement (shareholder & ratepayer impact vs maintaining full ownership).
- Discuss governance and shareholder agreement
- High level synergy analysis
- Recommendation
- Continued confidentiality of negotiating partners

Phase 4A Due Diligence, Detailed Legal Agreements & Shareholder Approval (Fall 2017)

- Announcement of exclusive negotiating partner
- Enter into MOU
- Complete detailed business case
- Fairness Opinion / Valuation
- Financial, operational, legal and regulatory due diligence
- Merger Agreement
- Shareholder Agreement
- Finalize Rate Impact
- Further community engagement
- Recommendation for SOC / Board / Council Final Decision

Phase 4B OEB MAAD Process, Post-merger Integration and Closing (Mid-2018)

- Completion and execution of merger agreement before MAAD application
- MAAD Application
- Post Merger Integration Planning / Implementation
- Closing adjustments
- Setup leadership & governance
- Completion and execution of shareholder agreement with closing.
- Closing

Kick-off with SOC

**SOC / Board / Council
Decision #1:** Confirmation of Partners and Process (June 13, 2017)

**SOC / Board / Council
Decision #2:** Decision whether to move further into merger process and decision regarding preferred merger partner (September)

**SOC / Board / Council
Decision #3:** Decision to approve merger or not (late fall 2017 / January 2018). Most likely requires two council meetings.

Closing:
Upon OEB approval



Partner Identification & Evaluation

Potential Partner Selection Process

Identification

To develop an initial partner list, it was agreed that partners should be neighbouring LDCs that are municipally-owned to align with GMHI's objectives.

Evaluation

It was agreed that research and analysis of each partner would be undertaken, as well as direct discussions with each partner. The partners would then be evaluated using the decision-making criteria developed in Phase 1 (summarized on the next page), as well as other considerations.

Merger Partner Evaluation Criteria adopted by SOC

Decision-Making Criteria adopted by SOC – Phase 1

Value for **Customers**

- Protect customers with respect to electricity distribution rates (in addition to OEB protection).
- 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 the **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**

- Realizing 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.

Continue treating Guelph Hydro employees with fairness and respect, and engage in open, honest communication with community and industry stakeholders

Other Considerations

Holistic View of Benefit for Guelph Stakeholders

It was agreed that it was important to maintain a holistic view of benefit for Guelph Stakeholders to ensure all perspectives were considered in evaluation of the merger option.

Control / Significant Influence

The concept of control or significant influence was discussed in the February 15th council meeting. Control could mean in excess of 50% ownership or at least a very significant shareholding (say greater than 35-40%). In a multi-shareholder situation, control could also mean no party has control. We would expect that the strength of the shareholder's agreement will be the most important consideration. While it was not established as a formal requirement, it has been identified as important and therefore used in the evaluation.

Other Considerations (continued)

Shareholders' Agreement

- A Shareholders' Agreement is a legal contract between shareholders that documents how key decisions will be made.
- The Shareholders' Agreement could differ in a multi-shareholder context vs a single shareholder context.
 - In a single shareholder context, it functions like a "constitution" that provides direction from the shareholder to the corporation on matters like guiding principles, objectives, types of business, dividend policy, reporting to shareholders, etc.
 - In a multi-shareholder context, in addition to being a constitutional document, it functions as an agreement between the parties that sets out and binds how they will make decisions together, including governance, dividend policy, reporting, sale of shares and other key decisions
- The Shareholders' Agreement and the governance structure are a key component of control and influence over a company. It can override rights that a shareholder would have just by their percentage ownership.

Other Considerations (continued)

Deal Certainty & Likelihood of Success

Deal Certainty refers to the engagement and commitment to the merger process of the counterparty and the likelihood that they will support a merger with a good business case. Likelihood of Success expands that concept to also consider the ability of the entity to be part of a successful merger with Guelph post-completion.

Multi-party Mergers

It was also agreed that the process needs to consider possible multiple party mergers, should those opportunities arise and demonstrate merit.

Comparison to maintaining full ownership

The merger options considered need to demonstrate clear value for Guelph relative to maintaining full ownership.

Other Considerations (continued)

Confidentiality

It is critical that the identities of the partners remain confidential for the following reasons:

1. Disclosing the names of the partners could cause commercial harm to Guelph as these negotiations are not yet exclusive;
2. Disclosing the names could cause harm to the other parties who may not have discussed this with all of their stakeholders yet; and
3. Non-disclosure agreements have been signed with these parties.



Process Recommendation

Background

Process Components

Building from the Phase 1 work and the Phase 2 Environmental Scan, the process is expected to include the following components:

- development of a business case that compares the merger option to maintaining full ownership (i.e. Phase 3); and
- entry into a memorandum of understanding ("MOU") to enable detailed transaction negotiations, including legal agreements, due diligence and further work on the business case (i.e. Phase 4).

Council will be asked for further direction after each Phase and no commitments will be made without Council direction to do so.

Outcomes from Environmental Scan

The environmental scan has identified partners that warrant further consideration and more information for Council to support their determination of a preferred partner, if any.

Key Considerations

During the environmental scan, the following key process considerations were identified and discussed:

- **Direct or competitive:** It was agreed that direct engagement with merger partners was preferred to a formal competitive process, as it was more aligned with the exploratory nature of the Guelph process and comparison to maintaining full ownership;
- **Election timing:** It was agreed that the upcoming municipal election was a significant timing consideration for all parties involved;
- **Cost effective:** It was agreed that the process needs to be designed to be cost effective while still getting Council the information they require to decide how to proceed;
- **Stakeholder engagement:** The GHESI and potential partner stakeholders should be regularly engaged to ensure all perspectives are considered;
- **Merger partner:** It is recognized that the potential merger partners will want clarity on the process and may have a limit to their engagement while they are not protected by any commitment to exclusivity with Guelph; and
- **More information:** It was recognized that with more than one strong partner, more information is needed for Council to help them assess the merits and concerns of each candidate.

Process Decisions

Based on these considerations, the following decisions are recommended:

- ***Two-step business case:*** Phase 3 should be modified to undertake a higher level business case with the recommended merger partners and then get direction from Council, which can be followed by a more detailed business case with the preferred merger partner;
- ***Report back in early fall:*** Once the first step business case is complete, then it can be brought back to Council in the early fall for direction; and
- ***Process timeline:*** The process timeline can be refined in the early fall once there is direction from the Council and clarity on the preferred merger partner with a goal to ensure it fully considers the 2018 municipal election timing.

As it is too costly to undertake detailed work with more than one party, this approach is believed to best balance getting the information required for Council with cost effectiveness and being fair and respectful to the merger partners.

Preliminary Business Case

It's expected that the business case that compares the merger partners to maintaining full ownership would consist of the following components:

- **Core Values & Strategic Rationale:** A separate discussion with each merger partner would be undertaken to identify the core values of the merged entity and the strategic rationale for undertaking the merger to determine if there is alignment with the potential merger partner and Guelph;
- **High Level Financial Analysis:** Working from financial forecasts provided by each merger partner, a financial analysis would be prepared that determines the shareholder impact (i.e. dividends, promissory note interest and return on investment) and ratepayer impact of a proposed merger with GHESI and the respective partner;
- **Operations & Synergies:** A working session would be held with each merger partner to develop a high level understanding of the potential synergies, key due diligence matters and operational impact of a merger with GHESI and the respective partner;
- **Governance:** A separate discussion with each merger partner would be undertaken regarding key governance concepts and the key terms of a shareholder agreement to understand where the parties are aligned and where they differ relative to Guelph's position on the matters;

Preliminary Business Case (continued)

- **Strategy:** The potential strategy of the merged entity would be discussed with each respective merger partner to understand the level of alignment between the parties, including operations, growth, customer experience, non-regulated operations, future consolidation and people;
- **Process:** The decision-making process and requirements would be discussed with each party to determine if it can be aligned with the Guelph process;
- **Risk Considerations & Mitigation:** The risks of a merger with each partner will be identified as well as potential mitigations of those risks;
- **Evaluation:** A more detailed evaluation of each merger partner relative to the decision-making criteria will be conducted; and
- **Recommendation:** A recommendation regarding which merger partner is best for Guelph relative to the decision-making criteria will be proposed.

It's expected that much of this would be achieved through a working session with each merger partner and follow up discussions.

Business Case (continued)

The Preliminary Business Case would not include the following:

- formal fairness opinion / valuations;
- detailed rate strategy / analysis;
- a Memorandum of Understanding;
- detailed legal agreements;
- detailed due diligence;
- organizational structure matters;
- detailed governance matters;
- leadership recommendations;
- detailed operational matters; and
- full non-regulated strategy.

Possible Process Timeline

Phase 2 Environmental Scan (April to June 2017)

- Confirm objectives / key considerations
- Confirm partners
- Preliminary discussion with partners (under NDA)
- Evaluate process
- Recommendations for SOC / Council
- Continued confidentiality of negotiating partners

Phase 3 Preliminary Business Case (June to August 2017)

- Core values / strategic rationale
- Preliminary financial model with partner involvement (shareholder & ratepayer impact vs maintaining full ownership).
- Discuss governance and shareholder agreement
- High level synergy analysis
- Recommendation
- Continued confidentiality of negotiating partners

Phase 4A Due Diligence, Detailed Legal Agreements & Shareholder Approval (Fall 2017)

- Announcement of exclusive negotiating partner
- Enter into MOU
- Complete detailed business case
- Fairness Opinion / Valuation
- Financial, operational, legal and regulatory due diligence
- Merger Agreement
- Shareholder Agreement
- Finalize Rate Impact
- Further community engagement
- Recommendation for SOC / Board / Council Final Decision

Phase 4B OEB MAAD Process, Post-merger Integration and Closing (Mid-2018)

- Completion and execution of merger agreement before MAAD application
- MAAD Application
- Post Merger Integration Planning / Implementation
- Closing adjustments
- Setup leadership & governance
- Completion and execution of shareholder agreement with closing.
- Closing

Kick-off with SOC

**SOC / Board / Council
Decision #1:** Confirmation of Partners and Process (June 13, 2017)

**SOC / Board / Council
Decision #2:** Decision whether to move further into merger process and decision regarding preferred merger partner (September)

**SOC / Board / Council
Decision #3:** Decision to approve merger or not (late fall 2017 / January 2018). Most likely requires two council meetings.

Closing:
Upon OEB approval

Next Steps – Process

- Direction from Council regarding the environmental scan recommendations;
- Discuss process and requirements with preferred merger partners and commence preliminary business case analysis; and
- Provide update to community on process and next steps, subject to confidentiality considerations regarding merger partner information.