



# PETERBOROUGH UTILITIES GROUP

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Committee of the Whole Presentation  
February 22, 2016

# PETERBOROUGH DISTRIBUTION INC. POTENTIAL DIVESTMENT

## AGENDA

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Introductions

Industry Background and Developments

Peterborough Distribution Inc.

Recommendation

Questions

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John Stephenson  
John Stephenson

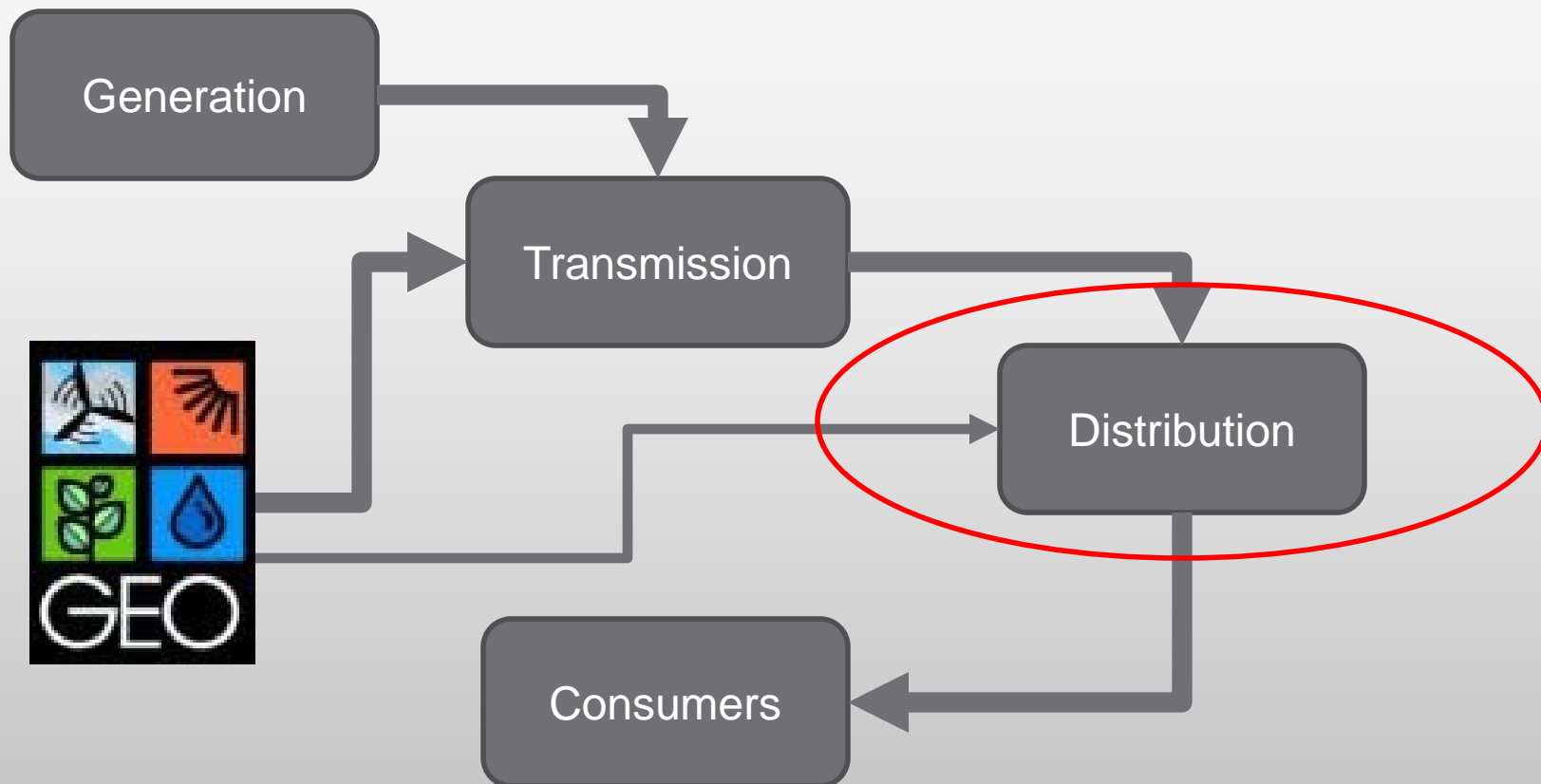
# INDUSTRY BACKGROUND AND DEVELOPMENTS

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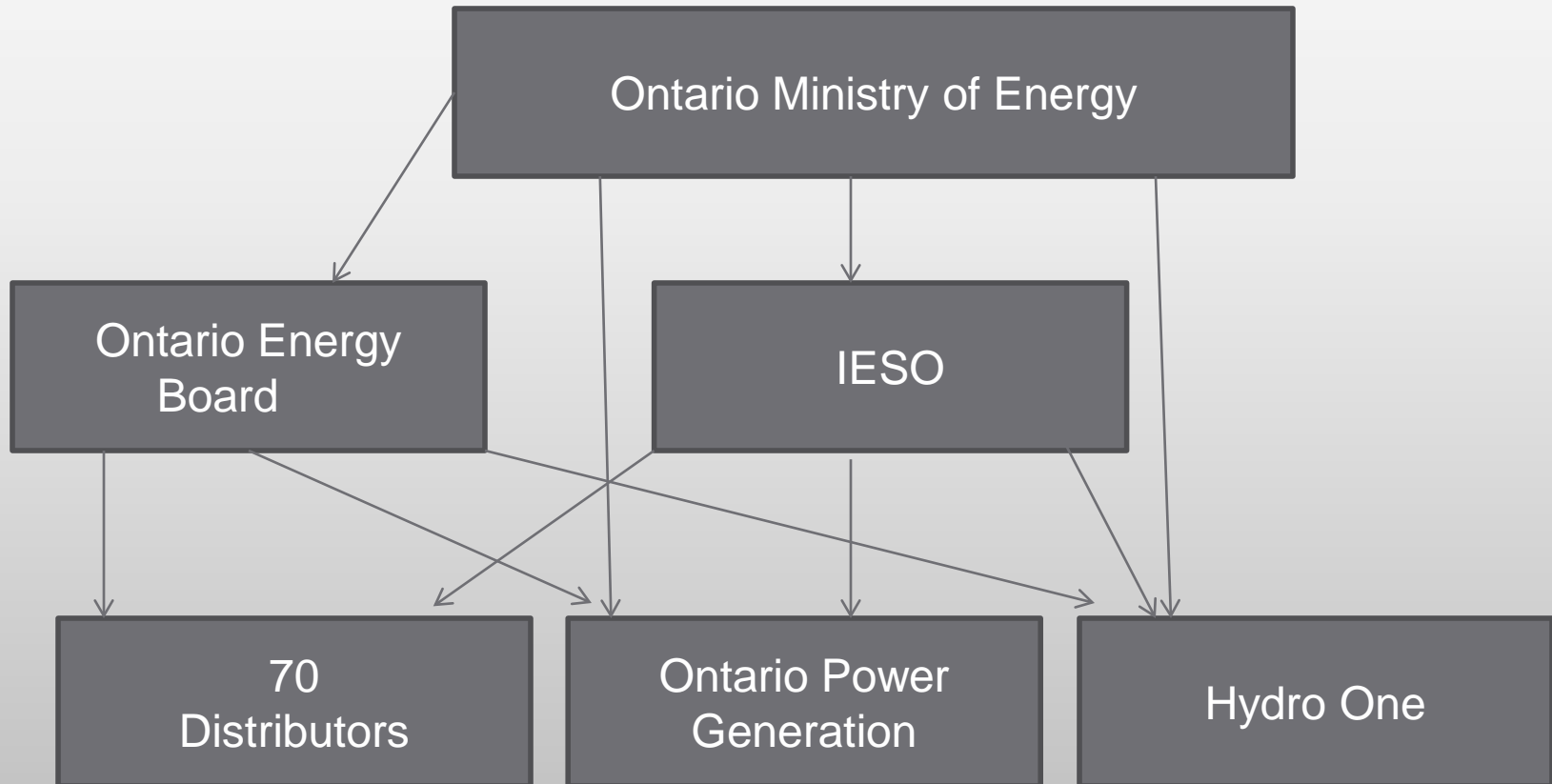
# HOW WE GOT HERE

- The starting place is to understand the history of local electricity distribution in Ontario.
- Ontario's electricity sector has undergone dramatic change over the past 15 years.
- This background and change are directly linked to the recommendation that follows.

# ONTARIO'S ELECTRICITY SYSTEM



# WHO REGULATES OR INFLUENCES OUR ELECTRICITY SECTOR?



# PDI CHARGES ARE ONLY ONE PART OF YOUR TOTAL ELECTRICITY BILL

- Delivery includes Transmission and Distribution
- PDI controllable portion ~\$27.5 or 21% of Total Electricity Charges

SAMPLE MONTHLY BILL STATEMENT Peterborough Distribution Incorporated - Main	
Account Number:	000 000 000 000 0000
Meter Number:	00000000
<b>Your Electricity Charges</b>	
<b>Electricity</b> (what is this charge?)	
Off-Peak @ 8.300 ¢/kWh	42.50
Mid-Peak @ 12.800 ¢/kWh	18.43
On-Peak @ 17.500 ¢/kWh	25.20
<b>Delivery</b> (what is this charge?)	38.05
<b>Regulatory Charges</b> (what is this charge?)	5.99
<b>Debt Retirement Charge</b> (what is this charge?)	0.00
Debt Retirement Charge exemption saved you \$5.36	
<b>Total Electricity Charges</b>	<b>\$130.17</b>
HST	16.92
<b>Total Amount</b>	<b>\$147.09</b>

# LOCAL ELECTRICITY DISTRIBUTION IN ONTARIO: A BRIEF HISTORY

- For most of the past century electricity distribution was either part of municipal government or the former Ontario Hydro.
- Up until the 1990s Ontario had 307 Municipal Electric Utilities (known as MEUs).
- 1990's produced a fundamental re-think on how electricity sector would be structured and operated.

# RETHINKING THE ELECTRICITY SECTOR IN THE 1990s

- Various Government-sponsored studies made recommendations for fundamental change:
  - **Macdonald Committee Report** in 1996
  - **Ontario White Paper** in 1997
  - ***Energy Competition Act*** introduced in 1998
- Former Ontario Hydro restructured into new, separate entities: Generation, Transmission, Distribution, System Planning, Market Operations.
- Local Distribution, like Peterborough Utilities Commission, would also change.

## *ENERGY COMPETITION ACT, 1998*

- Ontario **mandated** the restructuring of local distribution from municipal commissions to *Business Corporation Act* companies.
- Municipalities became **the utility shareholders**: a multi-\$ billion wealth transfer to municipalities.
- As the owners, municipalities given discretion to retain, sell or merge their distribution companies.
- Distribution companies regulated by the OEB.

# TODAY, LOCAL DISTRIBUTION LOOKS VERY DIFFERENT....

- Utility sales and mergers combined with municipal amalgamations resulted in a significant decrease in the number of local electric distributors.
- 307 municipal electric commissions have been reduced to around 70 Local Distribution Companies.
- Over 230 local distributors no longer exist.
- Even at around 70 distribution utilities, Ontario remains the exception in Canada.

# CHANGES OVER PAST 14 YEARS...

- Ontario Hydro no longer exists: restructured into multiple entities.
- Ontario Energy Board and other new agencies regulate local distribution, set rates, and plan for and operate the electricity system.
- The Ontario Government can and does direct policy changes.
- Local distribution becomes a *regulated, for profit, tax paying* commercial business owned by municipalities & overseen by boards of directors.

# RECENT DEVELOPMENTS:

## *DRUMMOND REPORT* (FEBRUARY 2012)

- Drummond Report contained various recommendations to make Ontario's public services economically sustainable long term and to balance Ontario's budget by 2017-2018.
- Distribution Recommendation: consolidate Ontario's remaining 70 LDCs along regional lines to create economies of scale to reduce the \$1.35 billion spent on operations, maintenance and administration by LDCs.

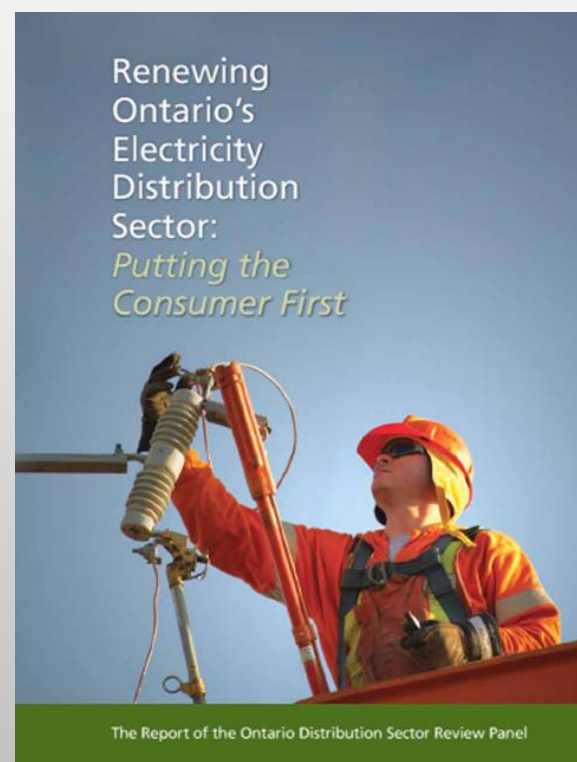
# *DISTRIBUTION SECTOR REVIEW PANEL*

## (DECEMBER 2012)

[www.energy.gov.on.ca/en/ldc-panel](http://www.energy.gov.on.ca/en/ldc-panel)

- **Key Recommendations:**

- 70 Ontario LDCs should be consolidated into **8-12 larger regional distributors**; **minimum size** in southern Ontario is **400,000 customers**
- “**Voluntary**” **first**, then mandatory consolidation
- **Potential \$1.2B in savings over 10 years**
- Mandatory mergers if voluntary consolidation not achieved within two years – mandatory mergers will value LDC assets at book value



# ONGOING DEVELOPMENTS: 2013 - 2014

## Minister of Energy Comments on Distributor Consolidation

- Distribution Sector Review Panel report contained recommendations only, not binding on Province.
- Energy Minister Bob Chiarelli has said:
  - He will not force LDC consolidation by legislation (March 18, 2013).
  - But...the sector must “***bend the cost curve***” (June 20, 2013).
- Liberals win election and form a majority government in the fall, 2014.

# ONGOING DEVELOPMENTS: 2015

On March 9/15 Minister Bob Chiarelli set out a roadmap:

- fundamental question: in the 21<sup>st</sup> century do the Province and Municipalities ***“really need to be in the distribution business?”...***
- existing LDC sector configuration ***“just doesn’t make sense...”***
- ***“our system has established and enshrined some major inefficiencies that disadvantage ratepayers...”***

## ONGOING DEVELOPMENTS: 2015

- **Clark Report** on Optimizing Government Assets adopted by Province
- **Hydro One IPO**: sell up to 60% through a public share offering
- **“905 Mega Merger”**: the new LDC sector consolidator?
- **Transfer Tax & Departure Tax** changes to provide a more level playing field for private sector investors
- ***Strengthening Consumer Protection & Electricity System Oversight Act*** enacted

## Premier's Council - Clark Report

### Final Report Issued in Spring of 2015

- The Province should proceed immediately with a sale or merger of its interest in Hydro One Brampton Networks Inc. to or with Enersource Corporation, PowerStream Holdings Inc. and Horizon Holdings Inc., intended to catalyze consolidation in the Greater Toronto and Hamilton Area and to strengthen competition in the electricity distribution sector by increasing the number of LDCs with the capacity to drive further consolidation.
- The Province should amend the transfer tax rules and departure tax rules that apply when municipal electricity utilities leave the payment-in-lieu of taxes regime both on a time-limited basis and implement these changes as quickly as possible.
- The Province should proceed with a partial sale of a portion of its interest in Hydro One as an integrated entity, including both the transmission and distribution businesses, to create a growth-oriented company centred in Ontario.

# ONGOING DEVELOPMENTS: 2015

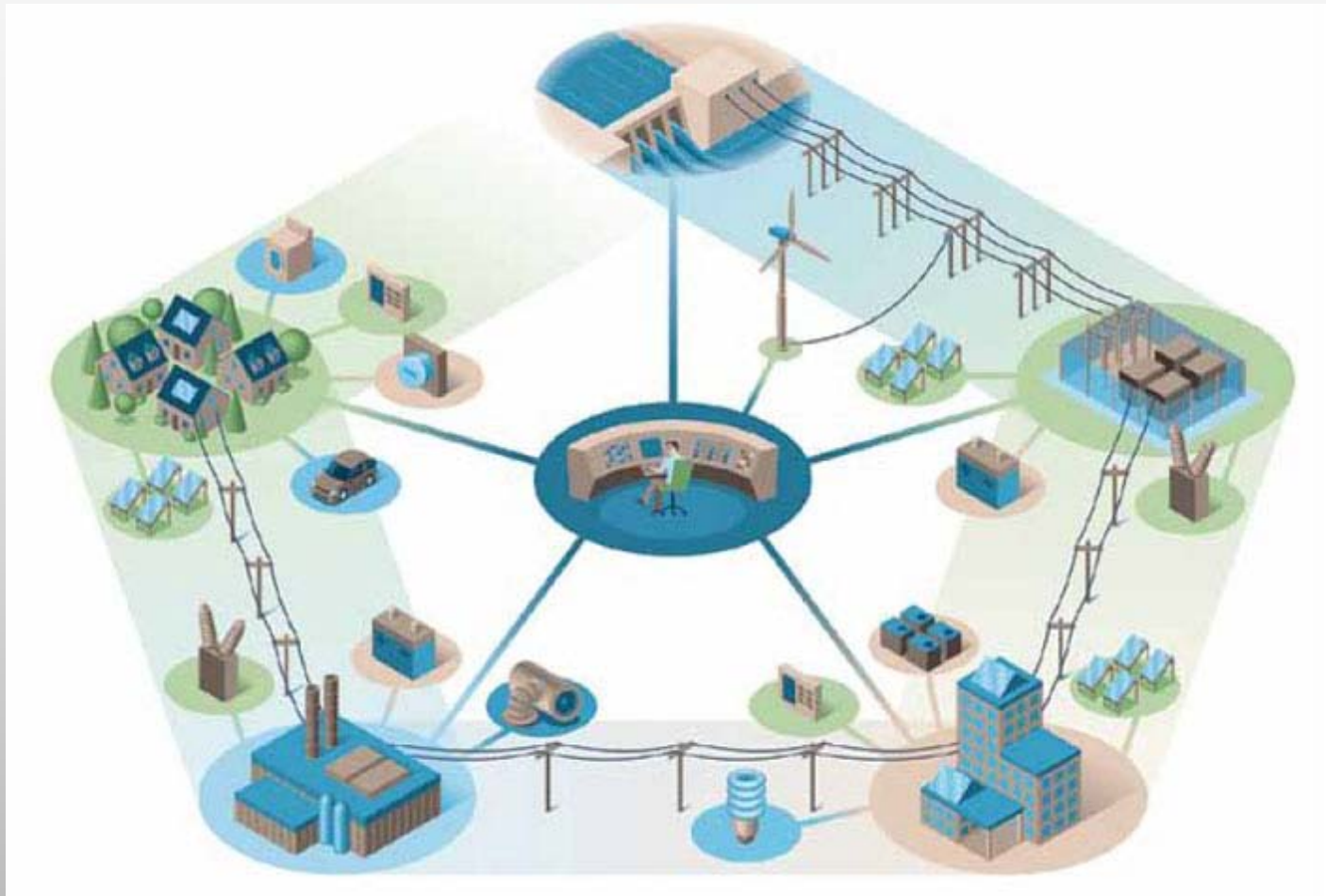
March 2015: New OEB policy on *Rate Making re. LDC Consolidation*

- Extended period for shareholders to realize efficiencies and keep “scale and scope” cost savings.
- Deferred rebasing period up to 10 years post transaction closing.
- Mandatory earning sharing mechanism in years 6 to 10 to protect ratepayers.

# INDUSTRY DEVELOPMENTS: 2015

- The Western GTA merger received approval through all municipalities and will be completed;
- Innisfil has announced disposition of 50% of their ownership in InnPower (formerly Innisfil Hydro);
- Orillia Power has announced a proposed transaction with Hydro One bringing a technology centre to the area;
- The Hydro One initial public offering was completed;
- The City of Toronto and Toronto Hydro have recently announced a desire to sell a minority position in the utility, to fund other infrastructure investment; and
- The electricity distribution landscape has changed: from the “eve of consolidation” to “***consolidation in full flight***”

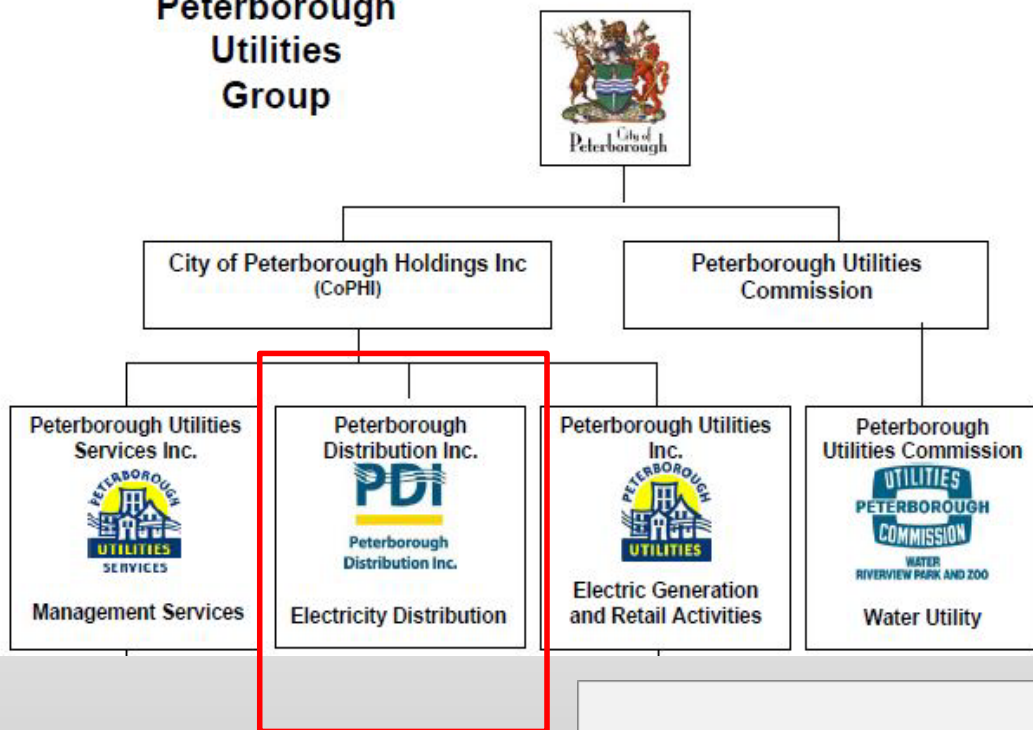
# ELECTRIC UTILITIES AS TECHNOLOGY COMPANIES: OPPORTUNITIES & RISKS



PETERBOROUGH DISTRIBUTION INC. (“PDI”)

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## Peterborough Utilities Group

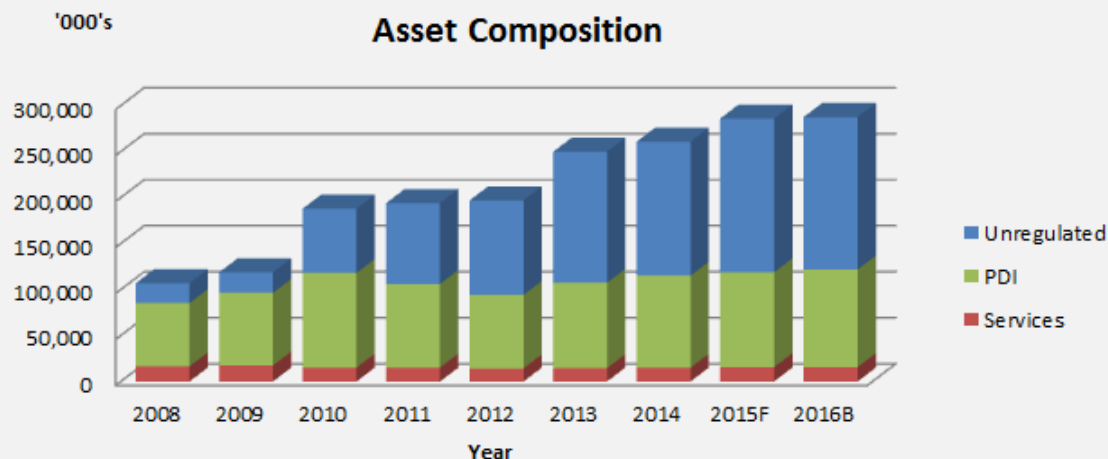


PDI represents  
~37% of the total  
COPHI assets

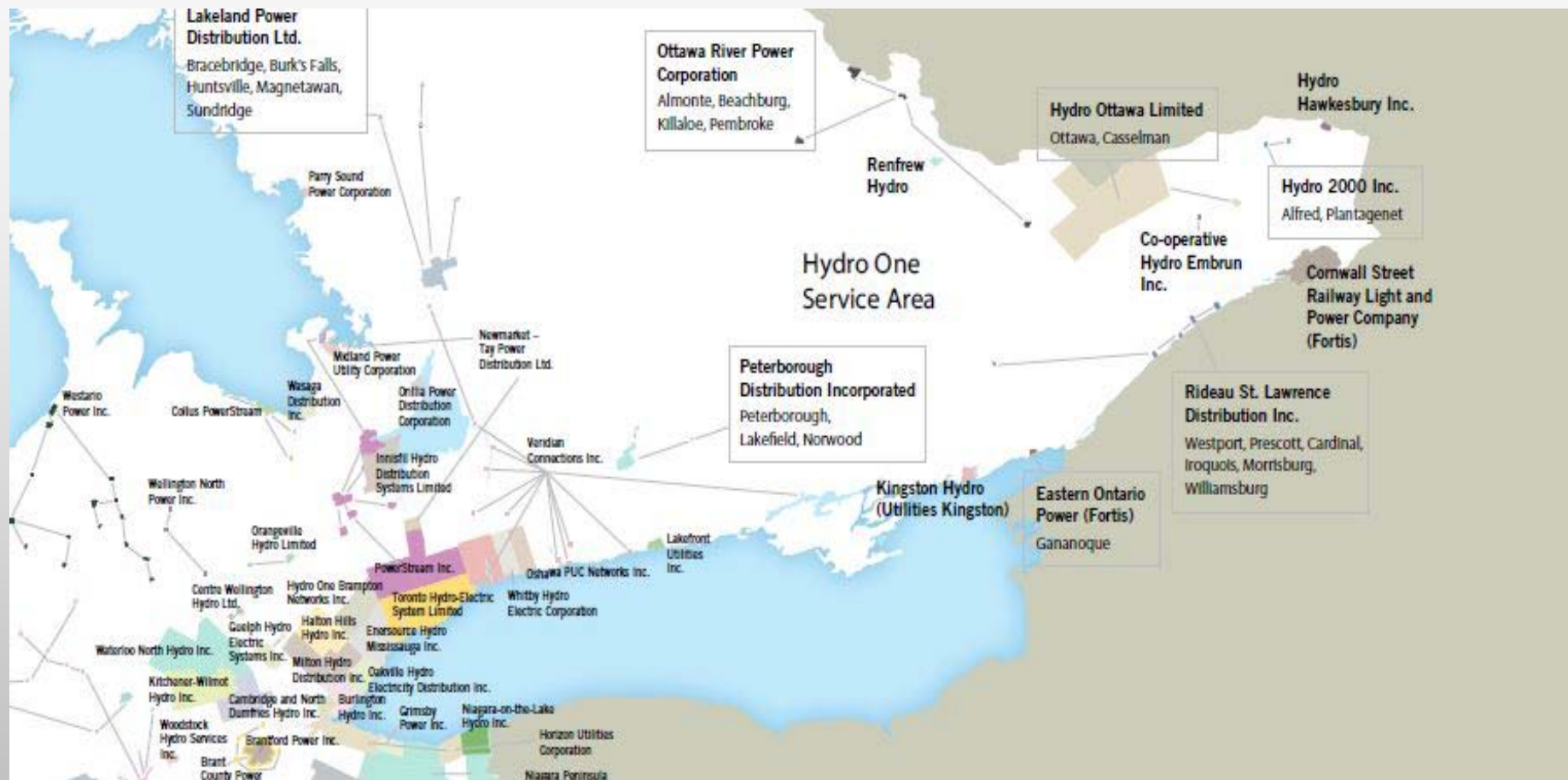
## ABOUT PDI

- Directly owned by the City of Peterborough Holdings Inc. ("COPHI")
- For the City of Peterborough
- It is regulated by the Ontario Energy Board

**COPHI  
Asset Composition**



# PDI SERVICE TERRITORY



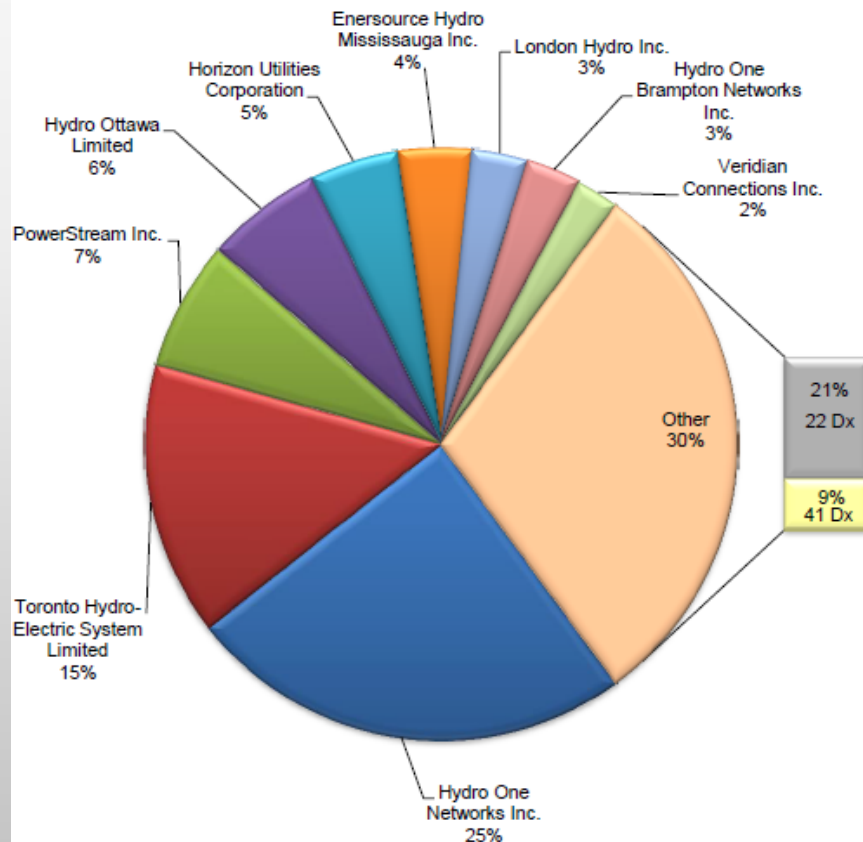
Contiguous Service Territory is Desirable

# PDI RELATIVE SIZE

PDI is:

- ~36,000 Customers
- 25<sup>th</sup> largest of 72 Utilities
- There are 44 utilities that now qualify for tax free transfer commencing January 1, 2016

Percentage of Distribution Customers



Note: 9 distributors have greater than 100,000 customers.  
The Other category consists of distributors:

■ Between 25,000 to 100,000 customers ■ Less than 25,000 customers

# PDI FUTURE

## PDI Strengths:

- PDI is very cost efficient and well run – that is not the issue

## Key Environment Risks:

- Regulatory pressure against cost recovery has increased
- Sourcing low cost capital to address needs of the “future utility” is questionable
- Political and industry direction to consolidate to 8 regional utilities with 400,000 customers each
- Industry must create ~\$1.3 billion of efficiencies for all consumers

## In Light of these Risks – in the Future:

- PDI as a 36,000 customer utility – in the long run will not sustain its historic performance - it is not big enough
- Value to the community – jobs, low rates and economic returns will decrease with time – without action to capture

# COPHI WORK TO DATE

COPHI as Owner of PDI and on behalf of the City:

- Has held discussions with Hydro One to review potential options to:
  - Preserve and Build Jobs;
  - Protect Customer Rates and Service;
  - Preserve Financial Value for the City;
- Has developed a draft proposal to dispose PDI to Hydro One –
  - This is still being developed
  - Public input regarding the path for PDI, and the proposal, needs to be scheduled – when ready.

# RECOMMENDATION

We are recommending to the City:

*That a public session be conducted to receive constituent input on these matters*

# QUESTIONS

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