



City of
Peterborough

To: **Members of Committee of the Whole**

From: **Allan Seabrooke, Chief Administrative Officer**

Meeting Date: **June 20, 2016**

Subject: **Report CAO16-008
Peterborough Distribution Inc. (PDI) Divestment Update and
Public Meeting and Constituent Input**

Purpose

A report to update Council on potential Peterborough Distribution Inc. (PDI) divestment, the public meeting held March 3, 2016 and general constituent input received.

Recommendations

That Council approve the recommendations outlined in Report CAO16-008, dated June 20, 2016, of the Chief Administrative Officer, as follows:

- a) That Report CAO16-008 providing an update on potential Peterborough Distribution Inc. (PDI) divestment, information received at the March 3, 2016 public meeting and general constituent input be received for information;
- b) That staff be authorized to engage the firm of Navigant Consulting Inc. and external legal counsel Miller Thomson to provide insight on the current and projected future climate of local electricity distribution companies.

Budget and Financial Implications

There are no budget and financial implications to approving recommendation (a) which is presented for information purposes.

To date, however, \$88,000 has been expended by the City on external legal fees with respect to negotiations on a potential divestment of PDI.

There are substantial financial considerations and options for the City should an eventual transaction occur divesting PDI.

Background

Previous Council Direction

On February 22, 2016, Committee of the Whole considered, and Council approved, the following recommendations based on Report CAO16-005:

- a) That Report CAO16-005, and presentation by PUG providing an update on a potential transaction involving the sale of PDI to Hydro One be received for information;
- b) That staff be directed to initiate a public process to receive constituent input on the sale of PDI to Hydro One.

About PDI

PDI is the regulated business of Peterborough Utilities Group (PUG). It is one business segment of PUG and should any divestment be approved by Council, it is only this part of the business, not the other companies within PUG (Appendix A). PDI represents approximately 37% of the total City of Peterborough Holdings Inc. (COPHI), is comprised of approximately 36,000 customers and ranks 24th in terms of size among the 72 utilities in the province.

PDI is directly owned by COPHI, on behalf of the City of Peterborough. In turn, PDI is regulated by the Ontario Energy Board, as are all local distribution companies (LDC's) in the province. The City is the sole shareholder of COPHI and all of its subsidiaries, and as set out in the Shareholder's Declaration, City Council approval is required to divest part or all of PDI.

Progress on Negotiations

Based on Council direction, the work of the PDI Steering Committee has continued with respect to exclusive negotiations with Hydro One to divest PDI. There are several complex elements to consider in a potential transaction consisting of an asset purchase agreement, real estate purchase agreement, interim lease agreements, and service level agreements that take considerable time and consideration. The PDI Steering Committee, with the assistance of PUG legal counsel, and external counsel for the City of Peterborough, continue to work through negotiations. At this time, however, a formal approved offer has not been received from Hydro One by the Committee. When the negotiations are concluded with Hydro One, the PDI Steering Committee will report to the COPHI Board with subsequent recommendations on a future course of action for Council consideration.

At this juncture, however, staff are recommending that the City engage the firm of Navigant Consulting Inc. and external legal counsel Miller Thomson to provide the City with an independent third party review of the electricity distribution sector. Navigant is a specialized global professional services firm that focuses on assisting clients with decision making when facing transformational change. Navigant's Energy Sector Practice has substantial energy market experience across a broad range of disciplines and has been intimately involved with governments and utilities on evaluating potential transactions, regulatory strategy and new business opportunities. The firm offers a custom approach to providing insight and analytics in the complex and ever-evolving electricity distribution industry.

In accordance with the City's Purchasing By-Law 14-127, Section 9.1.2 (i), Navigant is recommended for engagement in a non-competitive procurement process as this consultant has worked with the City previously providing this service.

While considerable information has been provided to City staff, and Council from PDI, Hydro One and their respective legal counsels, it is prudent for the City as part of our due diligence and evaluation of the future of our local utility to engage a third party to evaluate and provide the current and projected future state of the electricity distribution sector based on their knowledge. In addition, the City would continue to engage the firm of Miller Thomson to represent the legal interests of the City in evaluating any potential transactions involving PDI.

Based on Council direction through Report CAO16-005 in open session on February 22, 2016, staff organized and held a public meeting on the potential sale of PDI to Hydro One on Thursday, March 3, 2016 at Market Hall, Peterborough. In addition, public input on the matter was accepted through online comment cards until the end of March. The public meeting was advertised to the public through a variety of means including February 24 and 29 media releases, internet posting on the City website, newspaper ads on March 1, 2016 in the Peterborough Examiner, March 2, 2016 Peterborough This Week, and Twitter on March 1, 3 and 4, 2016.

Public Meeting March 3, 2016

The public meeting was hosted by the City on March 3, 2016 at Market Hall, Peterborough to receive input from residents regarding the potential sale of PDI to Hydro One. The meeting consisted of presentations by John Stephenson, President and Chief Executive Officer of PUG; Mark Rodger, Senior Partner at the Toronto law firm Borden Ladner Gervais; Richard Bertolo, Director of Value Growth for Hydro One; and Daffyd Roderick, Director of Corporate Affairs of Hydro One. The speakers entertained questions and comments from the public in attendance, throughout the presentations. A comment box was also placed in the lobby for those that wished to provide input in writing.

The first presentation by Mark Rodger, partner at Borden Ladner Gervais LLP, provided constituents with background on the utility industry in terms of history, sector changes over the past 15 years and how this background and change are directly linked to the discussions between PDI and Hydro One (Appendix B).

John Stephenson, President and CEO of PUG presented details with respect to the structure of PDI, service territory and size, and future perspectives regarding the utility (Appendix C).

Richard Bertolo, Director, Value Growth for Hydro One, discussed the company's existing transmission and distribution network, points of discussion with PDI and positive impacts to Peterborough (Appendix D).

Lastly, Daffyd Roderick, Director of Corporate Affairs, Hydro One, discussed customer service in terms of current performance, past challenges and customer commitments and guarantees (Appendix E).

During the public meeting, 41 individuals (shown in Appendix F) addressed questions and/or comments to the panel. The 41 individuals that spoke at the public meeting opposed the sale of PDI to Hydro One. The speakers' main comments centred around the general disagreement with privatization, concerns about increased hydro rates, prospects for loss of local jobs from the unions, desire for local control, and the perception of the past poor performance of Ontario Hydro, continuing with Hydro One, including service response and their business model. There was also a desire to ensure that the Riverview Park and Zoo and the water services remain under local ownership and that any potential sale would not impact the financial feasibility of the remaining part of the business.

General Constituent Input Summary

In addition to verbal input from the March 3, 2016 public meeting, constituents were invited to complete comment cards at the public meeting or to complete on line, through the City website, until March 31, 2016. We received a total of 251 questions or

comments through these processes, which are attached as Appendix G. The majority of comments express opposition to a sale, citing the following:

- Concern about increased rates
- Disagreement with the principle of privatization
- Poor reputation of Hydro One
- Loss of local jobs
- Desire to slow the process down
- Keeping local ownership

The questions asked by respondents were predominantly financial in nature, while others had questions with respect to process, timing, provincial oversight/regulation, other local public utilities, servicing and employee guarantees. Where appropriate and available, an email response was sent to constituents' questions.

In addition to the 251 questions/comments received on comment cards, various emails were received by the Mayor and Councillors expressing opinions on the sale. Staff are aware of approximately 25 individuals that provided comments through this avenue. The majority also expressed opposition for predominantly the same reasons as articulated earlier in this report.

The majority of concerns, comments and questions raised by constituents, both during the March 3 public meeting and subsequent correspondence, are addressed in the presentations from PUG and Hydro One and have been reinforced to constituents in recent direct response emails.

In particular, there is a perception that a PDI sale to Hydro One will directly result in increased consumer rates in the future. As is noted in the presentations, regardless of ownership of the utility, future consumption rates are and will still be controlled and set by the province through the Ontario Energy Board. The PDI charges (delivery including transmission and distribution) which are the only controllable portion represent approximately 19% of an average monthly electricity charge. Further, in the event of a sale, Hydro One has committed in other purchase transactions to a reduction in this delivery charge of one per cent and a five year freeze on the distribution rate.

Hydro One acknowledges previous customer service and performance issues in the past, as referenced by constituents. The Hydro One presentation on March 3, 2016 details how the company has improved billing, general customer service and instituted service performance guarantees.

Lastly, the concept of privatization of Hydro One has not been addressed during this process, given that this is within the provincial scope, not municipal.

Correspondence from President/CEO of PUG

Attached as Appendix H is correspondence received from the President/CEO of PUG. It is a brief update on progress that has been made on pulling together the information on the proposed transaction with PDI. The correspondence also summarizes and addresses various issues on the matter. During the public meeting and general constituent input questions were posed. The attached document provides further details, many of which were provided to constituents in response to their questions over the last few months.

Summary

The work of the PDI Steering Committee has continued with respect to exclusive negotiations with Hydro One to divest PDI. A formal approved offer has not been concluded at this time. However, when this occurs, the Committee and COPHI Board will provide a subsequent recommendation to Council on next steps.

At this time, staff are recommending that the City engage the firm of Navigant Consulting and external legal counsel Miller Thomson to provide the City with an independent third party review of the electricity distribution sector.

A public process was initiated to receive constituent input on the potential divestment of PDI to Hydro One. This input to date consisted of a public meeting on March 3, 2016 and receipt of on line comments through the City website. The results of the consultation are presented in this report and responses have been provided to all constituent's questions.

Submitted by,

Allan Seabrooke
Chief Administrative Officer

Contact Name:
Allan Seabrooke
Chief Administrative Officer
Phone: 705-742-7777 Ext. 1810
Toll Free: 1-855-738-3755
Fax: 705-749-6687
E-Mail: aseabrooke@peterborough.ca

Attachments:

Appendix A – Peterborough Utilities Group Corporate Structure Chart

Appendix B – Industry Background and Developments
Mark Rodger, Partner, Borden Ladner Gervais LLP

Appendix C – Peterborough Distribution Inc.
John Stephenson, President and CEO

Appendix D – Hydro One
Richard Bertolo, Director Value Growth

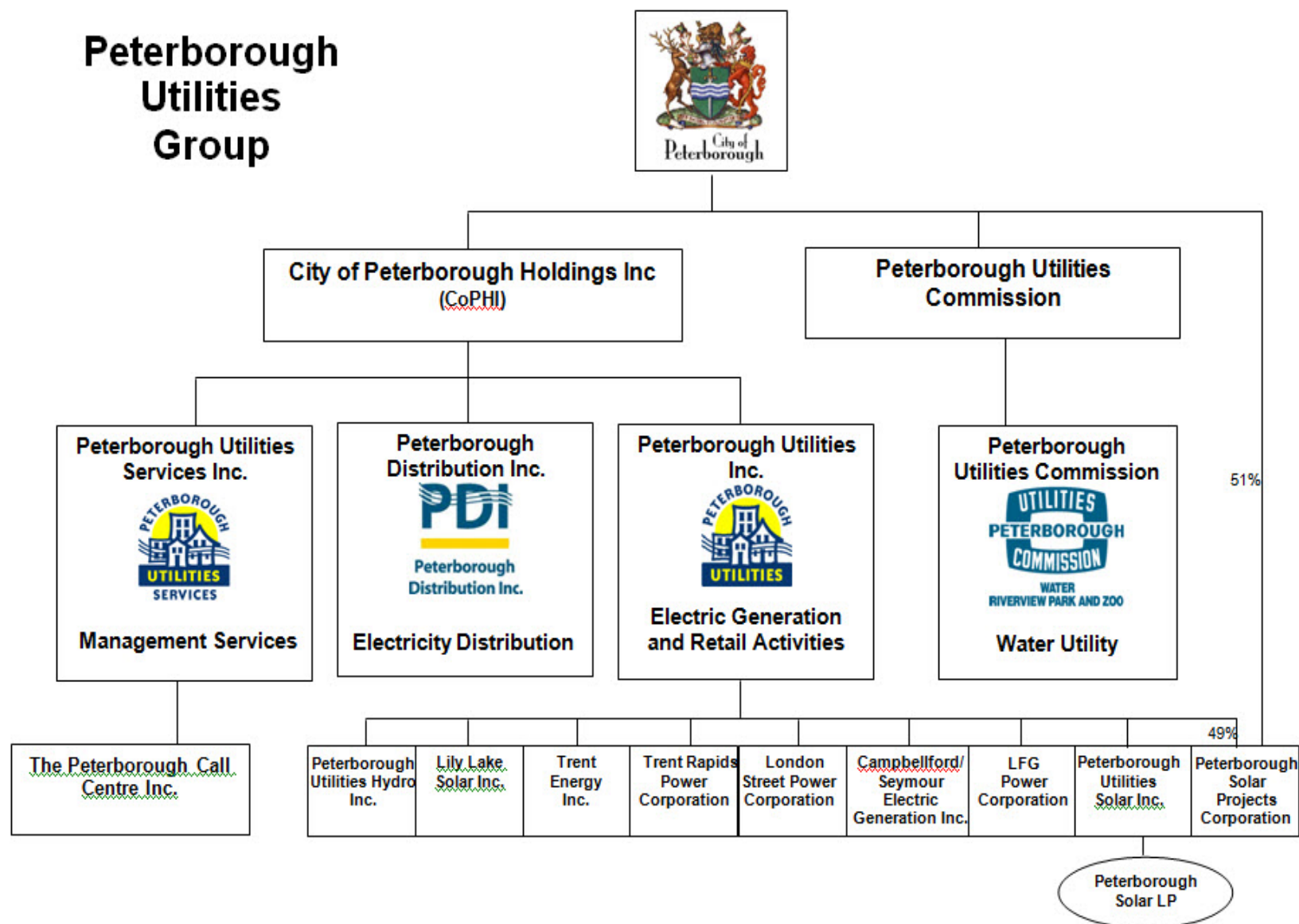
Appendix E – Hydro One
Customer Service, March 2016

Appendix F – Public Information Session Comments, March 3, 2016

Appendix G – Comment Cards (with responses where applicable)
Potential Sale of PDI to Hydro One (March 3 to March 31, 2016)

Appendix H – Correspondence from John Stephenson to Allan Seabrooke, May 18,
2016

Peterborough Utilities Group



June 2015

PETERBOROUGH DISTRIBUTION INC. AGENDA

Introductions

Industry Background and Developments

Peterborough Distribution Inc.

Hydro One Presentation

Questions

Mark Rodger,
Borden Ladner Gervais LLP
John Stephenson, PUG
Richard Bertolo, Hydro One

INDUSTRY BACKGROUND AND DEVELOPMENTS

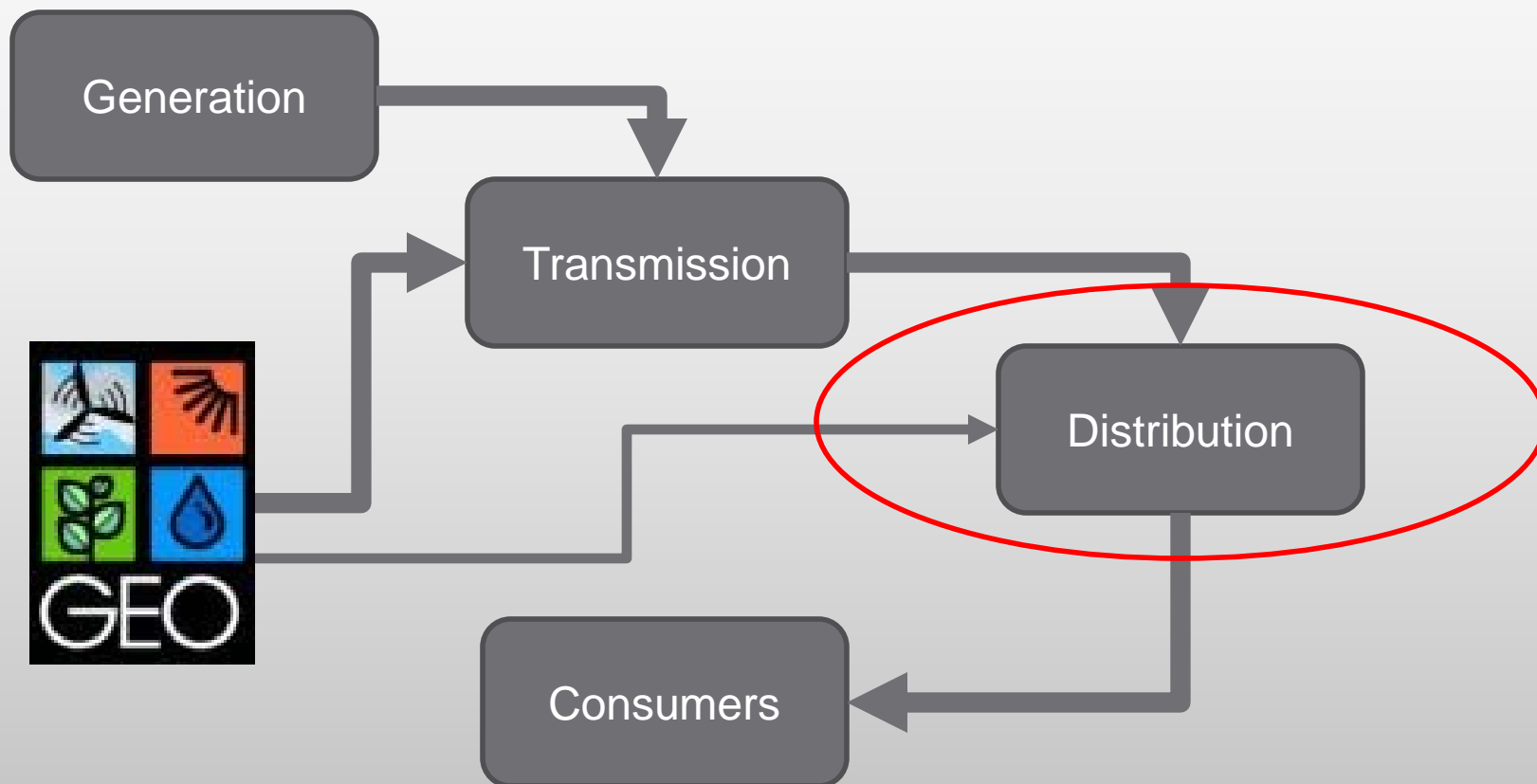
J. MARK RODGER, PARTNER
BORDEN LADNER GERVAIS LLP
MRODGER@BLG.COM

HOW WE GOT HERE

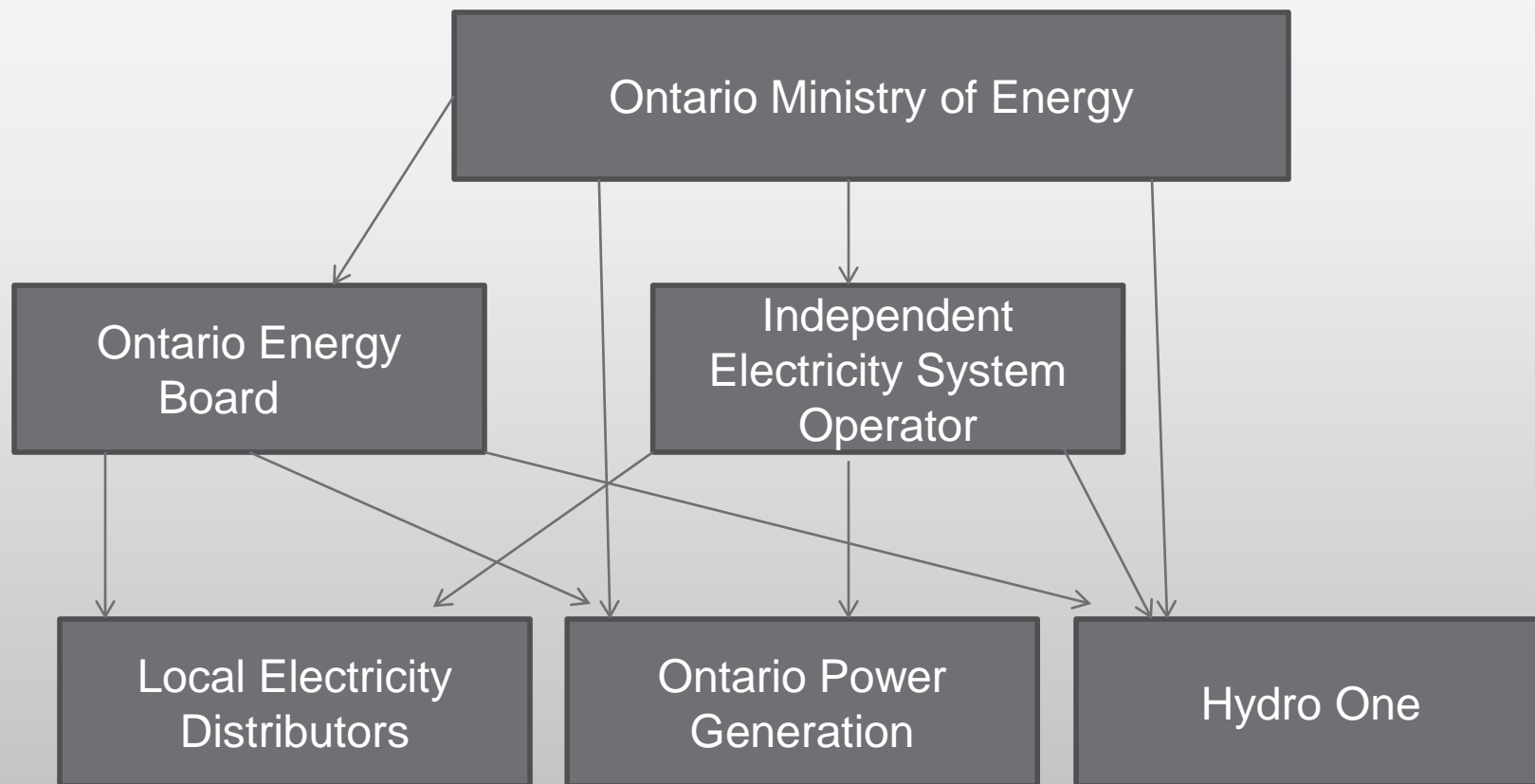


- The starting place is to understand the history of local electricity distribution in Ontario.
- Ontario's electricity sector has undergone dramatic change over the past 15 years.
- This background and change are directly linked to the discussions between the City, Peterborough Distribution Inc. & Hydro One.

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 19% of Total Amount

SAMPLE MONTHLY BILL STATEMENT Peterborough Distribution Incorporated - Main	
Account Number:	000 000 000 000 0000
Meter Number:	00000000
Your Electricity Charges	
Electricity (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
Delivery (what is this charge?)	38.05
Regulatory Charges (what is this charge?)	5.99
Debt Retirement Charge (what is this charge?)	0.00
Debt Retirement Charge exemption saved you \$5.36	
Total Electricity Charges	\$130.17
HST	16.92
Total Amount	\$147.09

LOCAL ELECTRICITY DISTRIBUTION IN ONTARIO: A BRIEF HISTORY

- Until the late 1990s Ontario had 307 local Municipal Electric Utilities.
- Local distribution was part of municipal government or the former Ontario Hydro.



RETHINKING THE ELECTRICITY SECTOR IN THE 1990s

- Various Government-sponsored studies made recommendations for fundamental change.
- Ontario Hydro and local distribution restructured in fundamental ways.



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 Ontario Energy Board.

TODAY, LOCAL DISTRIBUTION LOOKS VERY DIFFERENT

- 307 local distributors now reduced to around 70.
- Ontario remains the exception in Canada.



CHANGES OVER PAST 16 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 has become a *regulated, for profit , tax paying* commercial business owned by municipalities & overseen by boards of directors.

RECENT DEVELOPMENTS: DRUMMOND REPORT (FEB. 2012)

- Recommendation for Distribution Sector: consolidate Ontario's remaining 70 distributors along regional lines to create scale economies and ***reduce \$1.35 billion in costs.***



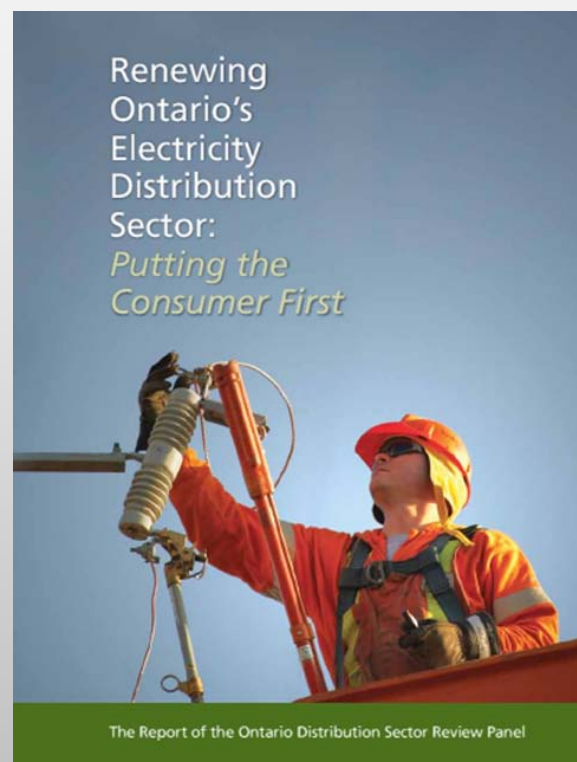
DISTRIBUTION SECTOR REVIEW PANEL

(DECEMBER 2012)

www.energy.gov.on.ca/en/ldc-panel

- **Key Recommendations:**

- Reduce 70 distributors 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

Minister of Energy response to Consolidation Report

- Review Panel report contained recommendations, not binding on Ontario.
- Province won't force consolidation **BUT** sector must ***“bend the cost curve”***.



FURTHER GOVERNMENT CLARIFICATION



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

- in the 21st century does Ontario and Municipalities ***“really need to be in the distribution business?”***
- Existing distribution sector configuration ***“just doesn’t make sense...”***
- ***“Our system has established & 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

ONGOING DEVELOPMENTS



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

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

RECENT DEVELOPMENTS

- First phase of ***Hydro One IPO*** completed.
- ***“Mega Merger”*** = Mississauga, Hamilton, St. Catharines, Markham, Vaughan, Barrie, Hydro One Brampton
- ***Norfolk, Brant County, Woodstock, Orillia, Innisfil, Haldimand , other?***
- ***Toronto Hydro IPO?***



RECENT INDUSTRY DEVELOPMENTS

- 1990's = 307 electric distributors
- 2000's = 150 electric distributors
- 2013 = 80 +/- electric distributors
- 2016 = 50 +/- electric distributors
- 2019 = How many will remain? What will be their prospects?



IN CONCLUSION...

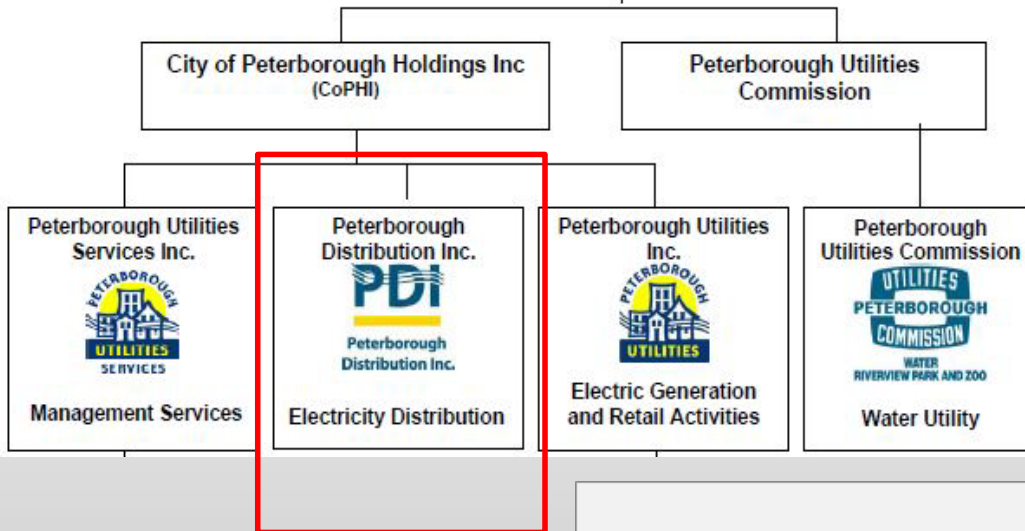
- Discussions about the future of local distribution are occurring across Ontario – not only in Peterborough.
- Significant change will continue to occur.
- Peterborough's leadership will assist other municipalities.



PETERBOROUGH DISTRIBUTION INC. (“PDI”)

JOHN STEPHENSON, PRESIDENT & CEO

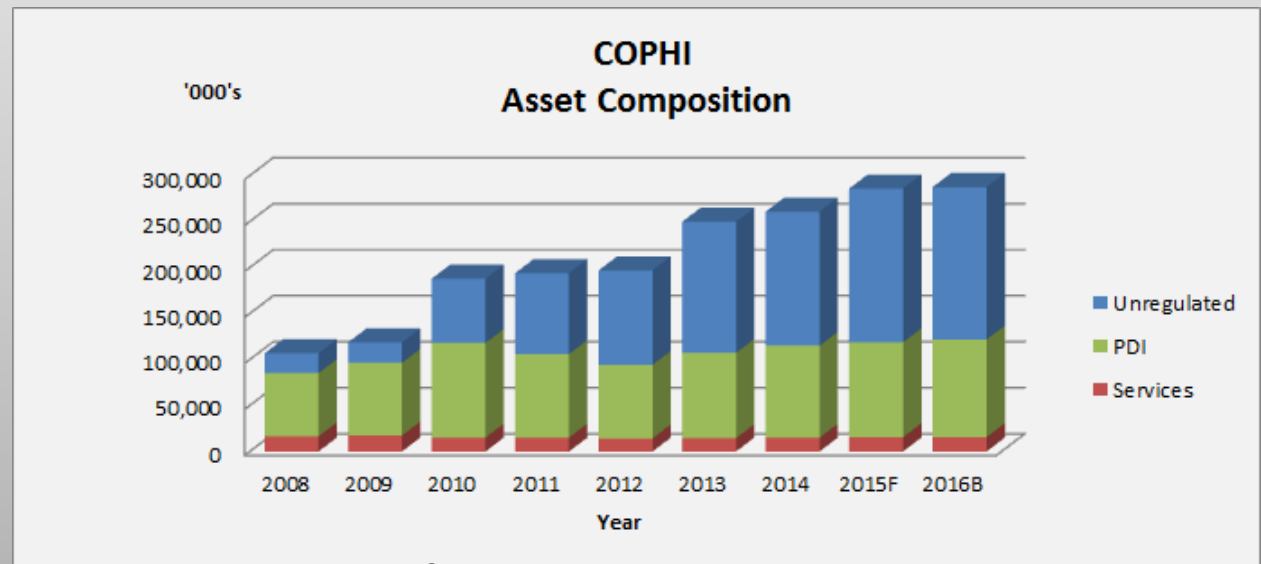
Peterborough Utilities Group



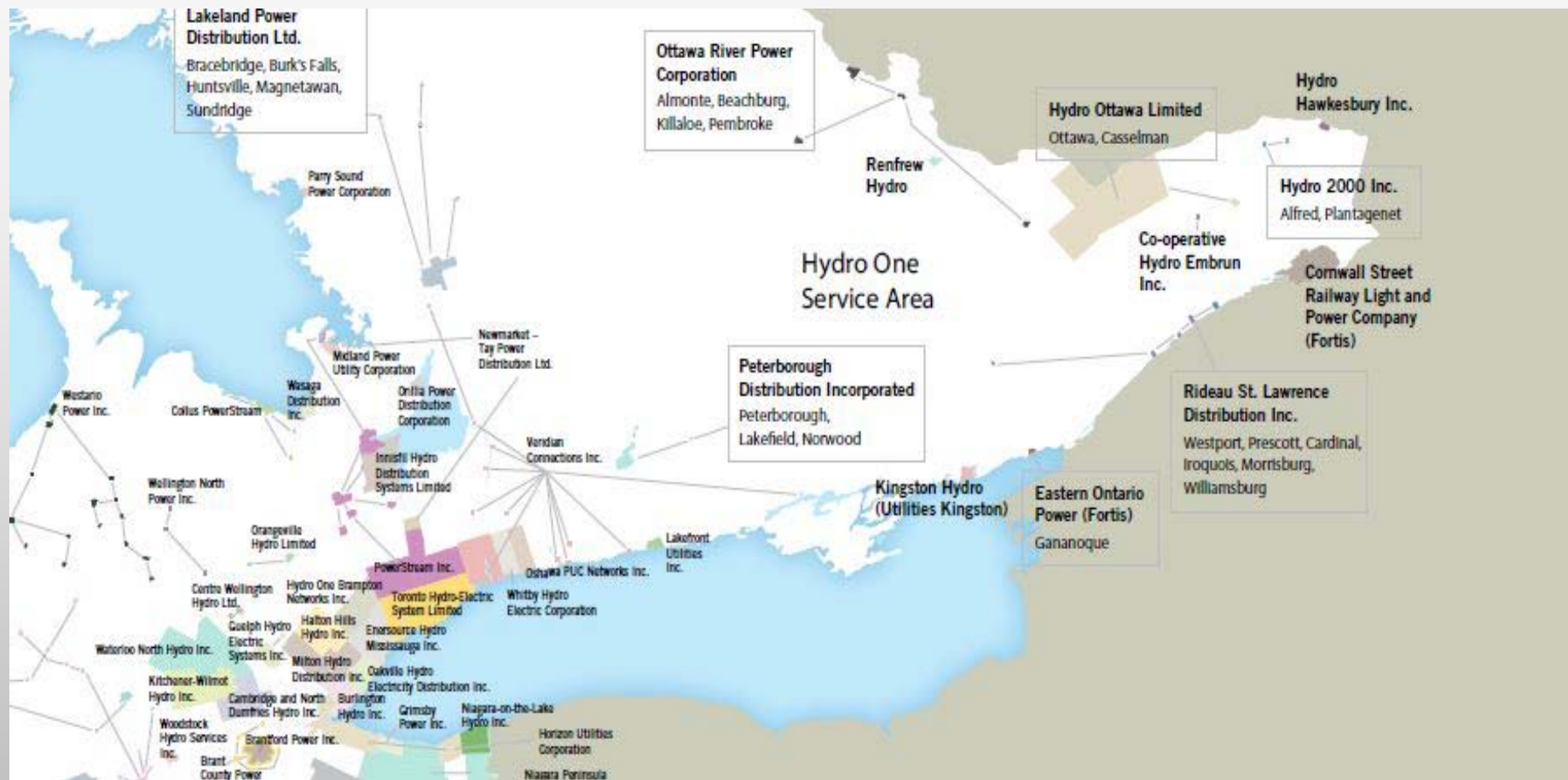
PDI represents
~37% of the total
COPHI assets

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



PDI SERVICE TERRITORY



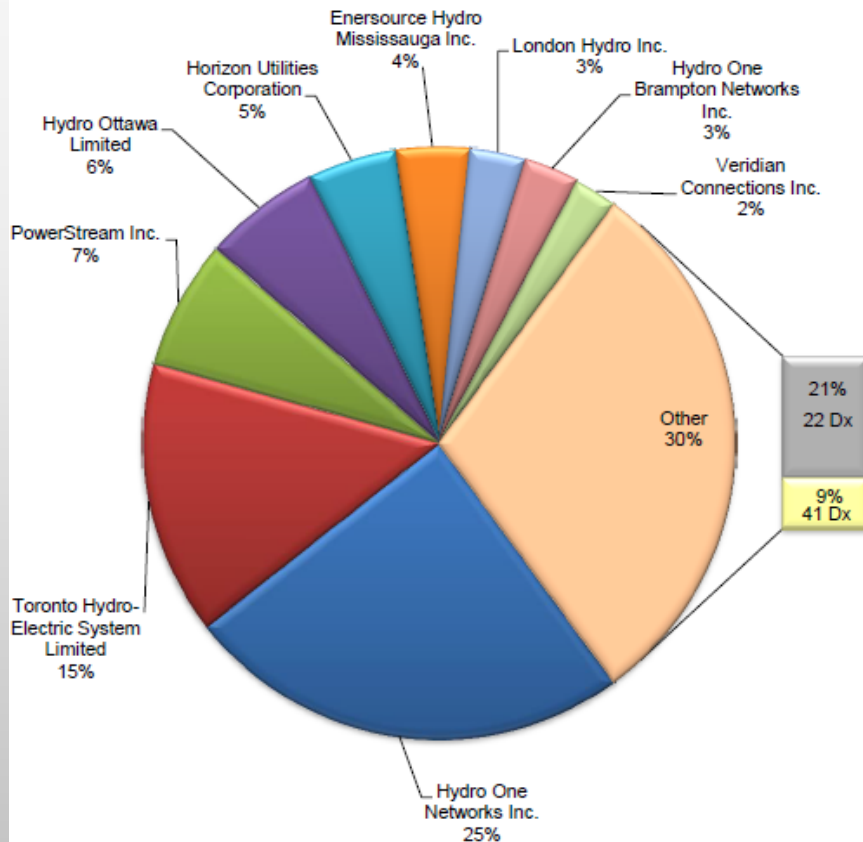
Contiguous Service Territory is Desirable

PDI RELATIVE SIZE

PDI is:

- ~36,000 Customers
- 25th 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

Diagram courtesy of OEB 2014 Yearbook

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 PDI's future path is a key piece to Council's deliberations.

HYDRO ONE

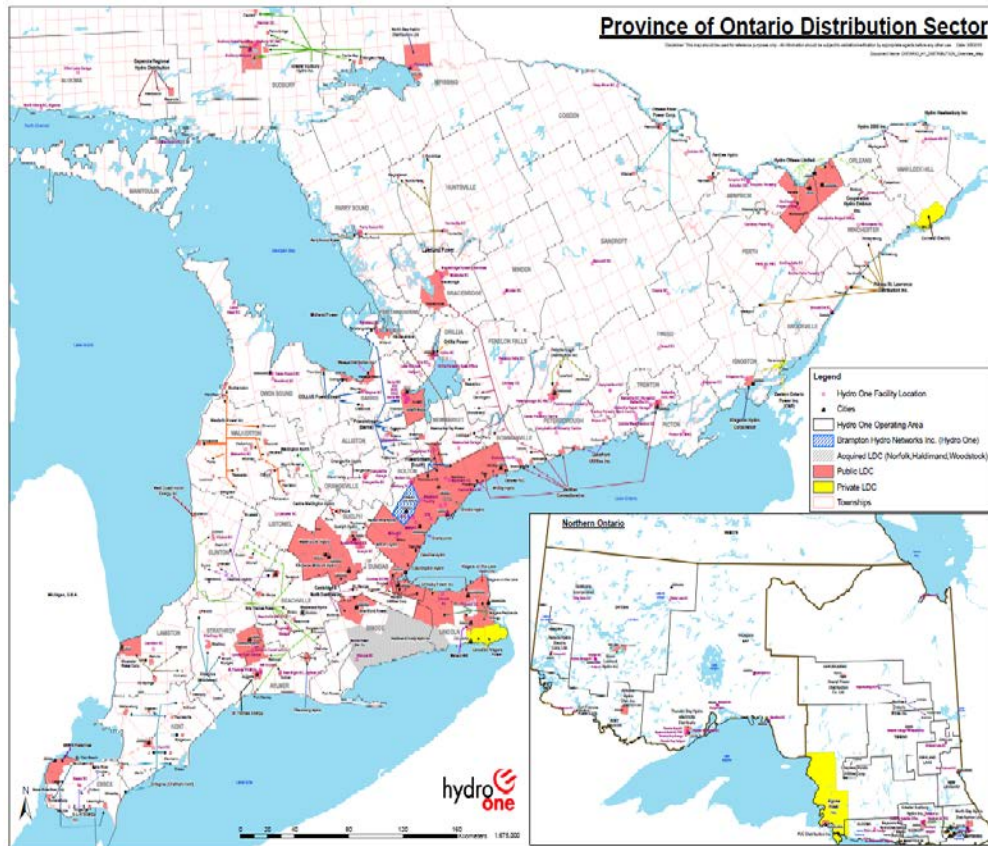
RICHARD BERTOLO – DIRECTOR, VALUE GROWTH
IMRAN MERALI – DIRECTOR, CUSTOMER PROGRAM DELIVERY
BILL SMEATON – ASSISTANT DIRECTOR, PROVINCIAL LINES

Who are we? TSX: H

"lowest cost of capital in sector" **hydro one**

Transmission:

- 29,000 (circuit - km) interconnected
- 92,000 towers; 4,000 km's fibre; 292 stations
- Average annual capital investment ~\$1B

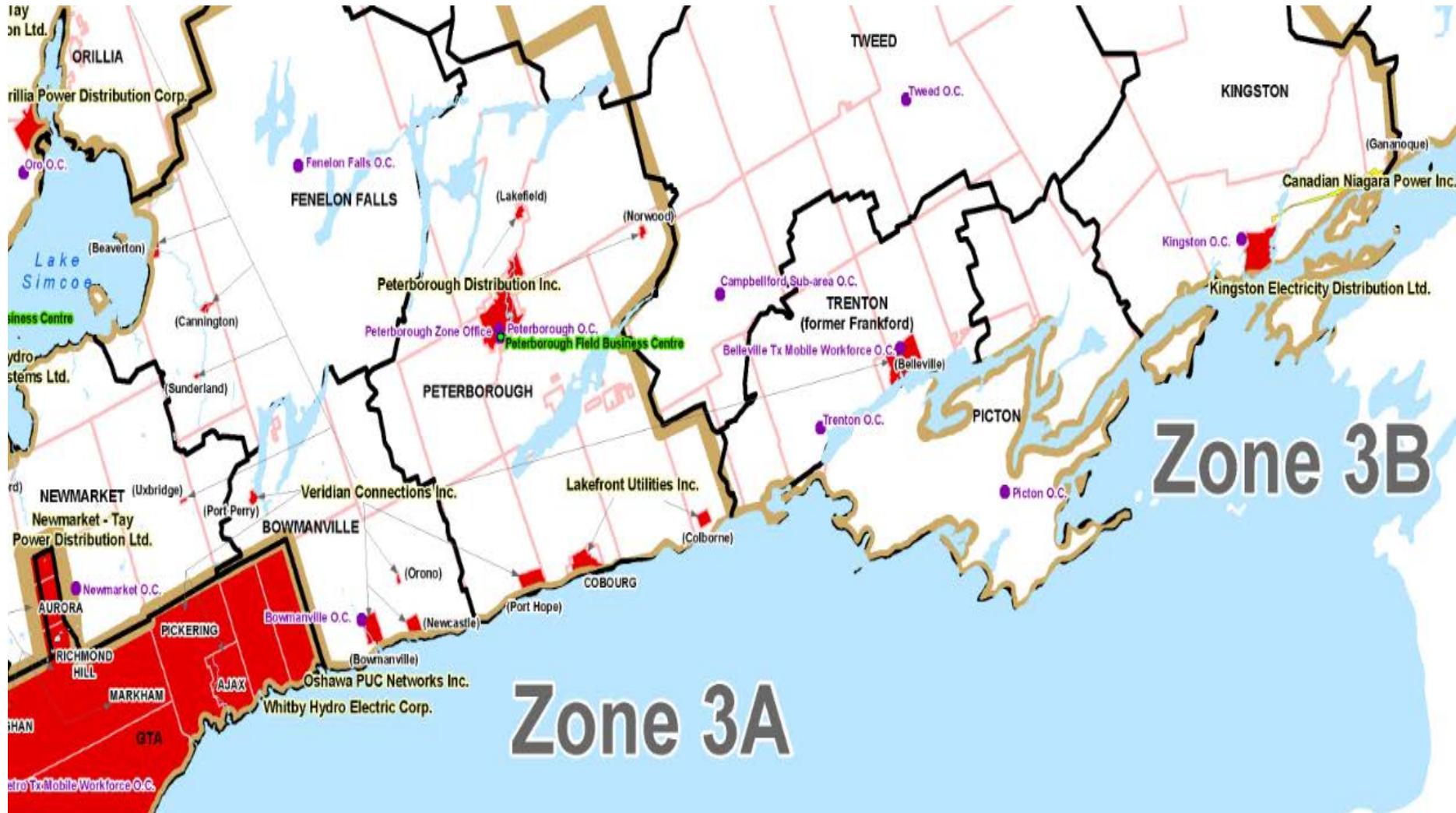


Distribution:

- 123,000 km of distribution lines,
- Over 650,000 sq km service territory
- 1.6m poles; 1.3m customers (225k urban); 1,000 stations; over 7,000 fleet
- Average annual capital investment ~\$750m
- 89 LDC Acquisitions most recently Norfolk, Haldimand and Woodstock

Extensive operation in the area

Operations throughout the area!

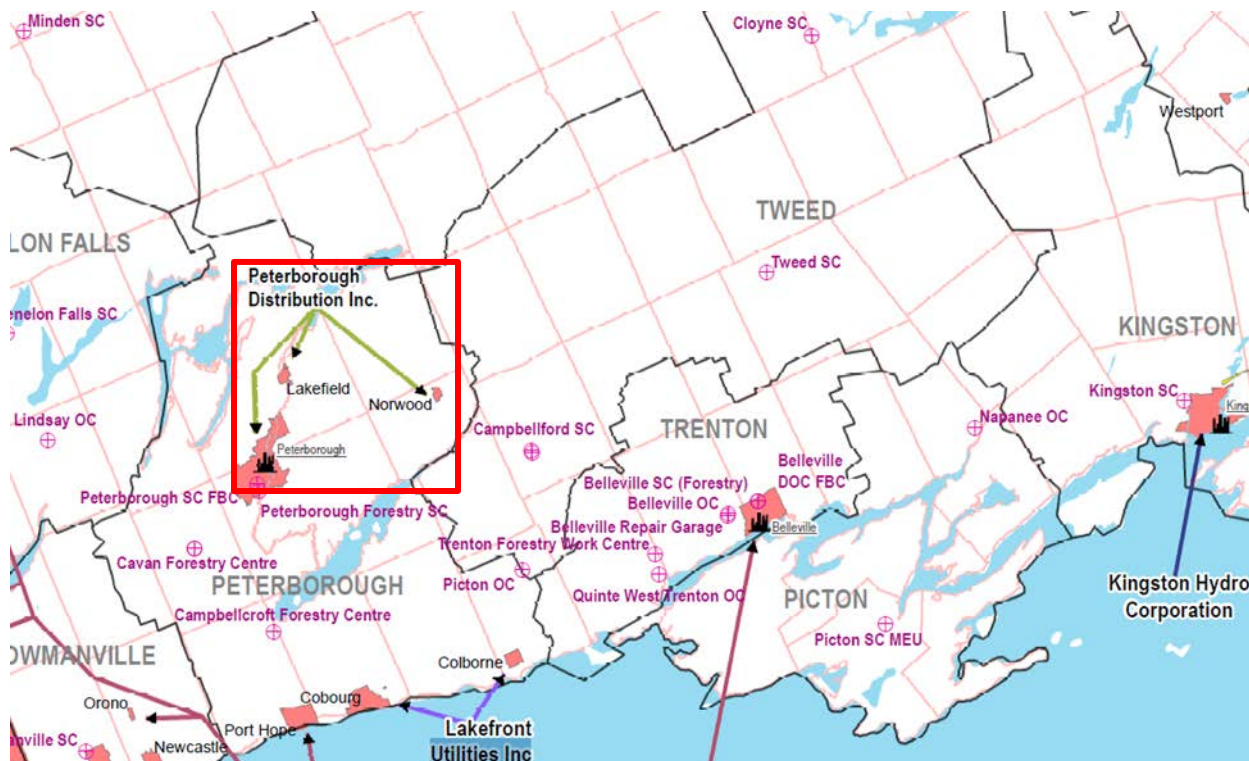


Shared borders and lots of activity in the Sector!

- **ECONOMIC DEVELOPMENT IN PETERBOROUGH (REGIONAL HUB)**
 - ***JOBS***: achieved through a combination of continued presence of Hydro One in the area and employment for existing local utility staff
 - ***BUILDINGS***: new facility(s) provide for construction jobs followed by new tax base
 - ***FUNDING***: Access to project funding for various local causes
- **RATES:**
 - Objective of lowering rates
 - Can be achieved through a combination of absolute rate adjustment and extended rate period
 - Future rates governed by OEB rate application....influenced by lower cost structure and well established OEB principle of cost to service
- **RELIABILITY AND CUSTOMER SERVICE**
 - Leveraging local staff leads to maintaining existing service level delivery
 - Industry leading customer care initiatives
- **TRANSACTION VALUE**
 - Value similar to other deals in Ontario

Consolidation offers Opportunity

Operations throughout the area!



Facilities Challenges

- Aging and congested
- Hydro One will site facilities that allow us to better service our customer base
- Looking to develop a **Regional Hub** by consolidating operational elements into Peterborough!

Hydro One Current Presence in Peterborough

- 913 Crawford Dr.
- ~ 70 jobs doing a combination of administrative, planning and field operations

A Transaction will result in an inflow of Hydro One operations as various corporate functions will utilize the new and expanded Peterborough presence!

New Operations/Business Support Centre



Picton OC commissioned in 2011



General Facility:

- 8 to 10 acre site
- 25-40,000 square foot build program
- Approximately \$8-10m capital value
- Operations, Fleet and Administration functions (modular design)

Woodstock Example

- New anchor tenant for municipal business park...10 acres purchased at FMV
- 35,000 square foot build program...and additional needs already identified
- Hydro One leasing current facilities until new centre ready and thereafter City will retain buildings for university satellite development (revitalization of City core)



connecting with our communities

➤ PowerPlay – up to \$25k per project

Typical Hydro One funded projects:

- Children's Safety Village (constructed a mini transmission tower for village)
- Soccer Centre (grant for play ground equipment and soccer pitch)
- Playgrounds, Splashpads, Soccer and Baseball Bleachers
- Ski/canoe club developments
- Hockey nets, arena lighting/HVAC/ice making equipment
- Municipal Anniversary Celebrations
- Local United Way (annual corporate United Way donation – this would increase with more employees)

Employee Grants: eligible employee volunteers get grants of up to \$1,000 per year

Positive Distribution Rate Impact

From Ontario Energy Board (OEB) Website Calculator.

- Residential customer using 800 kWh example

SAMPLE MONTHLY BILL STATEMENT Peterborough Distribution Incorporated - Main	
Account Number: 000 000 000 000 0000	
Meter Number: 00000000	
Your Electricity Charges	
Electricity (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
Delivery (what is this charge?)	38.05
Regulatory Charges (what is this charge?)	5.99
Debt Retirement Charge (what is this charge?)	0.00
Debt Retirement Charge exemption saved you \$5.36	
Total Electricity Charges	\$130.17
HST	16.92
Total Amount	\$147.09

Key Points:

- Delivery is 26% of the Total Bill
 - Distribution 16%, Transmission 7%, and Losses 3%
- Distribution element is only one we can adjust and any adjustment must be part of the OEB “No Harm” test
- Recent Hydro One transactions have resulted in a *1% reduction and 5 year freeze to the distribution rate*...positive impact on both residential and commercial rates
- OEB approves ALL rates new “Acquired Rate Class”.

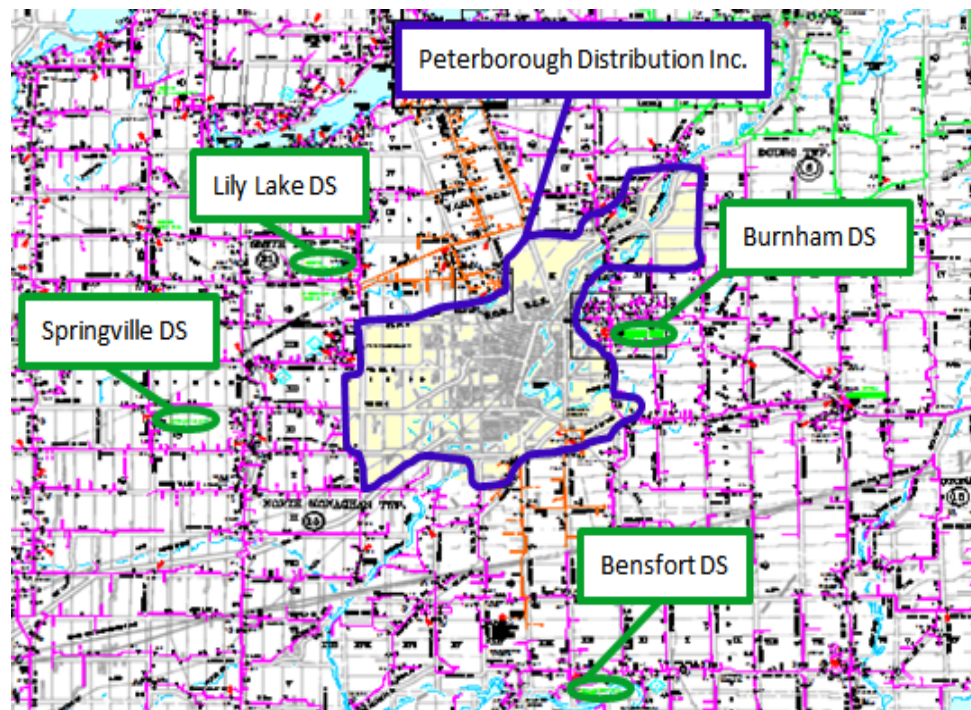
Reliability...Comparability

Corporate	Year	2010	2011	2012	2013	2014
	SAIDI (Hours/# of Customers)	7.11	6.88	6.98	6.76	7.43
	SAIFI (Cust Int/# of Customers)	2.61	2.57	2.61	2.47	2.67
Urban	Year	2010	2011	2012	2013	2014
	SAIDI	2.22	2.57	2.94	2.04	2.28
	SAIFI	1.10	1.13	1.37	1.14	1.36

Excludes Loss Of Supply

← General perception of Hydro One...rural is tough to service!

← Hydro One's urban performance is materially better!

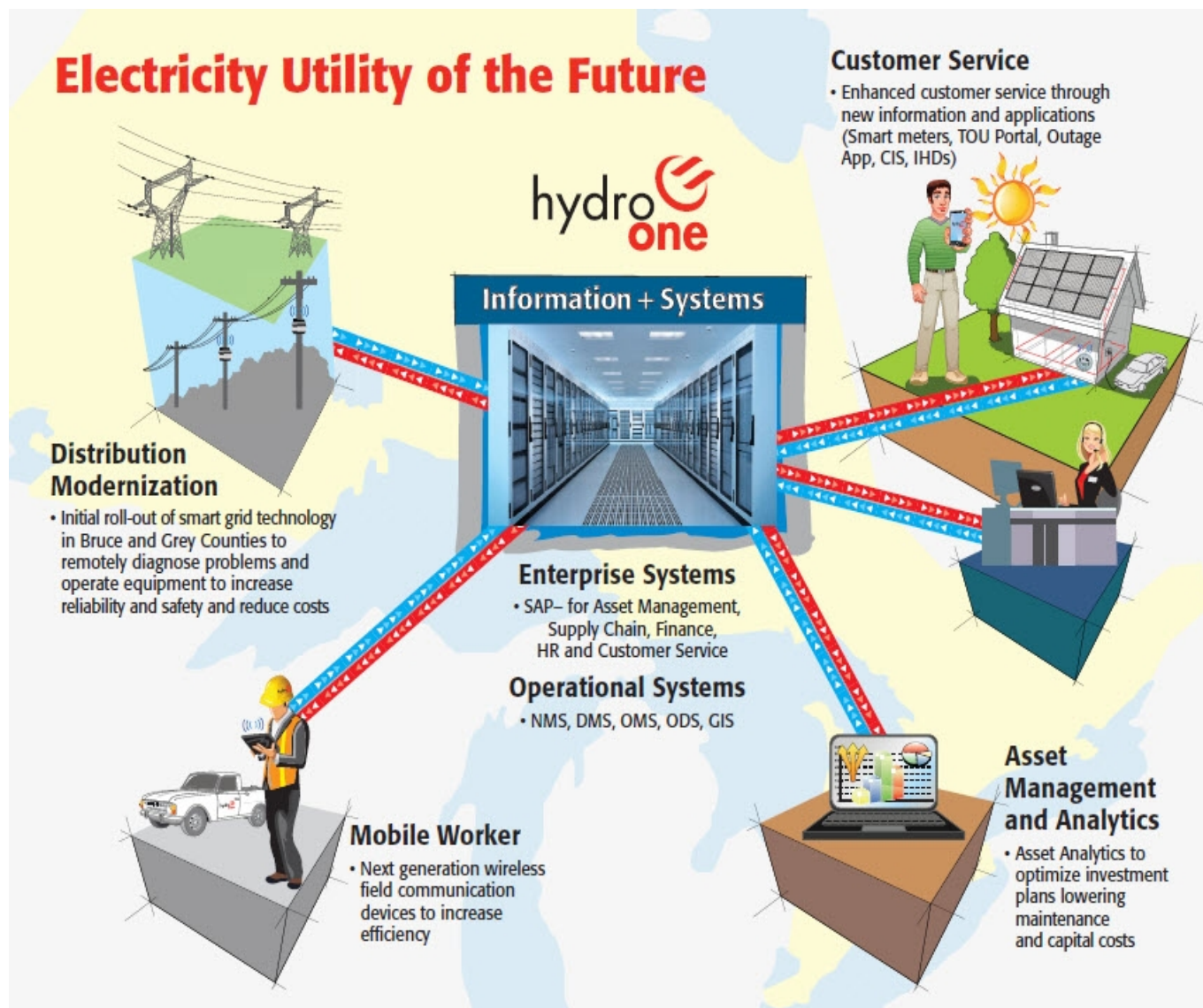


Comparison	Year	Hydro One (Peterborough Area)	Peterborough Distribution Inc. (OEB Yearbook)
SAIDI (Hours/# of Customers)	2011	1.78	5.01
	2012	2.33	2.43
	2013	2.09	2.73
	2014	2.14	0.90
SAIFI (Cust Int/# of Customers)	2011	0.70	2.67
	2012	0.62	2.12
	2013	0.90	1.41
	2014	0.67	0.83

Excludes Loss Of Supply

Similar Results!

Leveraging local staff knowledge will maintain reliability!



Thank you for the opportunity to discuss this important transaction!



Hydro One Customer Service

March 2016



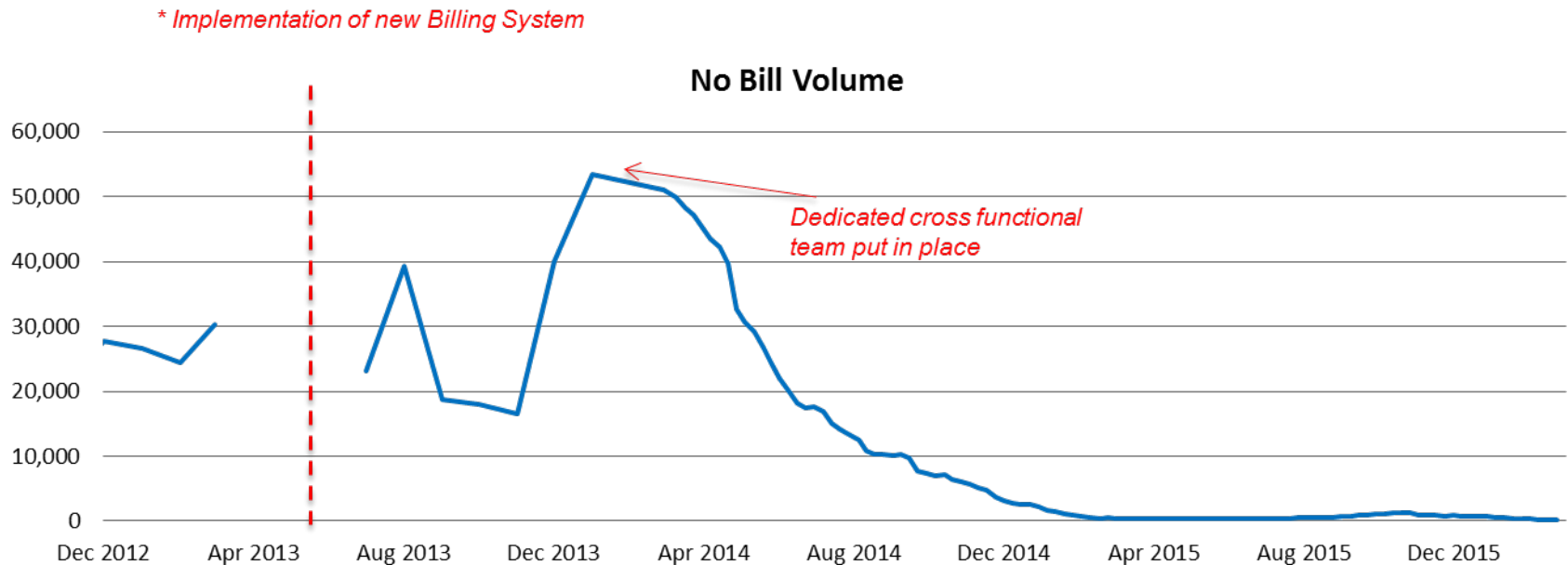
How are we doing?

- ▶ We're issuing accurate bills, on time.
- ▶ We've improved our communications network to reduce estimated bills.
- ▶ We've improved the service at our call centre through additional training and call monitoring.
- ▶ 80% of calls to our call centre are answered in less than 20 seconds.
- ▶ We've created customer friendly policies and empowered our call centre agents to take better care of our customers.
- ▶ Our customers have noticed the difference – Customer Satisfaction Survey results in January were 90%.



Challenges from the Past

- ▶ When Hydro One implemented a new billing system in 2013, we encountered a number of technical and Customer Service challenges
- ▶ The issues are behind us and Hydro One is delivering the best billing performance in the company's history





Leading the way

- ▶ We're delivering value to our customers through services such as:
 - **Outage App:** Free download for any mobile device. Allows customers to view power outages and the estimated restoration time.
 - **Outage Alerts:** Customers can sign up for text or email notification of an outage near their property.
 - **Internal Ombudsman:** Fiona Crean will facilitate the resolution of otherwise unresolved customer complaints.
 - **Electricity Discovery Centre:** Hydro One's educational event trailer hosts interactive exhibits designed to engage and educate visitors of all ages about energy in Ontario, our company, energy saving programs, grid modernization and electrical safety.



Our Customer Commitments

- ▶ We are committed to continually improving the quality of every customer interaction.
- ▶ We asked our customers, our employees, and a panel of customer service experts for their advice on what customers value most, and from that we've developed our Customer Commitments.
- ▶ **Hydro One's Customer Commitments:**
 1. We will provide a bill you can trust and understand
 2. We will provide you with a reliable supply of electricity
 3. We will make it easy to do business with us
 4. We will courteously and promptly work to resolve any issues
 5. We will help you manage your electricity use



Our Service Guarantees

- ▶ We've recently introduced Service Guarantees, a first of its kind for any electric utility in Ontario.
- ▶ Now if we fail to meet any one of these Guarantees, we will credit the customer's account \$50.
- ▶ **Hydro One Service Guarantees:**
 1. If we miss an appointment with you
 2. If we don't connect your new service within 5 business days of all connection requirements being met
 3. If we don't return your phone call within 1 business day



The Future of our Customer Service

- ▶ Based on customer feedback, Hydro One will be launching several new initiatives which offer customers more choice, convenience, and self-service options. This includes:
 - ebilling through Hydro One's My Account self-service website
 - new billing alerts to help customers understand how much energy they are using and when
 - redesigning Hydro One's bill to make it easier to understand

WE ARE LISTENING

THANK YOU FOR YOUR TIME

Possible PDI Sale, Public Information Session - Comments

Number	Name	Comment/Question
1	Ann Farquharson	Who does lawyer work for? Questioned when City was approached. Suggested money could be used for parkway.
2	Marie Bongard	Can public give presentations at some point?
3	Candice Rennick, CUPE	City sent message to province not to sell Hydro. Why focus on Hydro One? What assurance that Council will approach the people who own facility?
4	Bob Lake	General Manager of PUG from '86-2000. Merges aren't being forced by province. Will life insurance policy and benefits continue for retirees?
5	David Smith	Upset Leal not there. Wants the overhead % of PDI and how will impact PUC.
6	Ron Butterworth	Amalgamation is voluntary. Will water rates increase? Why not place an expression of interest advertisement? Why so little time between press release and public meetings? Wants a referendum.
7	No Name	Since McGuinty and Winn rates have increased, hated Hydro One and loves PDI
8	Roy Brady	Where is Leal?
9	No Name	Will we be forced to sell – ownership will be outside of Ontario like the 407.
10	No Name	Ombudsman critical of Hydro One. PDI is a jewel for Ptbo and among electrical companies.
11	No Name	Not enough notice for meeting. Likes local control, thinks the rush is a bad reason. Would like a value provided.
12	Adam Coones	Comments about Mayor.
13	No Name	Thinks hydro rates will double. His rates at Hydro One have doubled in 1 year. Concern with losing Quaker.
14	John Michael	Long term debt with Hydro One. 3x the price for solar and wind power. Wants a shareholder vote on sale.
15	Cheryl Ellis	Why not wait?
16	No Name	We would be willing to pay more for PDI power than Hydro One. Majority of people don't want this.
17	Adam Coones	Had a newspaper.
18	No Name (professor)	Economics of scale. 4,300 of 5,600 Hydro One employees are on Sunshine list. Is the tax break a red herring to get this through? Will shareholders get a vote on this?
19	No Name	Can't compare apples and oranges. Hydro One is for profit and PDI is privately owned.
20	No Name	Talked about Winn's sale of Hydro One.
21	Roy Brady	Shareholders from Hydro One – 85% owned by the people
22	Mr. Usher	Started researching Hydro One 6 months ago.
23	No Name	Asked about life expectancy of poles.
24	No Name	Maybe customers in Ptbo will save \$0.13/month.
25	Bob Lake	Forestry – 8 year cycle for Hydro One, 2 year cycle for PDI
26	Clifford Manse	Was on PUC boards for 18 years. Long term business model for Hydro One isn't sustainable – will be a stranded asset. Change in types of energy over next 20 years.

27	No Name	Call centre question. Asked for details on how the customer surveys for Hydro one were done.
28	Bob Lake	Hydro One leading edge for service technology, but has outside contracting.
29	Barry Brown, IBW Local 626	Where is Hydro One getting money for purchases?
30	Camea Hebble	Can PDI employees be guaranteed jobs? If PDI is sold to Hydro One and it is sold, it won't be owned by people of Ontario anymore. Why sell to Hydro One if OEB controls rates?
31	No Name	Wants guarantees on jobs. Will contracted employees continue at same rate?
32	No Name	Why not hold another meeting for prospective purchasers? Concerned with sole sourcing.
33	No Name	Hydro One is big. How much have the other purchases of utilities by Hydro One saved?
34	Jenny Carter	Privatization means no profits for us. No faith in Hydro One. Relies on nuclear.
35	No Name	Talked about problems with Hydro One she has had at her lake property.
36	Gord Simmons	Works for utility. Will there be a guarantee that people will keep their jobs for a certain amount of time?
37	No Name	What about the regional centre?
38	No Name	What happens to remaining PUS functions i.e. Water meter going through smart meters?
39	No Name	How can the Hydro local 1000 union people work with our union?
40	Catherine Langly	Concerned with foreign ownership. Peterborough is a jewel. Bigger isn't better.
41	No Name	Only Hydro One is benefitting. It is insider trading if province forces us to sell to make Hydro One more valuable.

**Comment Cards - Potential Sale of PDI to Hydro One
(March 3 – March 31, 2016)**

#	Question or Comment	Response Provided
1	We will have to sell. Might as well get as much as possible	
2	Disagree with sale	
3	Selling will not keep prices down	
4	Need assurance zoo will remain public. Want to keep PDI	
5	No. Hydro rates will increase	
6	Keep PDI	
7	No. Need resilience in our community to protect from degradation of climate change.	
8	Sale is premature. Keep utility distribution public	
9	Too much controversy around Hydro One	
10	Concern about rates and hidden fees. Wants local people working here.	
11	Against sale	
12	Against sale, will eliminate jobs and reduce value of remaining PUG	
13	Hydro One not financially prudent, doesn't deserve our power	
14	Not for sale	
15	Issue with complete blackout and external control	
16	Not in best interest of employees. Opposed	

#	Question or Comment	Response Provided
17	Nothing written on card	
18	Do not sell. Lindsay and Omemee sold and funds disappeared in 7 years	
19	Increase cost, increased poverty and no new jobs	
20	No mandate to sell. Respect our voices	
21	Do not sell	
22	Do not sell, no to monopoly	
23	Short term gain of cash and long term loss to autonomy	
24	Peterborough rates are lower than Hydro One, will have to carry their debt	
25	Don't kill the goose that lays the golden egg	
26	Please stop the sale.	
27	Many reasons not to sell. Decision should be a referendum	
28	This is a business that virtually guarantees profits if managed properly	
29	Caution no snap decisions	
30	Why sell PDI to Hydro One if Hydro One is being sold	
31	Liberals are taxing to the max. Can't afford increased in hydro	
32	Strongly oppose sale	
33	PDI owned by residents not Council. If purpose is to fund parkway this would be a total blunder	
34	Not in favour. Selling asset only guarantees no future benefits.	

#	Question or Comment	Response Provided
35	Sold and moved to Peterborough because of hydro cost in Otonabee Twp.	
36	Totally against sale. Hydro One has bad reputation. Hope City Council members do the right thing and consider the concerns of citizens.	
37	Hydro One controversy, charge high prices and being privatized.	
38	Meeting was a waste of time without key info coming from Hydro One. No speakers were in favour of sale	
39	What will our rates (for delivery) be after the 5 years is up?	<p>At the end of year five, distribution rates under a rate freeze proposal will be 11% lower than what PDI would have on its own ("the rate advantage"). Given OEB control of rates, it would be difficult to quickly erode the "rate advantage" in the years beyond year five, with rate increases.</p> <p>In addition, Hydro One has proposed, as in past LDC transactions and subject to OEB approval, to establish an "Acquired Rate Class". We would expect that this rate class would better align with the customer density of the City of Peterborough and the cost to serve of urban utilities acquired by Hydro One, and that rates would be comparable to the rate classes of all acquired urban utilities.</p> <p>We expect that this will address current comparability issues of the Hydro One existing "Urban" rate class with current LDC rate classes, including PDI.</p> <p>The future expectation is that rate increases beyond the rate freeze period would be similar to rate increases experienced for urban utilities or if PDI remained status quo.</p>

#	Question or Comment	Response Provided
40	How much money does the PDI generate? Can the other groups sustain themselves without that revenue or will our taxes be raised to support water, infrastructure, zoo etc.	<p>The estimated future annual return to the City of Peterborough is expected to be approximately \$1.0 million per annum, and this annual amount is <i>not expected to grow</i> and is <i>more likely to decline</i> with increased regulatory pressure on rates, increased mandated performance criteria and required investment to address future utility infrastructure requirements.</p> <p>Conservative reinvestment of any sale proceeds will more than offset any loss in PDI specific revenue.</p> <p>All other groups are self- sustaining and will continue to be so and there will be no increases in taxes or water rates or other charges as a result of this decision.</p>
41	Why the rush? The province shouldn't have the power to make municipalities sell what they have spent years building?	<p>The Provincial direction and stated desire for consolidation is clear, in order to achieve much needed cost reductions for all consumers – estimated in the range of \$1.2 billion. To ignore this direction and its local impact on the community is not considered a prudent course. Taxation and regulatory changes recently enacted will see more utilities sold and smaller utilities like PDI will become even smaller with few advantages or opportunities in the long run. Current advantages such as the proposed Regional Operations Centre located in Peterborough to retain local employment will not be available in the future.</p> <p>The infrastructure that has been built continues to be here serving the community, regardless of ownership.</p>
42	What about the PDI program? Will it be honoured?	Yes – all existing PDI customer programs will be honoured.
43	Where will repair people be located? What will response time be after storm? What	The presence of a Regional Hub in the City of Peterborough will ensure that standby and regular crews are located in Peterborough

#	Question or Comment	Response Provided
	will PUC do with proceeds of sale?	<p>which will ensure that historic PDI response time is not affected.</p> <p>The proceeds of the sale has not been discussed or determined by Council. Such discussion will occur at a future date.</p>
44	If Wynn is selling off Hydro One how is the OEB to have any input regarding charges?	The OEB regulates all distribution charges in Ontario, regardless of owner. The OEB will continue to regulate Hydro One. In addition, the Premiers Advisory Council to the Government has recommended greater OEB strength in its oversight of Hydro One.
45	Question for John S.: Have you been offered a job or payment from Hydro One if the sale goes through? Or will you be fighting for your job like the rest of the PUS staff?	Mr. Stephenson has no job offer or payment from Hydro One.
46	Why do you seem to make it sound like we have to sell either way? Is the province going to legislate we must sell, if we don't? If so where is the documentation saying this?	<p>The Provincial direction and stated desire for consolidation is clear, in order to achieve much needed cost reductions for all consumers – estimated in the range of \$1.2 billion. To ignore this direction and its local impact on the community is not considered a prudent course. Taxation and regulatory changes recently enacted will see more utilities sold and smaller utilities like PDI will become even smaller with few advantages or opportunities in the long run. Current advantages such as the proposed Regional Operations Centre located in Peterborough to retain local employment will not be available in the future.</p> <p>The Provincial Government is on record that they are not mandating consolidation, but they are clear that they embrace all reports that consolidation should happen and is desirable.</p>
47	Why the rush? New government in two years. No money if sold.	The Provincial direction and stated desire for consolidation is clear, in order to achieve much needed cost reductions for all consumers – estimated in the range of \$1.2 billion. To ignore this direction and its local impact on the community is not considered a prudent course.

#	Question or Comment	Response Provided
		<p>Taxation and regulatory changes recently enacted will see more utilities sold and smaller utilities like PDI will become even smaller with few advantages or opportunities in the long run. Current advantages such as the proposed Regional Operations Centre located in Peterborough to retain local employment will not be available in the future.</p> <p>The need for savings for consumers will remain regardless of which Provincial Party is in power. There is no guarantee that a Provincial Government change will happen in two years.</p> <p>The estimated future annual return to the City of Peterborough is expected to be approximately \$1.0 million per annum, and this annual amount is not expected to grow and is more likely to decline with increased regulatory pressure on rates, increased mandated performance criteria and required investment to address future utility infrastructure requirements.</p> <p>Conservative reinvestment of any sale proceeds will more than offset any loss in PDI specific revenue.</p>
48	Is the province forcing the City to sell this asset?	<p>The Provincial direction and stated desire for consolidation is clear, in order to achieve much needed cost reductions for all consumers – estimated in the range of \$1.2 billion. To ignore this direction and its local impact on the community is not considered a prudent course. Taxation and regulatory changes recently enacted will see more utilities sold and smaller utilities like PDI will become even smaller with few advantages or opportunities in the long run. Current advantages such as the proposed Regional Operations Centre located in Peterborough to retain local employment will not be available in the future.</p>

#	Question or Comment	Response Provided
		The Provincial Government is on record that they are not mandating consolidation, but they are clear that they embrace all reports that consolidation should happen and is desirable.
49	After selling PDI do the remaining components loose value? Is there a potential sale for the rest of PUG (PUC/PUSI)	<p>The sale of PDI has no impact on the remaining businesses. These are distinct businesses.</p> <p>It has been publicly stated that the remaining PUG businesses are not for sale. PDI is the only company in PUG that is subject to regulation and the Province's direction of consolidation for cost improvements. Therefore PDI, the electricity distributor, is the only company that is under consideration for disposition.</p>
50	Is City giving Hydro a deal on property on Fisher Drive as part? Will the rest of PUC remain private?	<p>There is no deal. Any property transfer will be at market value.</p> <p>It has been publicly stated that the remaining PUG businesses are not for sale. PDI is the only company in PUG that is subject to regulation and the Province's direction of consolidation for cost improvements. Therefore PDI, the electricity distributor, is the only company that is under consideration for disposition.</p>
51	Is PDI strictly a business that the City owns, or an employer that provides a reliable service to the City while providing employment to locals?	It is business that operates to provide value to the community, employment, great service and competitive distribution rates. Any response to the provincial movement of industry consolidation must consider all of these attributes.
52	How will the sale of PDI to Hydro One save Peterborough residents money?	Without the sale, in the consolidating industry, over the next several years the amount that PDI will provide to the City will decline. As that happens the opportunity to retain existing employment levels will continue to feel pressure. In the long run the loss of employment in the community is a significant loss in value to the community. Both of these eventualities will put pressure on increasing taxes for residents.

#	Question or Comment	Response Provided
		<p>Publicly, we have outlined the following as additional detail and benefits of moving forward:</p> <p><u>Under Status Quo – No Sale</u></p> <p>The estimated future annual return to the City of Peterborough is expected to be approximately \$1.0 million per annum, and:</p> <ol style="list-style-type: none">1. This annual amount is not expected to grow without considerable economic expansion in the service territory. That growth has not been seen historically and any recent growth has occurred in areas surrounding PDI's service territory and in Hydro One's service territory.2. This annual amount is more likely to decline with increased regulatory pressure on rates, increased mandated performance criteria and required investment to address future utility infrastructure requirements.3. Given the expected period of industry change and consolidation, the annual return to the City is at risk to continue over the long run (beyond 10 years). <p>Forecasting total future return to the City from status quo (no sale) operations is now greatly influenced by the above noted risks of limited growth, rate pressure and industry change. We can no longer assume that past returns can continue forever or unaltered. Given these risks and assuming a 7 to 10 year horizon, the City's total amount expected from annual distributions from status quo (no sale) PDI operations would not exceed \$7.5 to \$10.0 million.</p>

#	Question or Comment	Response Provided
		<p>a) Illustrative Proceeds on Sale of PDI</p> <p>Based on recent LDC transactions in the past few years, the total purchase price for PDI could be expected to be in the \$100.0 million range. After deduction for debt and transaction costs, the net cash proceeds that would be returned to the City is estimated to be in the range of \$40.0 to \$50.0 million. For example, reinvestment of the expected proceeds at 2% - 5% would yield an annual return to the City of approximately \$1.0 to \$2.5 million</p> <p>Therefore the proposed transaction saves taxpayers significantly in the long run.</p> <p><u>On Employment</u></p> <p>Hydro One has approximately 70 jobs presently working in Peterborough in aging and congested facilities. PDI has approximately 60 - 65 jobs currently working in its operations.</p> <p>As PDI's service territory is contiguous (shoulder to shoulder) with Hydro One's service territory, the opportunity to build a new Regional Hub Operation Centre in Peterborough becomes logical as the industry consolidates and Hydro One looks to upgrade and site its regional operations.</p> <p>The development of a new Regional Hub by Hydro One in Peterborough provides a strong opportunity for continued local presence in Peterborough, and retaining jobs in Peterborough. The related future economic benefit to the community is estimated to be \$100.0 - \$150.0 million over the next five years</p>

#	Question or Comment	Response Provided
		<p>Therefore there is significant community benefit retained in Peterborough.</p>
53	<p>Why only consider selling to Ontario Hydro? How about the other local public utilities i.e. Veridian?</p>	<p>Hydro One offers a distinct natural advantage by having contiguous service territory with PDI. That is requirement for effective consolidation as noted in the Ontario Distribution Sector Review Panel report to the Provincial Government. That core recommendation was also confirmed by the Premiers Advisory Council on Government Assets. Other utilities, like Veridian cannot achieve this requirement. As a result of this advantage a Hydro One proposal provides for an expanded regional presence in Peterborough for continued employment, as follows:</p> <p>Hydro One has approximately 70 jobs presently working in Peterborough in aging and congested facilities. PDI has approximately 60 - 65 jobs currently working in its operations.</p> <p>As PDI's service territory is contiguous (shoulder to shoulder) with Hydro One's service territory, the opportunity to build a new Regional Hub Operation Centre in Peterborough becomes logical as the industry consolidates and Hydro One looks to upgrade and site its regional operations.</p> <p>The development of a new Regional Hub by Hydro One in Peterborough provides a strong opportunity for continued local presence in Peterborough, and retaining jobs in Peterborough. The related future economic benefit to the community is estimated to be \$100.0 - \$150.0 million over the next five years</p> <p>As the industry consolidates, the future opportunity for regional operations in Peterborough will be become less likely. Operations</p>

#	Question or Comment	Response Provided
		<p>Centres will be sited in other regions as decisions are made in those areas. It should also be noted that this is a distinguishing component of a Hydro One proposal, made possible by contiguous service territory. Accordingly, such benefits cannot be easily replicated by other potential acquirors</p> <p>Secondly, many of these other utilities like Veridian are of insufficient size to address the Ontario Distribution Sector Review Panel report to the Provincial Government. That core recommendation was also confirmed by the Premiers Advisory Council on Government Assets.</p> <p>Thirdly, many of these utilities lack the capital to complete a transaction of this size with the City.</p>
54	<p>How much will the city lose in revenue per year and over a 10/20 year period if the PDI is sold? How much will be gained by the sale? Why now? Why is PDI being considered for sale now?</p>	<p><u>Under Status Quo – No Sale</u></p> <p>The estimated future annual return to the City of Peterborough is expected to be approximately \$1.0 million per annum, and:</p> <ol style="list-style-type: none"> 1. This annual amount is not expected to grow without considerable economic expansion in the service territory. That growth has not been seen historically and any recent growth has occurred in areas surrounding PDI's service territory and in Hydro One's service territory. 2. This annual amount is more likely to decline with increased regulatory pressure on rates, increased mandated performance criteria and required investment to address future utility infrastructure requirements.

#	Question or Comment	Response Provided
		<p>3. Given the expected period of industry change and consolidation, the annual return to the City is at risk to continue over the long run (beyond 10 years).</p> <p>Forecasting total future return to the City from status quo (no sale) operations is now greatly influenced by the above noted risks of limited growth, rate pressure and industry change. We can no longer assume that past returns can continue forever or unaltered. Given these risks and assuming a 7 to 10 year horizon, the City's total amount expected from annual distributions from status quo (no sale) PDI operations would not exceed \$7.5 to \$10.0 million.</p> <p>a) Illustrative Proceeds on Sale of PDI</p> <p>Based on recent LDC transactions in the past few years, the total purchase price for PDI could be expected to be in the \$100.0 million range. After deduction for debt and transaction costs, the net cash proceeds that would be returned to the City is estimated to be in the range of \$40.0 to \$50.0 million. For example, reinvestment of the expected proceeds at 2% - 5% would yield an annual return to the City of approximately \$1.0 to \$2.5 million.</p> <p>We expect that as the industry continues to consolidate, these market premiums will erode and the opportunity to make these gains will greatly diminish. Furthermore, completion of a transaction during the reduced tax rate period (expiring January, 2019) will save the City of Peterborough approximately \$9.0 to \$11.0 million in taxes.</p>

#	Question or Comment	Response Provided
		<p><u>Why Now and Why Not Wait?</u></p> <p>The recent advisory reports to the Provincial Government confirm that Ontario, unlike many jurisdictions in North America and worldwide, simply has too many small utilities and this is cost ineffective. <i>In Ontario, there are 63 utilities serving only 30% of the customers. PDI is one of these utilities.</i></p> <p>The pace of change and momentum to gain cost efficiencies for the electricity consumer is unprecedented. We must recognize what that means for PDI – specifically:</p> <ol style="list-style-type: none"> 1. That the environment of change established by Provincial policy will significantly affect the industry and the existence of smaller LDCs in the long run. 2. That PDI, as a small utility of 36,000 customers, in this period of change, may become one of the smallest utilities; 3. That in this period of change and thereafter, PDI may not be as effective as it was historically. It will be challenged to provide the same level of service, rates, and financial return to the City. <p>The Ontario Distribution Sector Review Panel and the Premier’s Advisory Council on Government Assets, both acknowledge that LDCs lack the capability and capital to respond to future demands on the utility. Municipal owners may be required to provide funding to LDCs in the future, and many may not have the capability or desire to make that investment.</p> <ol style="list-style-type: none"> 4. That proactive consideration of LDC options in advance of other

#	Question or Comment	Response Provided
		<p>market participants may be advantageous. Voluntary determination or negotiation of terms – rates, employment, service and financial return, is better than ignoring change and becoming a small LDC making a decision too late or being told of the decision.</p>
55	<p>You claim there is a political push/pressure to amalgamate the existing power services – why? Who is doing the pressuring? At who's initiation? How can you promise to save money by eradicating "back office costs" and at the same time promise to preserve local jobs? Aren't they the same thing?</p>	<p>The Provincial direction and stated desire for consolidation is clear, in order to achieve much needed cost reductions for all consumers – estimated in the range of \$1.2 billion. To ignore this direction and its local impact on the community is not considered a prudent course. Taxation and regulatory changes recently enacted will see more utilities sold and smaller utilities like PDI will become even smaller with few advantages or opportunities in the long run. Current advantages such as the proposed Regional Operations Centre located in Peterborough to retain local employment will not be available in the future.</p> <p>The Provincial Government is on record that they are not mandating consolidation, but they are clear that they embrace all reports that consolidation should happen and is desirable.</p> <p>Back office costs include other non- labour components that are necessary, such as reinvestment in antiquated systems – e.g. customer billing systems. Customer billing system investments should service 1 million customers, not 36,000.</p>
56	<p>What is it worth today? Who gets the money? Who sees the profit now? How much? Why to Hydro?</p>	<p>Based on recent LDC transactions in the past few years, the total purchase price for PDI could be expected to be in the \$100.0 million range. After deduction for debt and transaction costs, the net cash proceeds that would be returned to the City is estimated to be in the range of \$40.0 to \$50.0 million.</p> <p>The City of Peterborough, as owner receives the money. The City of</p>

#	Question or Comment	Response Provided
		<p>Peterborough, as owner receives the profit now. The estimated future annual return to the City of Peterborough is expected to be approximately \$1.0 million per annum, and this annual amount is <i>not expected to grow</i> and is <i>more likely to decline</i> with increased regulatory pressure on rates, increased mandated performance criteria and required investment to address future utility infrastructure requirements.</p> <p>Hydro One provides several benefits key of which is and expanded regional presence in Peterborough_for continued employment.</p> <p>Hydro One has approximately 70 jobs presently working in Peterborough in aging and congested facilities. PDI has approximately 60 - 65 jobs currently working in its operations.</p> <p>As PDI's service territory is contiguous (shoulder to shoulder) with Hydro One's service territory, the opportunity to build a new Regional Hub Operation Centre in Peterborough becomes logical as the industry consolidates and Hydro One looks to upgrade and site its regional operations.</p> <p>The development of a new Regional Hub by Hydro One in Peterborough provides a strong opportunity for continued local presence in Peterborough, and retaining jobs in Peterborough. The related future economic benefit to the community is estimated to be \$100.0 - \$150.0 million over the next five years</p> <p>As the industry consolidates, the future opportunity for regional operations in Peterborough will be become less likely. Operations Centres will be sited in other regions as decisions are made in those areas. It should also be noted that this is a distinguishing component of a Hydro One proposal, made possible by contiguous service</p>

#	Question or Comment	Response Provided
		territory. Accordingly, such benefits cannot be easily replicated by other potential acquirors.
57	What will happen to the funds earned by the City as a result of the sale of PDI? General revenue? Capital projects? Other?	The proceeds of the sale has not been discussed or determined by Council. Such discussion will occur at a future date.
58	We have too much to lose. City will use up any money raised.	
59	I would like this city to stay as local as possible.	
60	Please listen to what your citizens have to say. I don't believe any good will come from sale.	
61	City should ask for regular payments from Hydro to compensate us.	
62	I am retired from PUSI/PDI and we are reliable, cost effective, good customer service. Hydro One is more expensive and poor customer service.	
63	Hydro One on panel makes it look like a done deal. What process had PDI/City undertaken to uncover the various options available, including the status quo? Has there been a committee struck to review the options and provide council with an unbiased opinion? Why vote to sell PDI when 88% of people in Peterborough oppose the sell off? City and County Councils both voted against selling off Hydro One, so why would we consider	<p>The City of Peterborough Holdings Inc. (COPHI) and a Joint Steering Committee comprised of COPHI and City representation undertook an investigation to assess the opportunity for disposition of its regulated business, PDI.</p> <p>Indicated in our public reports are the following:</p> <p><u>Status Quo</u></p> <p>Status quo is at risk given the Provincial Government direction of consolidation supported by various key studies such as the</p>

#	Question or Comment	Response Provided
	<p>selling to Hydro One? What assurances can City provide that PDI jobs will be kept in City? What assurances can the City provide that the Peterborough Zoo will remain the lovely attraction that it is today for residents and visitors?</p>	<p>Drummond report, the Ontario Distribution Sector Review Panel report, and the report of the Premiers Advisory Council on Government Assets. These reports indicate that there are too many small utilities in Ontario serving too few customers, and that consumer savings can be achieved in the range of \$1.2 billion. They recommend that the average utility size should be in the range of approximately 400,000 customers. In this context, PDI with 36,000 customers is simply not large enough to continue as a stand-alone utility.</p> <p>We have further indicated that under the status quo, that the estimated future annual return to the City of Peterborough is expected to be approximately \$1.0 million per annum, and:</p> <ol style="list-style-type: none"> 1. This annual amount is not expected to grow without considerable economic expansion in the service territory. That growth has not been seen historically and any recent growth has occurred in areas surrounding PDI's service territory and in Hydro One's service territory. 2. This annual amount is more likely to decline with increased regulatory pressure on rates, increased mandated performance criteria and required investment to address future utility infrastructure requirements. 3. Given the expected period of industry change and consolidation, the annual return to the City is at risk to continue over the long run (beyond 10 years). <p>Forecasting total future return to the City from status quo (no sale) operations is now greatly influenced by the above noted risks of</p>

#	Question or Comment	Response Provided
		<p>limited growth, rate pressure and industry change. We can no longer assume that past returns can continue forever or unaltered. Given these risks and assuming a 7 to 10 year horizon, the City's total amount expected from annual distributions from status quo (no sale) PDI operations would not exceed \$7.5 to \$10.0 million.</p> <p><u>Alternative to Status Quo</u></p> <p>Based on recent LDC transactions in the past few years, the total purchase price for PDI could be expected to be in the \$100.0 million range. After deduction for debt and transaction costs, the net cash proceeds that would be returned to the City is estimated to be in the range of \$40.0 to \$50.0 million. For example, reinvestment of the expected proceeds at 2% - 5% would yield an annual return to the City of approximately \$1.0 to \$2.5 million.</p> <p><u>Hydro One Provides Employment Opportunity</u></p> <p>Hydro One provides several benefits key of which is an expanded regional presence in Peterborough for continued employment. This will ensure that PDI and H1 jobs continue to be in the community.</p> <p>Hydro One has approximately 70 jobs presently working in Peterborough in aging and congested facilities. PDI has approximately 60 - 65 jobs currently working in its operations.</p> <p>As PDI's service territory is contiguous (shoulder to shoulder) with Hydro One's service territory, the opportunity to build a new Regional Hub Operation Centre in Peterborough becomes logical as the industry consolidates and Hydro One looks to upgrade and site its</p>

#	Question or Comment	Response Provided
		<p>regional operations.</p> <p>The development of a new Regional Hub by Hydro One in Peterborough provides a strong opportunity for continued local presence in Peterborough, and retaining jobs in Peterborough. The related future economic benefit to the community is estimated to be \$100.0 - \$150.0 million over the next five years</p> <p>As the industry consolidates, the future opportunity for regional operations in Peterborough will be become less likely. Operations Centres will be sited in other regions as decisions are made in those areas. It should also be noted that this is a distinguishing component of a Hydro One proposal, made possible by contiguous service territory. Accordingly, such benefits cannot be easily replicated by other potential acquirors</p> <p><i>Why vote to sell PDI when 88% of people in Peterborough oppose the sell off?</i></p> <p>The industry will continue to consolidate and the opportunities to retain jobs locally, control rates and retain financial value in the community will decline. We cannot ignore the studies supporting the Provincial Government's direction, all of which indicate that a 36,000 customer utility will not survive in the long run. To ignore this would be imprudent.</p> <p><i>City and County Councils both voted against selling off Hydro One, so why would we consider selling to Hydro One.</i></p> <p>As noted above – the Hydro One proposal is highly advantageous due to PDI's geographic location of its service territory, which is contiguous to Hydro One's territory. That allows for the development</p>

#	Question or Comment	Response Provided
		<p>of a new Regional Hub by Hydro One in Peterborough providing a strong opportunity for a continued local presence in Peterborough, and retaining jobs in Peterborough. The related future economic benefit to the community is estimated to be \$100.0 - \$150.0 million over the next five years</p> <p>Hydro One continues to be regulated by the Ontario Energy Board. The Minister of Energy has recognized that a utility's ownership, is distinct from its effective control due to the presence of the OEB, as regulator. Control is by the regulator.</p> <p>PDI as status quo, or owned by Hydro One, will continue to be controlled by the regulator. This is unaffected by the ownership of Hydro One. Therefore the decision regarding a sale to Hydro One should be measured on its merits. Hydro One's ownership is a distinct issue.</p> <p>In this context, the considerable benefit of employment retention in the community in a consolidating industry, is a key Hydro One benefit. As noted that brings a community value in the range of \$100 to \$150 million to Peterborough.</p> <p><i>What assurances can the City provide that the Peterborough Zoo will remain the lovely attraction that it is today for residents and visitors?</i></p> <p>We have publicly stated that PDI is the only company in PUG that is subject to regulation and the Province's direction of consolidation for cost improvements. Therefore PDI, the electricity distributor, is the only company that is under consideration for disposition.</p> <p>PUG will continue to own and operate all other companies in the</p>

#	Question or Comment	Response Provided
		group. Generation development and operations (in the unregulated business), the services and water businesses, and the Riverview Park and Zoo will continue operations as usual.
64	I am proud of PDI service and would still support local ownership even if it was not profitable.	
65	Worked directly and indirectly with PUC for 25 yrs. It is a great service. It is part of a flawed liberal plan.	
66	Do not sell to “worst run hydro company in NA”. We now pay the highest rates of all.	
67	Who initiated the discussions to sell PDI to Hydro One? What was the reason behind this? What are the positive outcomes for the citizens of Ptbo? Who is evaluating the cost/benefits of this proposed sale? Is there a possibility of taking the utility back for the citizens if the proposed sale is not benefiting us? When will the actual costs be revealed so that citizens can make an informed choice? Can we be assured that the power generated here will be available first to the citizens and businesses of Ptbo? What positive steps will PDI take to diversify their power generation to include solar and wind sources? How will citizens be able to influence the decision being considered?	<p>The City of Peterborough Holdings Inc. (COPHI) and a Joint Steering Committee comprised of COPHI and City representation undertook an investigation to assess the opportunity for disposition of its regulated business, PDI.</p> <p>The reasons of this review and some of the cost benefits that are now in front of Council for consideration are summarized as follows:</p> <p>Status quo is at risk given the Provincial Government direction of consolidation supported by various key studies such as the Drummond report, the Ontario Distribution Sector Review Panel report, and the report of the Premiers Advisory Council on Government Assets. These reports indicate that there are too many small utilities in Ontario serving too few customers, and that consumer savings can be achieved in the range of \$1.2 billion. They recommend that the average utility size should be in the range of approximately 400,000 customers. In this context, PDI with 36,000 customers is simply not large enough to continue as a stand-alone utility.</p>

#	Question or Comment	Response Provided
		<p>We have further indicated that under the status quo, that the estimated future annual return to the City of Peterborough is expected to be approximately \$1.0 million per annum, and:</p> <ol style="list-style-type: none"> 1. This annual amount is not expected to grow without considerable economic expansion in the service territory. That growth has not been seen historically and any recent growth has occurred in areas surrounding PDI's service territory and in Hydro One's service territory. 2. This annual amount is more likely to decline with increased regulatory pressure on rates, increased mandated performance criteria and required investment to address future utility infrastructure requirements. 3. Given the expected period of industry change and consolidation, the annual return to the City is at risk to continue over the long run (beyond 10 years). <p>Forecasting total future return to the City from status quo (no sale) operations is now greatly influenced by the above noted risks of limited growth, rate pressure and industry change. We can no longer assume that past returns can continue forever or unaltered. Given these risks and assuming a 7 to 10 year horizon, the City's total amount expected from annual distributions from status quo (no sale) PDI operations would not exceed \$7.5 to \$10.0 million.</p> <p><u>Alternative to Status Quo</u></p> <p>Based on recent LDC transactions in the past few years, the total</p>

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		<p>purchase price for PDI could be expected to be in the \$100.0 million range. After deduction for debt and transaction costs, the net cash proceeds that would be returned to the City is estimated to be in the range of \$40.0 to \$50.0 million. For example, reinvestment of the expected proceeds at 2% - 5% would yield an annual return to the City of approximately \$1.0 to \$2.5 million.</p> <p><u>Hydro One Provides Employment Opportunity</u></p> <p>Hydro One provides several benefits key of which is and expanded regional presence in Peterborough for continued employment. This will ensure that PDI and H1 jobs continue to be in the community.</p> <p>Hydro One has approximately 70 jobs presently working in Peterborough in aging and congested facilities. PDI has approximately 60 - 65 jobs currently working in its operations.</p> <p>As PDI's service territory is contiguous (shoulder to shoulder) with Hydro One's service territory, the opportunity to build a new Regional Hub Operation Centre in Peterborough becomes logical as the industry consolidates and Hydro One looks to upgrade and site its regional operations.</p> <p>The development of a new Regional Hub by Hydro One in Peterborough provides a strong opportunity for continued local presence in Peterborough, and retaining jobs in Peterborough. The related future economic benefit to the community is estimated to be \$100.0 - \$150.0 million over the next five years</p> <p>As the industry consolidates, the future opportunity for regional operations in Peterborough will be become less likely. Operations Centres will be sited in other regions as decisions are made in those</p>

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		<p>areas. It should also be noted that this is a distinguishing component of a Hydro One proposal, made possible by contiguous service territory. Accordingly, such benefits cannot be easily replicated by other potential acquirors.</p> <p><i>Is there a possibility of taking the utility back for the citizens if the proposed sale is not benefiting us?</i></p> <p>The benefits are clear and will be proven out as the industry consolidates, which is inevitable given the government's recent regulatory and tax changes that are now in place. The risk of doing nothing will be lost opportunity to retain employment here locally.</p> <p>The opportunity to reacquire the utility should these benefits not materialize is not contemplated in the proposed path.</p> <p><i>When will the actual costs be revealed so that citizens can make an informed choice?</i></p> <p>The actual value at hand has been disclosed publicly now, as noted above.</p> <p><i>Can we be assured that the power generated here will be available first to the citizens and businesses of Ptbo?</i></p> <p>All power generation that PUG operates is unaffected by this decision. Power generation is in a separate company that will continue to be owned by the City. Under the current Provincial system all power that is generated is supplied to the Provincial grid which then allocates power as required. Presently, under this system, PUG does not produce all generation for local consumption, nor is it allowed to.</p> <p><i>What positive steps will PDI take to diversify their power generation to</i></p>

#	Question or Comment	Response Provided
		<p><i>include solar and wind sources?</i></p> <p>PUG will continue to own and operate all other companies in the group. Generation development and operations (in the unregulated business), the services and water businesses, and the Riverview Park and Zoo will continue operations as usual.</p> <p>Presently, PUG is one of the largest municipally owned generators of renewable generation, focusing on hydro and solar. That will be unchanged and unaffected by the PDI decision.</p> <p><i>How will citizens be able to influence the decision being considered?</i></p> <p>Through this public input process and public Council meetings and other forums as required and established by Council, and of course by contacting your local City Council representative.</p>
68	<i>A very long email largely commenting on Hydro One sale, parkway comments, high taxes etc.</i>	
69	Strongly oppose the sale of PDI	
70	Is there any compensation due under contract to the PDI board/executives if a sale occurs?	None.
71	Priority of Hydro One will be to make profits, so the bills will go up.	
72	Sale of PDI not wise. The opposite is happening in Germany where towns are buying back power distribution.	
73	We have 2 nd highest rate of	

#	Question or Comment	Response Provided
	unemployment in Canada, why consider selling? PS if you “take the deal good luck on getting re-elected”. Mayor will go “down in history as a city-killer”	
74	We have 2 nd highest rate of unemployment in Canada, why consider selling? PS if you “take the deal good luck on getting re-elected”. Mayor will go “down in history as a city-killer”	
75	I would like to know what will happen to the hydro electric dams that PDI has spent money on. What is going to happen to local employees?	
76	I was a Hydro One customer and after poor service and outrageous bills it was a deciding factor to move family back to Ptbo. How will people be able to pay increased bills?	
77	Need to keep PDI. Our hydro bill runs \$300/mo right now.	
78	Is private better than public? Is bigger better than smaller? Is remote better than local? Why sell a well run public company to a huge private remote company? The \$1.3 billion that will be saved provincially, who can substantiate this claim? Are our Councillors aware that in other places in the world cities are buying back utilities? Wouldn't we be better to be small and nimble to react to changes in the electrical grid?	<p>An efficient electrical system is what benefits all Ontarians.</p> <p>The recent advisory reports to the Provincial Government confirm that Ontario, unlike many jurisdictions in North America and worldwide, simply has too many small utilities and this is cost ineffective. In Ontario, there are 63 utilities serving only 30% of the customers. PDI is one of these utilities.</p> <p>The savings of \$1.3 billion has been documented and supported by the work done in these Provincial Government mandates.</p>

#	Question or Comment	Response Provided
		<p>Regardless of private or public ownership, Ontario is inefficient and the distribution system is fragmented in comparison to better performing jurisdictions in the world.</p> <p><i>Some jurisdictions are buying back utilities?</i></p> <p>Many of the jurisdictions operate under different models where distribution and generation are together and ownership of the grid may provide better advantage to address generation development.</p> <p>The market structure is different in Ontario whereby distribution (grid) ownership cannot provide any preferred advantage to generation developers. Grid access must be provided on a fair basis to all and free of bias – equal access.</p> <p>PDI cannot provide any preferred access to any generator. PDI is highly regulated in this regard. Grid ownership cannot influence and therefore is not a factor in generation – local or afar. PUG generation has never benefited from the fact that PDI is owned by the City. Fair and equal access. That will continue regardless of who owns the grid.</p> <p>Ontario renewable development is determined at the Provincial level through centralized energy procurement programs, to meet the overall demand and the Provincial desire for renewable energy content. This is not locally determined – nor is it dictated by grid ownership.</p> <p><i>Wouldn't we be better to be small and nimble to react to changes in the electrical grid?</i></p>

#	Question or Comment	Response Provided
		<p>The grid is highly controlled and regulated. PDI has no advantages being a small grid utility. In fact it is cost disadvantaged.</p> <p>Nimbleness and reaction speed are traits worth of consideration in the unregulated business, which PUG will continue to operate. That is unaffected by grid ownership.</p>
79	There should be a referendum, not just a vote by Council.	
80	Process up to this point not transparent. Local control is better.	
81	Will not benefit the people of Peterborough long term. Hydro has a poor track record	
82	<p>Will the Councillors due diligence include talks with some of the smaller utilities which Hydro one is so quick to announce; already consolidated without any down sides? Will another public access meeting on this important issue be held?</p> <p>Embarrassed that Leal didn't show up for meeting.</p>	<p>Council will ensure that they receive all information that is necessary to make an informed decision. That may include discussions with utilities recently acquired. Council has yet to determine if another public meeting is required; but future discussions on this matter will be at public Council meetings.</p>
83	Rates will increase and local jobs will be lost. Daughter pays \$150/month delivery charge for Hydro One which is more than the cost of the actual electricity.	
84	Negotiate your best deal with some employee and certainly rate protections, focus on the power generation aspect of the utility, spend the extra interest dividend on something that matters to the	

#	Question or Comment	Response Provided
	City.	
85	Will Hydro One maintain a separate standby crew for the City or will they use their existing standby crew to respond to trouble calls in the City and will this have a huge impact on response time?	The presence of a regional hub in the City of Peterborough will ensure that standby crews are located in Peterborough which will ensure that historic PDI response time is not affected.
86	Who gives you the right to sell PDI for short term gain? We will end up like the 407, with someone in another country owning it.	Municipal City Councils, by legislation, are entrusted to make the decision regarding their utilities. Any decision must take into account the longer term view of the industry, the Province's direction for consolidation, and the risk to smaller utilities. It is not motivated by short term gain.
87	Research should be done on other similar sales in Ontario. In Germany municipalities are buying back utilities.	
88	Believe sale will increase rates. Concerns with Green Energy program of Liberals.	
89	Who is protecting interest of consumers? The province wants consolidation to attract capital, exactly how is that capital going to be used? Found Mayor to be arrogant and smug at meeting, Leal too cowardly to show his face.	<p>The Ontario Energy Board takes into account consumer interests and must approve any proposed transaction. In a public process they will apply a "no-harm" test to ensure that the ratepayer is protected.</p> <p>Low cost capital is needed to reinvest in the aging electrical infrastructure and prepare for advancement of new technologies in the future. Smaller municipal utilities do not have access to this low cost capital.</p>
90	Strongly request we don't sell PDI to Hydro One. Irreversible decision.	
91	Former member of PDI board of directors and Hydro One employee – believe that Council will make a 92decision based on "the greater good of the community and	

#	Question or Comment	Response Provided
	not emotion”	
92	Totally opposed to sale of PDI to anyone	
93	Opposed to sale – thinks rates will increase. “I don’t believe it is within the purview of city council to make a decision to sell our assets.”	
94	Please don’t sell PDI. Nova Scotia is one province where some small towns have decided not to sell to provincial hydro and they are doing very well.	
95	Not in support of sale.	
96	It should be kept public. People take hydro for granted. Once it’s sold it can’t be bought back. Bill was \$154 last month for a 4 bedroom detached bungalow last month.	
97	“A fraction of the citizens in Peterborough voted for Mr. Bennett. He cannot therefore act on our behalf. I feel disenfranchised by my home city.”	
98	Zero faith in Hydro One. If there is a sale I have no doubt my bill will cost more. Loss of jobs.	
99	“Not the most insightful decision our city could approve. In the present time I consider the option of moving toward a self contained property (i.e. off the grid).”	
100	Object to sale of PDI. Ontario residents pay highest rates of electricity in the country.	

#	Question or Comment	Response Provided
101	Our rates are fair and Hydro One is in a debt position – against sale. “Sir Adam Beck must be rolling over in his grave.” <i>(sent same email twice)</i>	
102	Most people have nothing good to say about Hydro One. Bills will go up. Take it to the people in a referendum.	
103	Hydro One doesn’t have a good track record like PDI. No to sale.	
104	Totally against sale, I know bill will go higher. Council doesn’t listen to residents – hopefully they will this time.	
105	Don’t understand what the rush is. Strongly urge council to slow down the process so people can form an informed opinion. “The goal here should be to make the best decision possible with all of the available facts, rather than rush to judgment.”	
106	Where is Hydro One getting the money to buy PDI? If they are borrowing how are they doing it? From whom? What is the rate of return? What will those interest payments add to the bills of people in Peterborough? Liberals are allowing stranded debt to grow larger.	<p>Hydro One has its own resources and access to low cost capital in the public debt and equity markets. Investors that choose to invest in Hydro One provide this capital.</p> <p>Hydro One as a utility regulated by the OEB, has its rates of return established by the OEB annually. The current rate of return on equity is 9.19%, and long term debt is 4.54%. These are established in relation to the market rates. The costs of debt and equity at OEB prescribed amounts are allowed in distribution rates for all utilities. PDI’s existing rates also have debt and equity components as deemed by OEB. This is will not change with Hydro One ownership. Local distribution rates are controlled by the OEB and Peterborough</p>

#	Question or Comment	Response Provided
		local rates will not increase for these sources of capital.
107	Why fix something that isn't broke. There will be more homeless people if this goes through.	
108	I understand that PDI employees will be taken care of, but what about the other employees that may be shared services with other departments running at the utilities building? Can you guarantee jobs for each person working at Peterborough Utilities Group as a whole?	<p>PUG will continue to run water and unregulated operations without change. Those employees not directly related to PDI, and working with these other departments will continue to be employed and operate as usual.</p> <p>Shared services that provide support to both PDI and other departments will be separated as required. Those shared service employees allocated to PDI will be Hydro One employees. Those shared service employees that are allocated to the water and other PUG businesses, will continue to be employed and work with PUG.</p> <p>Shared Service employees therefore will continue to work with PUG or continue to work with Hydro One.</p>
109	What happens to the other staff that work for shared services within Peterborough Utilities? Nothing mentioned about their jobs.	<p>PUG will continue to run water and unregulated operations without change. Those employees not directly related to PDI, and working with these other departments will continue to be employed and operate as usual.</p> <p>Shared services that provide support to both PDI and other departments will be separated as required. Those shared service employees allocated to PDI will be Hydro One employees. Those shared service employees that are allocated to the water and other PUG businesses, will continue to be employed and work with PUG.</p>

#	Question or Comment	Response Provided
		Shared Service employees therefore will continue to work with PUG or continue to work with Hydro One.
110	Hope Councillors will be very thorough and look at the deal objectively and not emotionally. Ferret out the hidden costs and determine if it is a worthwhile offer. "I hope that in the end, if the deal is accepted it will be a win/win and if it is not to our advantage/benefit, our Councillors will have the courage to walk away from it.	
111	Sale is bad. If the city was concerned it would work for the citizens and not against them.	
112	Why did we not know about this until the last moment? What are the benefits to us as taxpayers? Have we conducted an engineering economic analysis? If not, why not? If we have, she wants a copy of it. Why was annual report last year so positive if now we need to sell? Are you listening?	The Public Session on March 3, 2016 introduced the matter to the public to commence the public dialogue. An engineering economic analysis is not considered required for the decision that is at hand. Significant analysis of the industry risk and key impacts to employment, rates, service and financial return has been completed and is outlined in the public document entitled Management Discussion and Analysis and Frequently Asked Questions that can be found at http://www.peterboroughutilities.ca
113	Council supposed to act in best interest of citizens so shouldn't be considering offer. I suggest you listen to the people.	
114	PUC should remain whole. Listen to the citizens.	
115	I don't understand why we are considering selling off PDI when Hydro One is being sold off.	
116	One time influx of money, how does the	The decision under consideration is motivated by industry

#	Question or Comment	Response Provided
	budget balance in the future? Cutting services and raising taxes?	consolidation and the direction of the Provincial Government. Any sale proceeds can be reinvested to address the current day returns to the City from PDI.
117	Possible benefits don't outweigh the serious side effects that Hydro One will create.	
118	Why would you sell a business that makes money every year? It is not for sale.	The decision under consideration is motivated by industry consolidation and the direction of the Provincial Government. The environment of change established by Provincial policy will significantly affect the industry and the existence of smaller LDCs in the long run.
119	Wants to keep PDI.	
120	100% against sale. Have a referendum.	
121	Against sale. Hydro One has a lurid history. Looks like decision has been made before going public. Mayor's behaviour is undemocratic and disappointing.	
122	How would you be running PDI at a loss by not selling to Hydro? You said there are 1.3 billion in efficiencies by combining utilities. How is this done? Where are these huge savings? If you sell you are betraying the interests of the people who put you in power.	<p>PDI is not running at a loss. The direction of the Provincial Government is for industry consolidation. PDI, as a small utility of 36,000 customers, in this period of change, may become one of the smallest utilities and as such, it will be challenged to provide the same level of service, rates, and financial return to the City.</p> <p>The Ontario Distribution Review Panel Report to the Provincial Government outlines the noted cost savings and benefits, and the basis of those estimates.</p>
123	We do not need a cash grab. PDI is very well run unlike Hydro One.	

#	Question or Comment	Response Provided
124	Do not sell our utility. We must keep it out of the hands of a large corporation that is privatizing.	
125	Hydro One has a bad history. Lowering delivery rate by 1% for five years then what? What happens to what's left of Peterborough Utilities? Will the water rates/sewer surcharge have to be increased to cover a portion of the shared infrastructure that PDI paid? What happens to 1867 Ashburnham?	<p>Rates:</p> <p>With reference to other completed transactions for LDCs, we would expect that the PDI existing distribution rate (the portion of total electricity rates directly controlled by PDI) would be reduced by 1% and frozen ("rate freeze") at that level for five years.</p> <p>In comparison, status quo PDI rates, as a minimum will go up 10% in total over that five year period. It is quite possible that with new capital spending requirements over the next five years that the aggregate rate increase may have to be larger than 10%.</p> <p>Beyond Five Years</p> <p>Given OEB control of rates, it would be difficult to quickly erode the "rate advantage" in the years beyond year five, with rate increases.</p> <p>In addition, Hydro One has proposed, as in past LDC transactions and subject to OEB approval, to establish an "Acquired Rate Class". We would expect that this rate class would better align with the customer density of the City of Peterborough and the cost to serve of urban utilities acquired by Hydro One, and that rates would be comparable to the rate classes of all acquired urban utilities.</p> <p>We expect that this will address current comparability issues of the Hydro One existing "Urban" rate class with current LDC rate classes, including PDI.</p>

#	Question or Comment	Response Provided
		<p>The future expectation is that rate increases beyond the rate freeze period would be similar to rate increases experienced for urban utilities or if PDI remained status quo.</p> <p>What happens to what's left of Peterborough Utilities? Will the water rates/sewer surcharge have to be increased to cover a portion of the shared infrastructure that PDI paid?</p> <p>The remaining businesses of Peterborough Utilities will continue. We do not expect that the rates of other businesses will be impacted by this proposed change. Much of shared infrastructure is now limited or of age that requires decision to reinvest, which will provide opportunity to right size requirements to meet the needs of those businesses. Hence we do not envision material impact to the surviving businesses.</p> <p>1867 Ashburnham remains in the ownership of PUG.</p>
126	<p>Against sale. What will be the cost increases in water rates, and city taxes based on the loss of up to \$4.8 million annually in savings? Would selling to Hydro One be in Peterborough Customers best interest? Check out what the Ombudsman had to say about Hydro One.</p>	<p>The rate application that was filed in 2013 refers to PDI's total allocated costs of approximately \$4.8 million dollars. These costs are <u>total costs of PDI</u> and not cost savings or synergies. The current day cost equivalent of these costs are completely attributable to PDI, and as such, will be included in any transaction with any Purchaser.</p> <p>These costs also include support services staff who will be offered employment with the Purchaser, should a transaction be approved. Therefore these costs, will not be borne by the surviving PUG or PUC companies.</p> <p>The decision under consideration is in the best interests of the Peterborough community – defined as continued employment, customer rates and service and financial value. In the long run, to</p>

#	Question or Comment	Response Provided
		ignore the Provincial Direction and industry consolidation will be harmful to the Peterborough community and its customers.
127	Against sale. How can you justify selling when all that will be realized after the sale is about \$40 million?	The decision under consideration is motivated by industry consolidation and the direction of the Provincial Government. The environment of change established by Provincial policy will significantly affect the industry and the existence of smaller LDCs in the long run. Any sale proceeds can be reinvested to address the current day returns to the City from PDI.
128	Why not fix what is broken? Hydro One sees the value in PDI why not City? Should integrate admin services more into the City structure.	The decision under consideration is not motivated by cost inefficiency. The decision under consideration is motivated by industry consolidation and the direction of the Provincial Government. . The environment of change established by Provincial policy will significantly affect the industry and the existence of smaller LDCs in the long run. Therefore integration of services with the City structure will not address this risk and direction.
129	Would like to see PDI remain in local hands. Bad history of mismanagement with Ontario Hydro/Hydro One.	
130	Hydro sent an arrogant, condescending spokesperson (Richard). Hydro One here brings people on staff for 8 months and then lays them off for 8 months so no benefits.	
131	In 2012 John Stevenson as reported in Peterborough Examiner was strongly opposed to selling. What has changed since then? With a likely increase in rates for delivery, does it make sense for the City to profit on a one time sale only to pass on costs to consumer?	<p>In 2012 Mr. Stephenson spoke out against the Ontario Distribution Review Panel Report to the Provincial Government - which recommended mandatory merger of utilities. Mr. Stephenson spoke to the need for voluntary decision making.</p> <p>Since that time:</p>

#	Question or Comment	Response Provided
		<p>1) The Provincial Government has embraced that report and sponsored the Premier's Advisory Council on Government Assets. All of these reports have concluded that further distribution utility consolidation is necessary to remove inefficiencies, reduce costs and ultimately reduce consumer electricity rates. For reference, these reports can be found at: http://www.peterboroughutilities.ca.</p> <p>2) To further facilitate industry consolidation, in the fiscal 2015 budget, the Provincial Government introduced tax changes to significantly reduce the amount of Provincial taxes ("Transfer Tax") that are payable by Municipal owners to the Province on the sale of LDCs.</p> <p>3) Several of the Premier's Advisory Council recommendations to the Provincial Government are being implemented including the merger of Powerstream, Horizon, Enersource and Hydro One Brampton LDCs. Many Municipal owners throughout Ontario are considering their LDC's future. Industry consolidation is happening.</p> <p>The decision under consideration is motivated by industry consolidation and the direction of the Provincial Government. The environment of change established by Provincial policy will significantly affect the industry and the existence of smaller LDCs in the long run. Any sale proceeds can be reinvested to address the current day returns to the City from PDI. Therefore we do not see costs negatively affected by this transaction.</p>
132	Why rush to sell? Why haven't we seen offers from other potential buyers? Does	PDI is a well-run utility and does not need the cashflow.

#	Question or Comment	Response Provided
	PDI need cash flow? What about people left at PUG that will have to deal with restructuring and bumping?	<p>The decision under consideration is motivated by industry consolidation and the direction of the Provincial Government. The environment of change established by Provincial policy will significantly affect the industry and the existence of smaller LDCs in the long run. Any sale proceeds can be reinvested to address the current day returns to the City from PDI. Therefore we do not see cost affected by this transaction.</p> <p>PUG will continue to run all its other businesses and the people remaining will be an important part to continuing to run those operations.</p>
133	Against sale.	
134	Against sale.	
135	Review and prepare a report for Council on the OEBs LDC 2014 scorecard comparing PDI/Hydro One from OEB website. Hydro One near or at the bottom of all metrics, PDI scores much higher.	
136	Against sale. Talks about impacts on low income households. <i>Long letter and very detailed.</i>	
137	Short sighted decision to make money for City. Poor Hydro One track record.	
138	Against sale.	
139	Disagree with sale. Is Wynne involved here?	Premier Wynne is not involved here.
140	Against sale. Concerns with Hydro One and Wynne. We will have to pay Hydro One debt.	
141	We should continue to generate power	

#	Question or Comment	Response Provided
	and sell excess to Hydro One.	
142	Hydro One bad history. Don't sell.	
143	Don't sell	
144	Hydro One is a liberal boondoggle. Don't sell.	
145	Don't sell. It will be an increase in our hydro prices.	
146	Don't sell.	
147	How could this sale possibly be of benefit to us?	<p>The decision under consideration is motivated by industry consolidation and the direction of the Provincial Government. The environment of change established by Provincial policy will significantly affect the industry and the existence of smaller LDCs in the long run.</p> <p>Details of the benefits including continued employment and the development of a Regional Centre - is outlined in the public document entitled Management Discussion and Analysis and Frequently Asked Questions that can be found at http://www.peterboroughutilities.ca</p>
148	Why do you want everyone to pay more for hydro they already can't afford? How much money are you pocketing from this?	<p>The decision under consideration is motivated by industry consolidation and the direction of the Provincial Government. The environment of change established by Provincial policy will significantly affect the industry and the existence of smaller LDCs in the long run.</p> <p>Details of the benefits including continued employment and the development of a Regional Centre - is outlined in the public document entitled Management Discussion and Analysis and Frequently Asked Questions that can be found at http://www.peterboroughutilities.ca</p>
149	Don't sell. PUC is good.	
150	Please don't do this.	

#	Question or Comment	Response Provided
151	Why rent the power when we can own it?	
152	Don't support sale.	
153	Don't sell and cause our prices to increase because Hydro One needs to support their sunshine list employees!	
154	PDI should have nothing to do with such unethical corruption.	
155	Don't want to sell – to benefit pocket lining of Mayor and Council.	
156	Don't sell.	
157	Disgusted enough to never vote for any of you clowns again. Get all your looting in now while you can because come next election none of you will have a job.	
158	Don't sell.	
159	Don't do this.	
160	Don't do this. I'm so disappointed with this city these past few years.	
161	What point is it to sell an asset that makes our city money? Are we only looking at short term gain instead of long-term? Have we not observed the trauma Hydro One is causing customers?	<p>The decision under consideration is motivated by industry consolidation and the direction of the Provincial Government. The environment of change established by Provincial policy will significantly affect the industry and the existence of smaller LDCs in the long run.</p> <p>Details of the benefits including continued employment and the development of a Regional Centre - is outlined in the public document entitled Management Discussion and Analysis and Frequently Asked Questions that can be found at http://www.peterboroughutilities.ca</p>
162	Support sale. PUC is council's and there shouldn't have been public debate.	

#	Question or Comment	Response Provided
	People have no brains to understand – half of them are upset about loosing the zoo.	
163	Short term gain and long-term gain.	
164	No to sale.	
165	Bad Hydro One history.	
166	No good reason for this to happen.	
167	Totally against sale.	
168	No to sale.	
169	Short term gain, long term effects.	
170	Can't afford to pay more. No control over Hydro One as they have a monopoly.	
171	Hydro bills will be higher, don't deny it.	
172	Sale is a slap in the face to people of Peterborough. This option to exercise my voice is a joke.	
173	This should be voted on by the people.	
174	Don't sell.	
175	Don't sell.	
176	No sale please. Be unique, don't cave.	
177	I might as well talk to the hand because I know you won't be listening. Smoke and mirrors.	
178	Don't sell.	
179	Claim people won't pay more is preposterous. Nothing good will come of this sale.	
180	PUC is better choice than Hydro One.	
181	Do not do this.	
182	I agree with sale. Reinvesting the funds	

#	Question or Comment	Response Provided
	into the PUC or the equities market is what should happen with proceeds to ensure a financial return for PTBO in perpetuity.	
183	People won't be able to pay Hydro One bills because of cost.	
184	One time payment is no good.	
185	Short sighted to sell. We have a good asset.	
186	Keep Peterborough power local.	
187	Don't sell – Hydro One has highest rates.	
188	I like PUC, don't sell.	
189	Hydro One has highest rates and is being privatized.	
190	Not a good idea to sell.	
191	I've always been pleased with PUC. If deal goes through, rates will rise. May be short term benefits, but long term effects will be devastating.	
192	Poor record of Hydro One. This is a Liberal Government scheme	
193	Not in favour of sale. <i>Long letter.</i> Works at PDI.	
194	Not in favour of sale. Hydro One doesn't have a vested interest in our community.	
195	We already pay too much and won't costs go up more? What about the zoo? It's a boondoggle.	We do not expect costs to go up more as a result of this proposed transaction. Details of the benefits including continued employment and the development of a Regional Centre and rate protection is outlined in the public document entitled Management Discussion and Analysis and Frequently Asked Questions that can be found at

#	Question or Comment	Response Provided
		http://www.peterboroughutilities.ca The zoo is unaffected by the decision under consideration. The zoo will continue as is.
196	<i>See #194 – same submission</i>	
197	Hydro One too expensive. I would rather go off the grid than be a Hydro One customer.	
198	No confidence in Hydro One. Don't sell.	
199	Hydro One too expensive.	
200	Bad decision, think of the public's opinion.	
201	I don't live in PTBO, but am a Hydro One customer. If sale goes through it's so Mayor can line his pockets.	
202	Hydro One employees overpaid. Want a referendum.	
203	<i>See #202 – same submission</i>	
204	Why get rid of a steady cash flow? Short financial benefit dwarfed by long term detrimental effects.	<p>The decision under consideration is motivated by industry consolidation and the direction of the Provincial Government. The environment of change established by Provincial policy will significantly affect the industry and the existence of smaller LDCs in the long run.</p> <p>Details of the benefits including continued employment and the development of a Regional Centre - is outlined in the public document entitled Management Discussion and Analysis and Frequently Asked Questions that can be found at http://www.peterboroughutilities.ca</p> <p>Any sale proceeds can be reinvested to address the current day returns to the City from PDI</p>

#	Question or Comment	Response Provided
205	No sale until Hydro One can get their act together with billing and customer service.	
206	Sale would be a massive mistake.	
207	No thanks Hydro One	
208	Please don't sell. Hydro One is mismanaged and PUC is a jewel.	
209	Don't sell. Bennett will profit.	
210	Stop! It's expensive enough to live here.	
211	Don't sell to Hydro One.	
212	Believe sale is good business move. Job creation and at a time when PDI worth the most. Ptbo linesman will be moved up in the wage bracket.	
213	Don't sell. I can't pay more for hydro.	
214	Very bad move. Selling the people of this great city out.	
215	Selling PDI for quick cash is a bad idea. Why ruin a good thing?	<p>The decision under consideration is motivated by industry consolidation and the direction of the Provincial Government. The environment of change established by Provincial policy will significantly affect the industry and the existence of smaller LDCs in the long run.</p> <p>Details of the benefits including continued employment and the development of a Regional Centre - is outlined in the public document entitled Management Discussion and Analysis and Frequently Asked Questions that can be found at http://www.peterboroughutilities.ca</p> <p>Any sale proceeds can be reinvested to address the current day returns to the City from PDI</p>
216	What are the environmental and social	We see no material environmental and social opportunities and

#	Question or Comment	Response Provided
	<p>opportunities and limitations under various scenarios? How does a potential sale affect the ability of Peterborough and surrounding area to shape its own innovative, entrepreneurial future? What level of influence will residents have after sale? How important is this to local residents? Is there an opportunity to acquire/merge with other local utilities/distribution networks in central Ontario? What is the overall consultation process by PDI and City? What conditions and arrangements could be made with the purchaser (jobs, offices, service standards)? If there's a sale, what happens to proceeds? Is there an opportunity to create a trust fund of \$40 million to support energy efficiency programs, new generation opportunities, and environmental programs?</p>	<p>limitations from the decision under consideration.</p> <p>PDI is a highly regulated business with significant regulatory restrictions on what it can and cannot do. As such its ability to influence the Peterborough and surrounding area to shape its own innovative, entrepreneurial future, is restricted and not of consideration.</p> <p>What level of influence will residents have after sale? How important is this to local residents? - If a Hydro One transaction was approved by City Council, and with reference to other completed transactions for LDCs, a Municipal Advisory Board could be created comprised of local City representation and senior Hydro One officials to address any future electricity related issues. The Municipal Advisory Board would provide a regularly scheduled forum for the City to directly raise electricity issues with senior Hydro One officials.</p> <p>Is there an opportunity to acquire/merge with other local utilities/distribution networks in central Ontario?</p> <p>There is limited opportunity for PDI to acquire, or for PDI to be purchased by local LDC's, as they have insufficient capital means to do so. Additionally, PDI's service territory is surrounded by Hydro One's service territory, and with no other LDCs in close proximity to Peterborough. This contiguous service territory can provide significant operational synergies and this has been recognized by the ODSRP as a requirement for effective consolidation. To merge with another local LDC will not provide such synergies and must address the size goal of greater than 400,000 customers to be considered to meeting the government direction.</p> <p>The overall consultation process by PDI and City will not be fully</p>

#	Question or Comment	Response Provided
		<p>determined until the public input process is completed.</p> <p>Details of the benefits including continued employment and the development of a Regional Centre - is outlined in the public document entitled Management Discussion and Analysis and Frequently Asked Questions that can be found at http://www.peterboroughutilities.ca</p> <p>The proceeds of the sale has not been discussed or determined by Council. Such discussion will occur at a future date.</p>
217	Government cuts funding for public services due to lack of funds, but wants to sell profit making services. Unacceptable.	
218	Hydro One level of service is unacceptable. Why when there is a regional storm outage Ptbo is back up and running quickly but Hydro One customers are in the dark for 3-5 days? Why do PDI crews assist Hydro One with their storm response once our power is back on? They don't trim their trees adequately or have enough staff. Once Hydro one takes over, do you think same thing will happen when they freeze rates for 5 years and cut tree trimming in Ptbo!	Peterborough' service territory is easier to serve than Hydro One's rural territory, as it has higher customer density and less overall service territory. The proposed Regional Centre to be built and maintained in Peterborough should provide comfort that Peterborough storm response should not be negatively affected going forward.
219	No sale to Hydro One. Over priced and inefficient.	
220	No urgency for a deal. History of mismanagement. Employees fear losing their jobs. Our service is A1 and risks being tampered with. Danger of higher	

#	Question or Comment	Response Provided
	cost.	
221	PDI should not be sold especially to Hydro One. Councillors need to represent their constituents and not worry what Stephenson want (he will make a good profit from this deal). Without PDI what happens to departments like water, zoo, generation, etc? Why sell an on-going income for a one time amount? 22% tax is payable to province with this sale. Councillors should tour utility to see what they are considering selling.	<p>The water, zoo and generation businesses will continue.</p> <p>The decision under consideration is motivated by industry consolidation and the direction of the Provincial Government. The environment of change established by Provincial policy will significantly affect the industry and the existence of smaller LDCs in the long run.</p> <p>Details of the benefits including continued employment and the development of a Regional Centre - is outlined in the public document entitled Management Discussion and Analysis and Frequently Asked Questions that can be found at http://www.peterboroughutilities.ca</p> <p>Any sale proceeds can be reinvested to address the current day returns to the City from PDI</p>
222	Only support sale if hydro costs go down. Hydro is more expensive here than Belleville (Veridian).	
223	If it's not broke, don't fix it.	
224	Current service is good. Afraid of poorer service at a higher cost.	
225	Only reason is that some people in organization stand to make money out of this in the form of a sweetheart deal with government.	
226	Selling to Hydro One is an underhanded way of taxing the citizens of Peterborough.	

#	Question or Comment	Response Provided
227	Don't sell.	
228	This will be a huge mistake that city residents will pay for.	
229	Hydro One has bad track record. Irresponsible to sell income producing assets for short-term gain.	
230	Don't sell.	
231	Keep PDI. It is making money.	
232	PDI has very good service. No one has ever accused Hydro One of doing a good job.	
233	Why sell off something that is making money to an organization that has poor customer service, high debt rates?	<p>The decision under consideration is motivated by industry consolidation and the direction of the Provincial Government. The environment of change established by Provincial policy will significantly affect the industry and the existence of smaller LDCs in the long run.</p> <p>Details of the benefits including continued employment and the development of a Regional Centre - is outlined in the public document entitled Management Discussion and Analysis and Frequently Asked Questions that can be found at http://www.peterboroughutilities.ca</p> <p>Any sale proceeds can be reinvested to address the current day returns to the City from PDI.</p>
234	A huge mistake.	
235	Just No.	
236	Everyone is saying no. Do you even care?	The public input session is to provide public input to Council to be duly considered in evaluating the decision.
237	Don't sell. I'm terrified of how Hydro One will bankrupt us as a community.	

#	Question or Comment	Response Provided
238	Why not sell PDI to private sector? Why is Hydro One trying to buy back more distribution? Will they resell it at an even bigger profit?	<p>Details of the benefits including continued employment and the development of a Regional Centre - is outlined in the public document entitled Management Discussion and Analysis and Frequently Asked Questions that can be found at http://www.peterboroughutilities.ca</p> <p>The benefits include retaining considerable existing employment in the area. The opportunity to replicate these benefits with the private sector is very low. As PDI's service territory is contiguous (shoulder to shoulder) with Hydro One's service territory, the opportunity to build a new Regional Hub Operation Centre in Peterborough becomes logical as the industry consolidates and Hydro One looks to upgrade and site its regional operations.</p> <p>Hydro One is a logical acquirer under the Provinces direction to consolidate the industry. Hydro One has considerable access to low cost capital and is already a significant sized utility in Ontario.</p> <p>There is no indication that the company will be sold later at a higher profit.</p>
239	We pay enough for power and Hydro One sale will leave us vulnerable to even higher rates.	
240	Not in favour of sale because of Hydro One track record.	
241	Don't sell.	
242	Every level of government just wants to bend the tax payer over.	
243	PUC does a tremendous job. I like their "green" take on things. Don't sell.	
244	Only in best interest of Hydro One.	

#	Question or Comment	Response Provided
245	Selling to Hydro One is a huge mistake. Fees will increase.	
246	Don't sell. Hydro is expensive enough and I can't afford more.	
247	We should be proud of PDI. We should stay the course.	
248	<i>Letter received.</i> Are Drummond report recommendations valid for smaller utilities and on what criteria were they based? Do they take into consideration the proximity to large urban areas, geography, and population distribution? How many had operating surpluses? How was a minimum population of 400,000 for a local municipal system arrived at?	<p>Since 2012, the Provincial Government has sponsored the Drummond Report, the Ontario Distribution Sector Review Panel ("ODSRP"), and the Premier's Advisory Council on Government Assets. All of these reports are specifically aimed at and valid for smaller utilities. The conclusion is that there are too many small utilities and that is cost inefficient.</p> <p>All of these reports have concluded that further distribution utility consolidation is necessary to remove inefficiencies, reduce costs and ultimately reduce consumer electricity rates. For reference, these reports can be found at: http://www.peterboroughutilities.ca</p> <p>Page 9 of the ODSRP report provides comparative sizing for jurisdictions around the world, supporting that 400,000 is a reasonable number. The conclusion of 400,000 as recommended by the ODSRP is on page 29 of that report.</p>
249	I emailed by questions and comments to mayor and council members twice earlier this month. Comment card should be delivered in the billing statement envelope. She will pay the cost of the paper. March 31 deadline needs to be extended. Need to slow down the process. Why are we in such a rush for	<p>Council has committed to receiving public input to consider in its evaluation of this important decision. The approach is not rushed and will consider all material aspects before a decision is made. The industry is continuing to consolidate and the opportunities to capture best community value will not continue to exist as that industry shrinks.</p> <p>Council will decide what the best timing for the decision is, given the</p>

#	Question or Comment	Response Provided
	this to happen? By waiting one year, what amount of money will be lost? How will the profits dwindle (what %) as costs to run PDI increase? Estimation of PDI increase?	industry risks and the opportunities presented.
250	If Hydro One takes over no attention will be paid to local issues. I am concerned that Mayor Bennett considers this a done deal. Can residents be guaranteed that the local distribution rates won't go up? Will we be forced to pay more for province wide maintenance of aging infrastructure, debt retirement, outlandish severance packages, and exorbitant salaries? Why would you want to get rid of something generating money for the City? Where will that revenue come from if PDI is sold? Increased property taxes?	
251	<i>Package of information including newspaper articles, letter etc. submitted.</i> I like PDI but not Hydro One. Perhaps a referendum would be in order. Some people may not be submitting concerns about Hydro One because they haven't experienced them.	



PETERBOROUGH UTILITIES GROUP

1867 Ashburnham Drive, PO Box 4125, Station Main
Peterborough ON K9J 6Z5

May 18, 2016

Mr. Allan Seabrooke, CAO
City of Peterborough
500 George St. N
Peterborough, ON
K9H 3R9

Dear Sir:

Peterborough Distribution Inc. (PDI)

I am writing to provide a brief update to you on the good progress that we are making in pulling together the information on the proposed transaction with PDI.

As you can appreciate, there is some complexity to this matter, but we are targeting to bring a complete package to you in the month of June. I know your team will then need time to review, analyze and prepare this for Council, and the final target date for Council will remain to be determined.

Throughout the course of the last few months there have been several issues brought to my attention to address. We are working to provide further information on these matters as this process continues. In the interim, I have enclosed some information as a start to addressing these issues. I ask that you provide this to all of Council to ensure that they are informed.

I would highlight from the attached enclosures certain aspects that are of concern to me, particularly as I focus on the fiduciary obligation to address the long term viability of PDI and protecting the ratepayer and taxpayer finances. Regardless of the merits or demerits of any proposed transaction, the future industry reality and risk is inescapable and the following will need to be addressed:

1. Future Status Quo Operation of PDI is Not an Option

- Continuing Status Quo puts:
 - **\$38 million** of taxpayer value (TV) at real risk;
 - **\$100 - \$150 million** of TV through jobs at real risk, and
 - **\$8 million** of TV, is scheduled to erode this year.

2. The Industry will Consolidate Further

- The industry is consolidating regardless;
- **\$9.0 - \$11 million** of temporary tax relief (TV) is lost without action;
- Consolidation will continue to erode PDI TV;
 - General market value decline;
 - Declining PDI annual earnings, and
 - Declining annual payments to the City.
- Cost containment measures will be required.

The conclusion that I may have failed to adequately convey, which I now hope is clear from the above, is that a Council decision on a new direction for PDI is inevitable. Status quo is not an option, as it ignores significant loss in taxpayer value (both dollars and through employment). The risk of value loss is unavoidable and increasing with time, making a decision time sensitive.

I do not believe we can ignore the changing times and hope that the regulator or a change in the Provincial Government will make this go away. The regulator's primary objective is to protect consumers, and not to ensure that a utility is solvent, or retains value. That is the Owner's sole responsibility. Industry consolidation has continued during different Provincial Government regimes.

When will this happen? How much time do we have? These are all questions for which there will never be a precise answer. However, measuring the best information available, assessing risk and weighing the balance of probabilities, we must make the best judgements. In this balance of probabilities - the reality is that industry consolidation and its impacts will continue.

Therefore, regardless of the view of the proposed Hydro One (H1) transaction, a decision to move from the status quo will be required to be made on a timely basis.

There are several misconceptions that I would like to highlight and address:

1. Why take this windfall gain versus continuing to get an annual dividend?
 - This assumes ***incorrectly*** that the annual dividend will continue;
 - The risk of an annual dividend decline or loss is inevitable;
 - The risk of mandatory action in the long run should not be discounted.

The proposed transaction/decision addresses the risk of change. To assume normal continued operations and returns is incorrect.

2. How much and when will the annual dividend decrease?
 - While there is no certain time horizon, we project that you will not continue unaffected beyond 5 -7 years;
 - The annual dividend of ~\$1 million will commence decline in this period and may be significantly altered;
 - You will be at risk of mandatory action;
 - Your future outlook of decline will not reverse.

While this is occurring, the greater at risk amount of TV of \$38 million plus \$100 -\$150 million will erode. The annual dividend amount and timing is not material in comparison.

Reinvestment alternatives will address annual shortfalls, and with less risk.

3. Specific to H1:

Rates –

Past H1 acquisitions show that there has been dramatic rate increases?

- Past transactions are not comparable to the PDI circumstance;
- Refer to the analysis of Attachment B.

Rates will increase dramatically in years 6 to 10?

- We have provided mechanisms to address this;
- This assumes that PDI rates will not increase – they will and possibly substantially;
- The Ontario Energy Board controls all rates.

Service Quality

Service quality history is abysmal?

- History is not the complete predictor of the future;
- Recent performance is comparable to PDI's (Attachment A);
- Contractual protective measures are under discussion.

I trust that the attached helps to address some of the leading issues that have been raised. We will continue to work on addressing all of the key matters in the information that we are preparing.

I would encourage all to review the enclosed Management Discussion and Analysis and Frequently Asked Questions (Attachment C) that was issued some time ago for guidance on key matters that continue to be raised. It was issued to provide the best information available for reference as we continue to finalize details.

I look forward to bringing the complete information through the COPHI Steering Committee, COPHI Board and City Administration to you, for your evaluation.

In the interim, should there be any questions or concerns that you may have, please do not hesitate to contact me directly.

Yours truly,



John Stephenson
President and CEO

Attachment A
Summary of Key Matters

1) **STATUS QUO IS NOT AN OPTION – The industry is rapidly changing**

The Status Quo option is ***an assumption that is FALSE and misleading.***

Under Status Quo the following will happen:

- ***You are too small to continue to be cost effective and provide service.***

That means in five to seven years, without significant rate increases gained:

- Dividend will decline, possibly significantly;
- Less capital to do upgrades – poorer service;
- Service levels will decrease;
- Job loss as the utility will have to cut costs.

- ***You are at risk for government mandatory action***

That means in the next five to seven years:

- You will be one of the smallest and few utilities remaining;
- You will be inefficient;
- After a period of time you will not be tolerated and told what to do;
- When this is done – it will be at
 - Considerably lower value – you will have lost money for taxpayers;
 - You will experience job loss in the community;
 - You will have no control.

- ***Consolidation will happen regardless of Provincial Party***

- Consolidation has happened in many world jurisdictions;
- Ontario is recognized as having way too many utilities;
- There is too much industry consolidation momentum now;
- You are too small;
- Consolidation will happen regardless of Provincial Party politics – it cannot be avoided by waiting for an election;
- You can expect less government tolerance for a 36,000 customer utility when the goal is 400,000 and the government has provided mechanisms to dramatically influence action.

2) DECISION MAKING STARTS WITH H1 – IT DOES NOT END

- This issue and decision does not go away with a no decision with H1;
- Due to PDI's regional location the alternatives to H1 are limited, and do not promote value retention for taxpayers, or jobs.

3) ARE MERGERS REALLY A VIABLE OPTION? - NO

- Mergers must readily achieve 400,000 plus customers to be considered;
- PDI location is not conducive to an effective merger;
- Approval and Implementation is long (years) process;
- Given PDI's size, less than 10% input (inconsequential) on any matters;
- Employment retention is not improved, mergers must cut costs;
- Lost opportunity of job retention under proposed H1 alternative
- Proposed merger must create \$150 - \$200 million of local value to be considered.

4) MOVING FROM STATUS QUO MUST BE MADE DECISIVELY AND NOT DEFERRED;

A decision from status quo (H1 or otherwise) will need to be made expeditiously as:

- **Valuations are decreasing** as the market shrinks – you are losing taxpayer money;

<u>Rate Base</u> (\$ thousands)	<u>Multiple</u>	<u>Total Value</u> (\$ thousands)	<u>City Loss</u>
69,900	1.55	108,345	
	1.54	107,646	
	1.50	104,850	3,495
	1.45	101,355	6,990
	1.00	69,900	38,445

- The above outlines the value decline over the past two years and highlights the current zone that we have indicated. From this:
 - The City **cannot achieve** the high water mark of 1.55 as time has passed and value has eroded.
 - The City **can achieve** a zone of \$102 – \$104 million or approximately 1.5 times. That is **lost value of ~ \$4 million** from the high water mark (1.55 times).

Summary of Key Matters

- Values **are and will continue to decrease** – a small decrease (1.5 -1.45) equals \$3.5 million of lost taxpayer money.

Status quo and do nothing can result in a transaction at 1.00 times or **a loss of \$38 million of taxpayer money.**

5) **MOVEMENT FROM STATUS QUO RETAINS JOBS**

- The development of a new Regional Hub by Hydro One in Peterborough provides a strong opportunity for continued local presence in Peterborough, and retaining jobs in Peterborough.

The related future economic benefit to the community is estimated to be \$100.0 - \$150.0 million over the next five years.

6) **PDI RATES ARE GOING UP!**

- They may go up significantly – **the assumption that they will not go up or at historical levels is FALSE;**
- The H1 proposed rate freeze is **at least a 11% reduction** to the forecasted PDI bill;
- Beyond five years - a new rate class is to be pursued;
- The historical calculations of rate increases of prior H1 purchases is misguided and not representative of the future.

7) **SERVICE LEVELS ARE SIMILAR**

- As taken from the Ontario Energy Board reporting:

OEB 2014 Scorecard Results

	2014		
	PDI	H1	Industry
Service and Customer Satisfaction Quality			
New Residential/Small Business Services Connected on Time	99.10%	97.40%	90.00%
Scheduled Appointments Met On Time	99.60%	99.30%	90.00%
Telephone Calls Answered On Time	76.50%	69.60%	65.00%
Billing Accuracy	99.74%	94.63%	98.00%

- Despite the historical billing issues from a billing system implementation, H1 statistics have improved and approximate PDI and industry performance on customer facing statistics;
- This similar performance is before consideration of hard to serve (disparate and remote customers) and substantial billing volume of H1 which influences statistics.

Attachment B
H1 Prior Acquisition Analysis
Rate Comparables

Analysis and Exclusions

The following analysis summarizes the historical data of Hydro One's (H1) ninety (90) acquisitions since year 2000, with customer count information of the acquired utilities.

This analysis *excludes*:

- 1) The recent H1 acquisitions of Woodstock, Haldimand and Norfolk of the last few years.
Since these purchases have just recently been completed, they will not be able to demonstrate any rate impact to be included in the analysis;
- 2) The acquisition of Brampton Hydro – an urban utility purchased in 2001 by H1.

Why so many acquired utilities? ***Remember, in year 2000 there were 300 utilities!*** In the first wave of industry consolidation in and around year 2000, H1 was the logical entity to acquire these small, underperforming, cost-ineffective utilities. Not by business choice, – it was logical for H1 to effect government policy.

Brief Understanding of Rate Classes

In terms of rates, H1 has several rate classes to address the areas that they serve. ***It is important to understand these*** – and you will see why.

These rate classes, amongst other things, are separated by customer count and density. Why is that? It is simple to understand ***that serving a few customers widely distributed over a large area (therefore low density), is significantly more challenging and expensive*** than serving many customers in a tighter region (high density). This is a concept widely agreed to in the industry, and supported by study.

With respect to the acquired utilities of H1 - in the analysis provided, you will note the segmentation into two rate classes; R1 and UR. The underlying definitions of these classes are:

1. R1 - “medium density” rate class – an area of ***more than 100 customers*** (and less than 3,000) and density of at least 15 customers per kilometre. ***[Translation – small and inconsequential]***
2. UR - “urban density” rate class – an ***area of more than 3,000 customers*** and a density of at least 60 customers per kilometre. ***[Translation – still small and NOT URBAN by any sense of the word]***

Of the acquired utilities:

1. 79 of the 90 utilities are R1 class – inconsequential and small. Refer to the individual utility customer count sizes.

H1 Prior Acquisition Analysis
Rate Comparables

2. 11 of the 90 utilities are UR class – and of those, none are of significant substance.

The rates of these prior acquisitions would be expected to go up to a blended harmonized rate after cleaning up all the inefficiencies and lack of scale in these utilities.

PDI HAS 36,000 CUSTOMERS!

- Clearly, the application of these rate categories (R1 and UR) to PDI ***makes little sense***. Therefore the plan is to establish a separate rate class that would reflect the customer composition and density of the existing PDI service territory (somewhat similar to a Brampton Hydro – below).

This plan is highlighted in the Management and Discussion Analysis (page 7) that we provided.

- Clearly, a comparison of PDI and projected rate increases (post acquisition) to the history of H1 past acquisitions is not meaningful.

The Case of Brampton Hydro

Brampton Hydro was sold to H1 in 2001. Brampton Hydro has 149,000 customers. In the last 15 years while H1 has owned Brampton Hydro, it has been considered a top performer – both low cost and rates.

Post H1 acquisition - Brampton Hydro rates have not escalated beyond the norm. As of the current date (15 years post acquisition), their rates and costs are similar, or a bit lower, than PDI's.

In other words, there has been no ***post acquisition dramatic rate increase*** and the utility has remained a top performer. Secondly, this ***is an example of a separate rate class structure*** (similar to what we are proposing to achieve with PDI in years 6 to 10, subject to OEB approval).

Summary

To summarize:

- The majority (79) of the 90 utilities acquired are immaterial service areas that have an average customer size of 1,139.

As one harmonizes these small utilities into a uniform service, rate increases are not unreasonable. Particularly given their small size, and being poorly run (some), under-capitalized, having poor physical plant, in hard to serve locations.

Are these comparable to what we are discussing with PDI? The answer is no.

- Of the 90 utilities acquired only 11 are larger (UR) utilities with an average size is 5,543.

Do we think that these utilities are comparable to a 36,000 customer utility? They are not.

H1 Prior Acquisition Analysis Rate Comparables

- Brampton Hydro at ~ 4 times the size of PDI is more representative of what may happen, than these 90 utilities (79 of which are on average 32 times smaller than PDI). Brampton Hydro today has lower rates than PDI.

Conclusion

- ***Past acquisitions are not comparable with PDI;***
- If there is any comparison – look to Brampton;
- History has little bearing on the future;
- The proposed separate rate class in years 6 to 10 will address urban density and service territory that is consistent with PDI's existing service territory and customer density. This will assist in rates that reflect the true cost to serve – similar to PDI historic.

<i>Acquired Distributor</i>		Rate	
		Class	Customers
1	Hydro One (Ailsa Craig)	R1	386
2	Hydro One (Arkona)	R1	236
3	Hydro One (Arnprior)	R1	3,406
4	Hydro One (Arran-Elderside)	R1	n/a
5	Hydro One (Artemesia)	R1	n/a
6	Hydro One (Bancroft)	R1	1,346
7	Hydro One (Bath)	R1	639
8	Hydro One (Blandford-Blenheim)	R1	899
9	Hydro One (Blyth)	R1	476
10	Hydro One (Bobcaygeon)	R1	1,740
11	Hydro One (Brighton)	R1	2,240
12	Hydro One (Caledon CH 02)	R1	2,589
13	Hydro One (Campbellford/Seymour)	R1	1,858
14	Hydro One (Cavan-Millbrook-N. Monaghan)	R1	561
15	Hydro One (Centre Hastings)	R1	633
16	Hydro One (Chalk River)	R1	412
17	Hydro One (Champlain Twp.)	R1	1,527
18	Hydro One (Clarence-Rockland)	R1	3,166
19	Hydro One (Cobden)	R1	543
20	Hydro One (Deep River)	R1	1,946
21	Hydro One (Deseronto)	R1	775
22	Hydro One (Dundalk)	R1	777
23	Hydro One (Durham)	R1	1,301
24	Hydro One (Eganville)	R1	665
25	Hydro One (Erin)	R1	1,062
26	Hydro One (Exeter)	R1	2,265
27	Hydro One (Fenelon Falls)	R1	1,158
28	Hydro One (Forest)	R1	1,373
29	Hydro One (Georgian Bay Energy - Chatsworth)	R1	225
30	Hydro One (Georgina)	R1	1,400
31	Hydro One (Glencoe)	R1	1,010
32	Hydro One (Grand Bend)	R1	1,283
33	Hydro One (Hastings)	R1	612
34	Hydro One (Havelock-Belmont-Methuen)	R1	633
35	Hydro One (Kirkfield)	R1	140
36	Hydro One (Lanark Highlands)	R1	413
37	Hydro One (Larder Lake)	R1	497
38	Hydro One (Latchford)	R1	216
39	Hydro One (Lucan/Granton)	R1	762
40	Hydro One (Malahide Twp.)	R1	n/a
41	Hydro One (Mapleton Twp.)	R1	n/a
42	Hydro One (Markdale)	R1	n/a
43	Hydro One (Marmora)	R1	771
44	Hydro One (McGarry Twp.)	R1	397
45	Hydro One (Meaford)	R1	2,198
46	Hydro One (Middlesex Centre)	R1	n/a
47	Hydro One (Napanee)	R1	2,599
48	Hydro One (Nipigon Twp.)	R1	951
49	Hydro One (North Dorchester Twp.)	R1	772
50	Hydro One (North Dundas Twp.)	R1	8,467
51	Hydro One (North Glengarry Twp.)	R1	n/a
52	Hydro One (North Grenville - Kemptville)	R1	1,558
53	Hydro One (North Perth - Listowel)	R1	2,394
54	Hydro One (North Stormont)	R1	n/a
55	Hydro One (Omemee)	R1	565
56	Hydro One (Perth East Twp.)	R1	3,289
57	Hydro One (Prince Edward County)	R1	n/a
58	Hydro One (Quinte West - Frankford)	R1	1,400
59	Hydro One (Rainy River)	R1	498
60	Hydro One (Ramara Twp.)	R1	132
61	Hydro One (Red Rock Twp.)	R1	405

R1 = Medium Density Rate

UR = Urban Density Rate

n/a - information not available

<i>Acquired Distributor</i>		Rate Class	<i>Customers</i>
62	Hydro One (Russell)	R1	800
63	Hydro One (Schreiber Twp.)	R1	843
64	Hydro One (Severn Twp)	R1	651
65	Hydro One (Shelburne)	R1	1,498
66	Hydro One (South Bruce Peninsula - Wiarton)	R1	1,129
67	Hydro One (South Glengarry)	R1	n/a
68	Hydro One (South River)	R1	557
69	Hydro One (Springwater Twp.)	R1	762
70	Hydro One (Stirling-Rawdon Twp.)	R1	957
71	Hydro One (Thedford)	R1	380
72	Hydro One (Thessalon)	R1	676
73	Hydro One (Thorndale)	R1	159
74	Hydro One (Tweed)	R1	850
75	Hydro One (Wardsville)	R1	212
76	Hydro One (Warkworth)	R1	337
77	Hydro One (West Elgin)	R1	n/a
78	Hydro One (Woodville)	R1	354
79	Hydro One (Wyoming)	R1	877

Average size	R1	1,139
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80	Hydro One (Brockville)	UR	9,427
81	Hydro One (Caledon OH 01)	UR	2,589
82	Hydro One (Carleton Place)	UR	3,801
83	Hydro One (Dryden)	UR	3,106
84	Hydro One (Georgian Bay Energy - Owen Sound)	UR	9,124
85	Hydro One (Lindsay)	UR	7,139
86	Hydro One (Perth)	UR	3,289
87	Hydro One (Quinte West - Trenton)	UR	6,843
88	Hydro One (Smiths Falls)	UR	4,523
89	Hydro One (Thorold)	UR	7,729
90	Hydro One (Whitchurch-Stouffville)	UR	3,407

Average size	UR	5,543
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Attachment C
Management Discussion and Analysis and Frequently Asked Questions
(Previously issued)

Peterborough Distribution Inc.

The following Management Discussion and Analysis and Frequently Asked Questions (“FAQ”) have been prepared by the Management of Peterborough Utilities Group to summarize key messages provided to City Council and the public with respect to the evaluation of the future of Peterborough Distribution Inc. (PDI).

It represents the evaluation by Peterborough Utilities Group, and does not reflect the opinion of City Council of the City of Peterborough.

Sincerely,

John Stephenson
President and CEO
Peterborough Utilities Group

**Peterborough Distribution Inc.
Management Discussion and Analysis and FAQ**

INTRODUCTION

Why Consider Selling Peterborough Distribution Inc. (“PDI”)?

Prior to industry deregulation in year 2000, there were over 300 municipal electric distribution utilities in the Province of Ontario. Industry consolidation commenced at that time in order to streamline the regulatory environment and reduce costs to the consumer. There is now less than 70 Local Distribution Companies (“LDCs”) distributing electricity in Ontario.

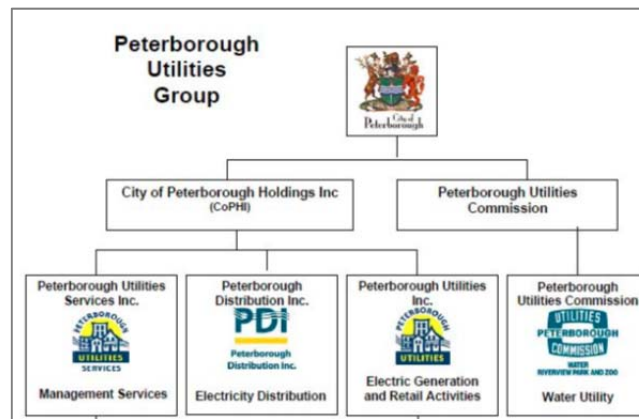
Since 2012, the Provincial Government has sponsored the Drummond Report, the Ontario Distribution Sector Review Panel (“ODSRP”), and the Premier’s Advisory Council on Government Assets. All of these reports have concluded that further distribution utility consolidation is necessary to remove inefficiencies, reduce costs and ultimately reduce consumer electricity rates. For reference, these reports can be found at:

http://www.peterboroughutilities.ca/Corporate/Corporate_News/Potential_Sale_of_Peterborough_Distribution_Inc_.htm

The ODSRP estimated Province wide savings of \$1.2 – \$1.35 billion could be achieved. It recommended that the remaining LDCs in the Province be consolidated to 8 regional utilities, with each having customer size of approximately 400,000 customers. In this context, PDI with 36,000 customers is simply not large enough to continue as a stand-alone utility.

What is Peterborough Utilities Group?

Peterborough Utilities Group (“PUG”) is comprised of several companies, including the unregulated company, Peterborough Utilities Inc.; the services company, Peterborough Utilities Services Inc.; the water company, through the Peterborough Utilities Commission, and the regulated LDC, Peterborough Distribution Inc. (“PDI”). The Riverview Park and Zoo is also part of the group and operated by the Peterborough Utilities Commission.



PDI is the only company in PUG that is subject to regulation and the Province’s direction of consolidation for cost improvements. Therefore ***PDI, the electricity distributor, is the only company that is under consideration for disposition.***

PUG will continue to own and operate all other companies in the group. Generation development and operations (in the unregulated business), the services and water businesses, and the Riverview Park and Zoo will continue operations as usual.

**Peterborough Distribution Inc.
Management Discussion and Analysis and FAQ**

What is the Future of PUG?

Should the City divest of PDI:

1. ***PUG will continue to have a significant local presence here in Peterborough through its remaining businesses.***

Over the past several years PUG has continued to diversify its overall operations with focus on renewable generation development. The result has been that PDI now accounts for approximately 37% of PUG's electricity assets, and 26% of the combined water and electricity assets. PDI accounts for approximately 24% of the overall annual cash contribution to the City and that is expected to decline to 18% in future years.

The Company has considerable future opportunity in the unregulated business having captured several opportunities with allotted Provincial Government energy procurement contracts. These development opportunities can be developed over the next several years. Recently constructed generation assets are long lived, and will continue to operate for 20 to 50 years. These developments are subject to secure, fixed price, long-term pricing arrangements that will ensure returns to the City over this horizon.

The Company will continue to operate the water business and expects that the future will bring further opportunity for growth.

As previously noted, the Riverview Park and Zoo will always continue to be owned and operated by the Company for the Peterborough community.

2. ***The PDI business will be combined with a Regional Hub presence located in Peterborough.***

PETERBOROUGH DISTRIBUTION INC.

Is Industry Consolidation Real?

The Ontario electric distribution industry has consolidated considerably and will continue to do so. The following summarizes the history of consolidation of the industry:

<u>Period/Year</u>	<u>Number of LDCs</u>
1990's	307
2000's	150
2013	80
2016 (estimate)	50+/-

Several of the Premier's Advisory Council recommendations to the Provincial Government are being implemented including the merger of Powerstream, Horizon, Enersource and Hydro One Brampton LDCs and the initial privatization of Hydro One. Many Municipal owners throughout Ontario are considering their LDC's future. ***Industry consolidation is happening.***

To further facilitate industry consolidation, in the fiscal 2015 budget, the Provincial Government introduced tax changes to significantly reduce the amount of Provincial taxes ("Transfer Tax") that are payable by Municipal owners to the Province on the sale of LDCs.

**Peterborough Distribution Inc.
Management Discussion and Analysis and FAQ**

For a period of three years commencing January 1, 2016:

1. For all LDCs

The Transfer Tax rate was reduced from 33% to 22%. For the City of Peterborough that is a saving of ***approximately \$9.0 to \$11.0 million;***

2. For LDCs with 30,000 Customers or Less

A Transfer Tax Holiday (0%), is in effect.

Based on the OEB published 2014 statistics, 44 of the remaining Ontario LDC's have 30,000 customers or less. It is expected that over the next three years during the tax holiday, that several of these LDCs will be sold. LDCs with greater than 30,000 customers can also avoid significant tax by completing a transaction prior to January, 2019.

In addition, the OEB has introduced regulatory changes to facilitate consolidation in the industry.

These recent taxation and regulatory changes have provided a strong environment for accelerated industry consolidation to happen in the next few years.

Why Now and Why Not Wait?

The recent advisory reports to the Provincial Government confirm that Ontario, unlike many jurisdictions in North America and worldwide, simply has too many small utilities and this is cost ineffective. ***In Ontario, there are 63 utilities serving only 30% of the customers. PDI is one of these utilities.***

The pace of change and momentum to gain cost efficiencies for the electricity consumer is unprecedented. We must recognize what that means for PDI – specifically:

1. That the environment of change established by Provincial policy will significantly affect the industry and the existence of smaller LDCs in the long run.
2. That PDI, as a small utility of 36,000 customers, in this period of change, may become one of the smallest utilities;
3. That in this period of change and thereafter, PDI may not be as effective as it was historically. It will be challenged to provide the same level of service, rates, and financial return to the City.

The ODSRP and the Premier's Advisory Council on Government Assets, both acknowledge that LDCs lack the capability and capital to respond to future demands on the utility. Municipal owners may be required to provide funding to LDCs in the future, and many may not have the capability or desire to make that investment.

**Peterborough Distribution Inc.
Management Discussion and Analysis and FAQ**

4. That proactive consideration of LDC options in advance of other market participants may be advantageous. Voluntary determination or negotiation of terms – rates, employment, service and financial return, is better than ignoring change and becoming a small LDC making a decision too late or being told of the decision.

What's Key to Any Decision?

Key to any decision on the future of an LDC should be opportunities to:

- Preserve and Build Local Jobs;
- Protect Local Customer Rates and Service, and
- Preserve Financial Value for the City.

What is the Financial Value at Hand?

a) Estimated Annual City Return (Status Quo – No Sale)

The estimated future annual return to the City of Peterborough is expected to be approximately **\$1.0 million per annum**, and:

1. This annual amount is ***not expected to grow*** without considerable economic expansion in the service territory. That growth has not been seen historically and any recent growth has occurred in areas surrounding PDI's service territory and in Hydro One's service territory.
2. This annual amount is ***more likely to decline*** with increased regulatory pressure on rates, increased mandated performance criteria and required investment to address future utility infrastructure requirements.
3. Given the expected period of industry change and consolidation, the annual return to the City is at risk to continue over the long run (beyond 10 years).

Forecasting total future return to the City from status quo (no sale) operations is now greatly influenced by the above noted risks of limited growth, rate pressure and industry change. ***We can no longer assume that past returns can continue forever or unaltered.*** Given these risks and assuming a 7 to 10 year horizon, the City's ***total amount*** expected from annual distributions from status quo (no sale) PDI operations ***would not exceed \$7.5 to \$10.0 million.***

b) Illustrative Proceeds on Sale of PDI

Based on recent LDC transactions in the past few years, the total purchase price for PDI could be expected to be in the \$100.0 million range. After deduction for debt and transaction costs, the net cash proceeds that would be returned to the City is estimated to be in the range of ***\$40.0 to \$50.0 million. For example, reinvestment of the expected proceeds at 2% - 5% would yield an annual return to the City of approximately \$1.0 to \$2.5 million.***

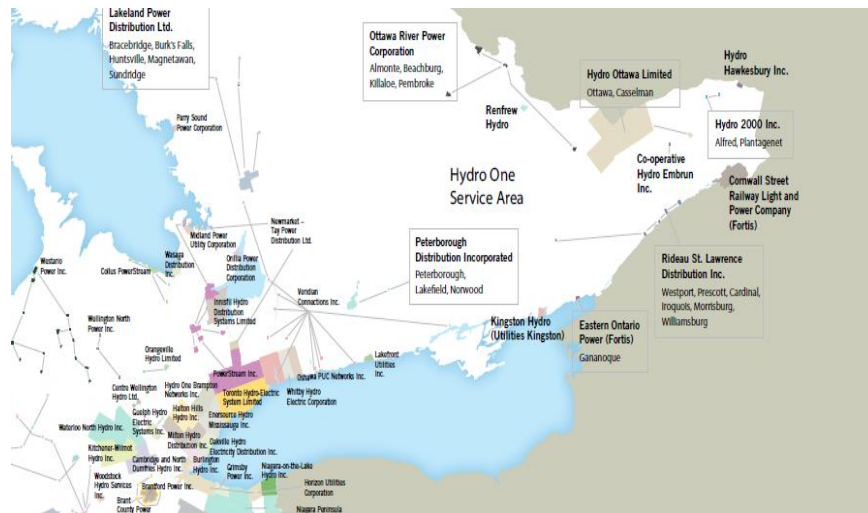
We expect that as the industry continues to consolidate, these market premiums will erode and the opportunity to make these gains will greatly diminish. Furthermore, completion of a transaction during the reduced tax rate period (expiring January, 2019) ***will save the City of Peterborough approximately \$9.0 to \$11.0 million in taxes.***

Peterborough Distribution Inc. Management Discussion and Analysis and FAQ

The opportunity to capture best value is now. However, as previously noted, financial return is only one criteria to consider in addition to employment, rates and service.

Why consider selling PDI to Hydro One?

PDI's service territory is surrounded by Hydro One's service territory, and with no other LDCs in close proximity to Peterborough. This contiguous service territory can provide significant operational synergies and this has been recognized by the ODSRP as a requirement for effective consolidation.



The Hydro One proposal (to be negotiated) can provide:

Expanded Regional Presence in Peterborough – Employment

Hydro One has approximately 70 jobs presently working in Peterborough in aging and congested facilities. PDI has approximately 60 - 65 jobs currently working in its operations.

As PDI's service territory is contiguous (shoulder to shoulder) with Hydro One's service territory, the opportunity to build a new Regional Hub Operation Centre in Peterborough becomes logical as the industry consolidates and Hydro One looks to upgrade and site its regional operations.

The development of a new Regional Hub by Hydro One in Peterborough provides a strong opportunity for continued local presence in Peterborough, and retaining jobs in Peterborough. The related future economic benefit to the community is estimated to be \$100.0 - \$150.0 million over the next five years.

As the industry consolidates, the future opportunity for regional operations in Peterborough will become less likely. Operations Centres will be sited in other regions as decisions are made in those areas. ***It should also be noted that this is a distinguishing component of a Hydro One proposal, made possible by contiguous service territory.*** Accordingly, such benefits cannot be easily replicated by other potential acquirors.

**Peterborough Distribution Inc.
Management Discussion and Analysis and FAQ**

Distribution Rate Control and Certainty

It is important to note that the ***OEB reviews and approves all distribution rates. Rate increases are adjudicated, controlled and approved by the OEB; not by PDI or any future owner of PDI.*** In addition to OEB control, the following is what is potentially available in a transaction:

The First Five Years

With reference to other completed transactions for LDCs, we would expect that the PDI existing distribution rate (the portion of total electricity rates directly controlled by PDI) ***would be reduced by 1% and frozen (“rate freeze”) at that level for five years.***

In comparison, status quo PDI rates, as a minimum will go up 10% in total over that five year period. It is quite possible that with new capital spending requirements over the next five years that the aggregate rate increase may have to be larger than 10%.

Using 10% as the approximate aggregate rate increase for five years for PDI status quo, ***at the end of year five, distribution rates under a rate freeze proposal will be 11% lower than what PDI would have on its own (“the rate advantage”)***

Beyond Five Years

Given OEB control of rates, ***it would be difficult to quickly erode the “rate advantage” in the years beyond year five, with rate increases.***

In addition, Hydro One has proposed, as in past LDC transactions and subject to OEB approval, to establish an “Acquired Rate Class”. We would expect that this rate class would better align with the customer density of the City of Peterborough and the cost to serve of urban utilities acquired by Hydro One, and that rates would be comparable to the rate classes of all acquired urban utilities.

We expect that this will address current comparability issues of the Hydro One existing “Urban” rate class with current LDC rate classes, including PDI.

The future expectation is that rate increases beyond the rate freeze period would be similar to rate increases experienced for urban utilities or if PDI remained status quo.

Reliability and Customer Service

Hydro One has admitted to having been challenged with the introduction of its new billing system two years ago. They have provided evidence of considerable improvement of that service with their 2015 Performance Scorecard filed with the OEB. That performance is close to PDI’s reported performance.

Secondly, Hydro One has proposed the leverage of PDI local staff to maintain existing service level delivery.

Thirdly, the increased attention and monitoring of LDC service performance through recently developed OEB Performance Scorecard Reporting will bring focus and transparency to all LDC and Hydro One future performance.

**Peterborough Distribution Inc.
Management Discussion and Analysis and FAQ**

Transaction Value

Any proposed transaction will be measured in relation to past and anticipated market values for similar transactions in Ontario. ***Refer to Financial Value at Hand Section.***

FREQUENTLY ASKED QUESTIONS

What would happen to PDI Staff and would there be job losses?

We anticipate and are working towards providing employment for all PDI staff and we believe that Peterborough will enjoy a net employment gain in the longer term.

Is PDI in financial trouble?

PDI is not in any financial trouble.

Historically, PDI has operated efficiently and provided its ratepayers with competitive electricity distribution rates, and provided the City of Peterborough with a competitive rate of a return. However, in light of the Provincial Government direction to consolidate the electricity distribution sector, and the increasing need for new infrastructure investment, as forecasted in the ODRSP report, it is likely that PDI will be unable to continue its historic performance in the future.

Who is required to approve a sale of PDI?

The City Council must approve any sale of PDI. There will be an opportunity for customers of PDI to have input and commentary into the process. Should City Council approve a Hydro One proposal, the OEB would then hold a public hearing to determine if the sale of PDI to Hydro One is in the public interest. This public hearing process could take six months or longer to complete. OEB approval is required before any sale can be completed.

Who would provide my electric bill?

In the short term, PDI would continue to provide customers of Peterborough and Lakefield with a combined water and electricity bill; and an electricity bill for the customers of Norwood.

If a Hydro One transaction was approved by City Council, over a period of several months after final OEB approval is received PDI's electric services would be transferred to Hydro One and subsequently electricity billings would be produced by Hydro One.

How would I be billed for water?

The Peterborough Utilities Commission (water) and Peterborough Utilities Inc. (water heater, rental equipment and generation) would continue to invoice customers for water and rental equipment directly. The frequency of these invoices may change from monthly to bi-monthly or quarterly, but customers would be informed of all changes well ahead of time.

Would there be any local presence in Peterborough?

We fully anticipate a significant continued local presence in Peterborough, to retain and enhance future employment. In cementing a contiguous service territory we believe that the opportunity for local presence is strengthened.

**Peterborough Distribution Inc.
Management Discussion and Analysis and FAQ**

How would customer service be handled?

Presently all customer service transactions with PDI can be done over the phone or electronically. This would remain the same if a transition of electric accounts to Hydro One was completed.

Would my electricity distribution rates go up when I am billed by Hydro One

PDI, as a Local Distribution Company, only accounts for and controls an estimated 19% of the total electricity bill. We would expect that arrangements with Hydro One would provide distribution rate protection for a period of five years. Thereafter, the electricity distribution rates would continue to be approved and controlled by the OEB.

In comparison, as a stand-alone utility the PDI distribution rate would increase on average by approximately 1.5% to 2% per annum over a typical five year regulatory cycle. Any distribution rate protection would be lower than PDI's status quo distribution rates, if PDI was maintained as a stand-alone utility.

The non-distribution remainder of the total electricity bill (not controlled by PDI) would continue to be subject to increases that are largely determined at the Provincial level or by the OEB.

Would the level of service and reliability change for PDI customers?

PDI customers should see no change in reliability or service. We would anticipate some measures to ensure that system and customer service performance is continued at historic levels for a period of time. We further believe that a local presence in Peterborough serves to provide commitment to continued strong future performance.

How would Peterborough City Council continue to influence local electric service delivery?

If a Hydro One transaction was approved by City Council, and with reference to other completed transactions for LDCs, a Municipal Advisory Board could be created comprised of local City representation and senior Hydro One officials to address any future electricity related issues. The Municipal Advisory Board would provide a regularly scheduled forum for the City to directly raise electricity issues with senior Hydro One officials.

Post transition, the Hydro One Board of Directors and Hydro One senior management would be responsible for managing electricity operations and services in Peterborough, Lakefield and Norwood. The Ontario Energy Board would continue to regulate these activities and establish all future distribution rates.