

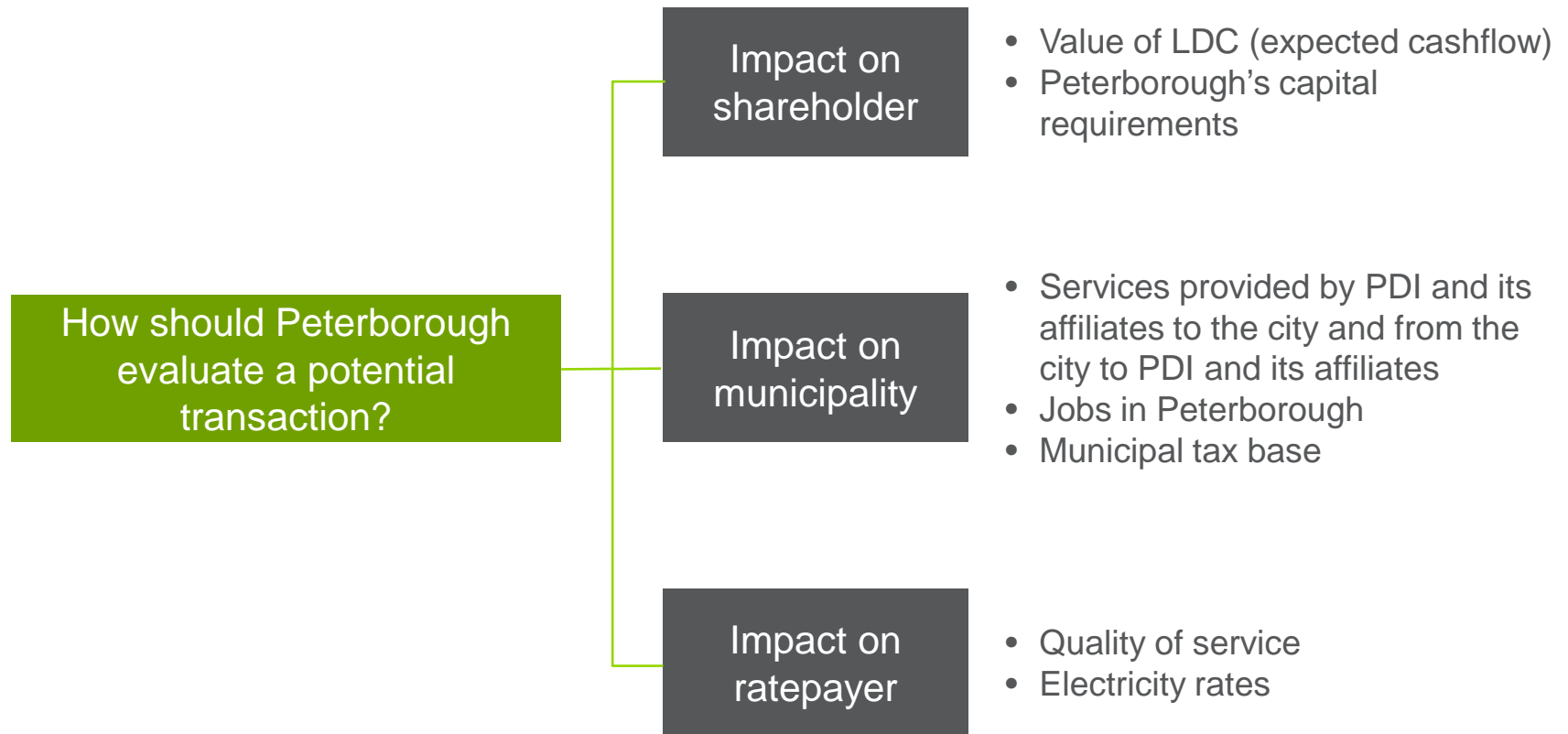
# PETERBOROUGH DISTRIBUTION INC. SALE REVIEW: SUMMARY OF KEY TERMS OF HYDRO ONE OFFER

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PREPARED FOR  
THE CITY OF PETERBOROUGH

OCTOBER 2016

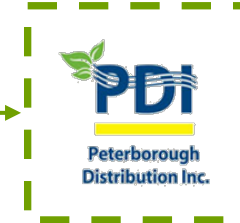
# PROPOSED DECISION FRAMEWORK

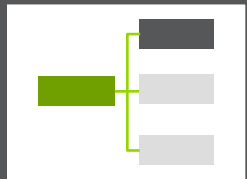


## HYDRO ONE OFFER OVERVIEW

**The offer is for Peterborough's regulated electricity distribution business assets**

- Purchase price: **\$105 million** →
- Economic development
  - Plan to construct Regional Operating Centre within Peterborough
  - 30 incremental Hydro One jobs at new Regional Operating Centre
- Jobs: all PDI employees will be offered a **12 month location and service guarantee**
- Customer distribution rates
  - Will be reduced by **1% and frozen** for years one through five
  - Potential for **distribution rate increases less than inflation** for years six through ten if approved by Ontario Energy Board
  - Proposed Earnings Sharing Mechanism would provide a guaranteed share of Hydro One's earnings in years six to ten to be used to offset distribution rates in year 11 and beyond
- Service Levels: Guarantees *backed by monetary compensation* if not fulfilled



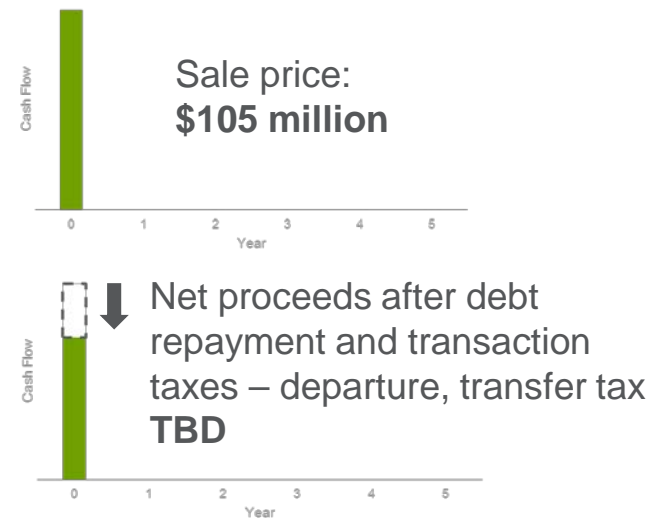


## IMPACT ON SHAREHOLDERS

### Hold

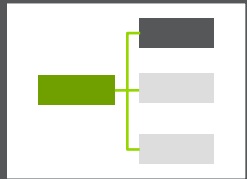


### Sell



From a pure financial perspective, the **Sale** scenario could be higher than **Hold** scenario if **Net Proceeds (after tax)** is higher than the present value of future cash flows to the city.

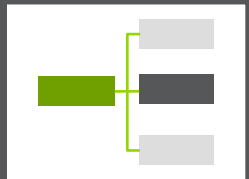
*Navigant will provide high level analysis in November*



# PETERBOROUGH'S CAPITAL REQUIREMENTS

## The city should assess its present and future capital requirements

- What are the city's future capital requirements?
- What is the city's discount rate, or rate at which it can safely reinvest?
- What are the possible sources for these capital requirements
  - Reserves
  - Ongoing distributions from PDI
  - Proceeds from sale of assets, including PDI
- What risks are associated with PDI's future cash flows?
- Can the proceeds of sale be put to better use elsewhere?
- Every shareholder will face different cash needs and different opportunity costs



## IMPACT ON MUNICIPALITY

### Should consider the potential impact on local jobs and service costs to the city resulting from the sale



#### Jobs in Peterborough – **Hydro One Offer Terms:**

- Current PDI employees would be offered a 12 month location and service guarantee
- 30 incremental Hydro One jobs at new Regional Operating Centre



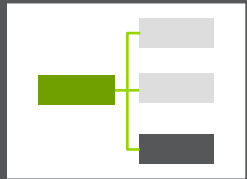
#### Services – **Hydro One Offer Terms:**

- Transition Services Agreement (TSA) to be developed and agreed upon alongside the Asset Purchase Agreement
- TSA will describe the transfer of services currently provided to PDI by Peterborough Utilities Services Inc. (PUSI) to Hydro One
- Note: Also need to consider the impact on all services between PUSI, PDI and the city



#### Municipal Tax base

- How will **local municipal tax revenues** be impacted as a result of the sale? **TBD**



## IMPACT ON RATEPAYERS

### The city should consider the impact of the sale on the ratepayers



#### Service levels – **Hydro One Offer Terms:**

- Service levels will be guaranteed with monetary compensation for missed targets



#### Distribution rates – **Hydro One Offer Terms:**

- Will be reduced by 1% and frozen for years one through five
- Potential for distribution rate increases less than inflation for years six through ten if approved by Ontario Energy Board
- Proposed Earnings Sharing Mechanism would provide a guaranteed share of Hydro One's earnings in years six to ten to be used to offset distribution rates in year 11 and beyond

# PROPOSED DECISION FRAMEWORK

