



City of
Peterborough

To: Members of the General Committee

From: Richard Freymond
Commissioner of Corporate and Legislative Services

Meeting Date: February 10, 2020

Subject: Report CLSFS20-014
COPHI Board Presentation Regarding Investing Proceeds
from Sale of Peterborough Distribution Inc.

Purpose

A report to inform Council that CoPHI Board representatives will attend the February 10, 2020 General Committee meeting to provide information about options to invest the proceeds from the sale of Peterborough Distribution Inc. to Hydro One.

Recommendation

That Council approve the recommendation outlined in Report CLSFS20-014 dated February 10, 2020, of the Commissioner of Corporate and Legislative Services, as follows:

That Council receive the presentation from representatives of the City of Peterborough Holdings Inc. Board regarding investing the proceeds from the sale of Peterborough Distribution Inc. to Hydro One.

Budget and Financial Implications

There are no budget and financial implications at this time.

The negotiated sale price of Peterborough Distribution Inc. to Hydro One is \$105 million. After fees and retirement of debt obligations, the net sale proceeds are expected to be in the range of \$50 to \$55 million.

Background

At its meeting of November 25, 2019, Council approved the recommendations in Report CLSFS19-051, Investing Proceeds from Sale of Peterborough Distribution Inc.:

- a) That with respect to use of the proceeds as a result of the sale of Peterborough Distribution Inc., Council give preliminary endorsement to the establishment of a City of Peterborough Legacy Fund as described in Report CLSFS19-051 for purposes of information gathering and public consultation;
- b) That with respect to use of the proceeds as a result of the sale of Peterborough Distribution Inc., Council give preliminary endorsement to investing in renewable energy through the City of Peterborough Holdings Inc., and as described in Report CLSFS19-051 for purposes of information gathering and public consultation;
- c) That upon approval of recommendations a) and b), staff be directed to arrange presentations by representatives of both the ONE Investment group and CoPHI, at a future date; and,
- d) That staff be directed to provide a further report on the results of all information gathered, the public consultation process and final recommendations as to how the funds should be invested, and that the report be provided no later than June 2020.

In accordance with this direction, and for purposes of discussion and public consultation, representatives from the CoPHI Board will be making a presentation to the General Committee on February 10, 2020 to provide information and options for investing the proceeds from the sale of PDI.

Sale of PDI - Current Status

The Agreements between Hydro One, the City and PDI were signed on July 31, 2018. The sale transaction is subject to approval by the Ontario Energy Board (OEB). Hydro One submitted the application for approval to the OEB in October 2018 and the OEB issued a notice to the public regarding the sale on December 18, 2018. Approval has been delayed and is expected to occur in 2020. The closing of the sale transaction will occur within approximately 90 days of receipt of OEB approval.

In compliance with the Asset Purchase Agreement and the Transition Services Agreement, Peterborough Utilities Services Inc. has been reorganized and a new company has been created (Peterborough Services Corp) to separate out the electrical utilities operations (staff and assets) from the water and other operations in preparation for finalization of the sale transaction. There will be a transition period immediately after the financial close where the electrical business will be operated very much like it is now for Hydro One until a successful integration of the business into Hydro One's business.

To prepare for that, information systems, reporting and business proactive changes have been made or are occurring to meet the expected requirements from Hydro One.

Investing proceeds from the sale

Investing the money from Hydro One's purchase of PDI would provide an ongoing source of non-tax revenue for the long-term benefit of the community. To start the discussion on how to invest the proceeds of the sale of PDI, the City has asked for two potential investment options to present to Council and it is asking the community for other ideas. Investing in renewable energy through City of Peterborough Holdings Inc. is one of the ideas being considered.

Invest in Renewable Energy

The City of Peterborough has a proven track record in developing renewable energy through its investment company, City of Peterborough Holdings Inc. (CoPHI). CoPHI operates electricity in the City and surrounding communities. The Company also develops and operates renewable hydro and solar generation facilities and operates a wholesale metering business. The Company and its related entities operate as the Peterborough Utilities Group.

As published in their 2018 Annual Report, the efforts of the Company over the past several years have provided a base for renewable energy equivalent to powering approximately 52% of the City's supply. The Company has been a conservation leader in providing its customers with opportunities to reduce their consumption.

Over the years, the investment returns paid to the City, as the sole shareholder, has been an important source of revenue and has been very effective in mitigating tax increases and moving important capital works forward.

In 2019, the company paid the City \$5.78 Million in dividends (2018: \$5.67 million), a 1.94% increase over the previous year. Cumulatively, at the end of 2019, \$90.75 million in distributions (dividends and interest) will have been paid to the City by the utility since its incorporation in 2000. The distributions to the City are funded by the operating companies of CoPHI. As stated in the 2018 Annual Report, due to the capital requirements and regulatory restrictions impacting cash flow in PDI, the majority of the distribution in 2018 was provided by the generation and other unregulated businesses.

From the City's perspective, the nature of the investment being proposed in this option would be in the form of common or preferred shares in CoPHI or any of its direct or indirect subsidiary companies. This is similar to today, whereby the City's current investment in CoPHI is in the form of common shares and supplemented by earnings retained in the company. A portion of the retained earnings are then reduced by the annual dividend payment to the City.

There are certain restrictions in the **Municipal Act, 2001** that would most likely preclude the investment being in the form of secured debt. Likely, the investment will be unsecured, in contrast to debt that is backed by the presence of collateral.

Investing in renewable energy should be considered a longer-term investment. Once invested in tangible capital assets, the investment may not be readily converted back into cash or cash equivalents.

The financial return under such a scenario is difficult to predict and is dependent upon several factors, including interest rate fluctuations, risk tolerance, the timing of required use of cash, and the overall financial success of the renewable energy project(s). Income from the investment would most likely be in the form of dividend payments.

Next Steps

Community Consultation

Meaningful engagement with the community is central in considering how to invest the sale proceeds. Staff will use information from the presentations from ONE Investment and CoPHI to create a survey, available online and in hard copy, and to engage with advisory and stakeholder groups, including, but not limited to, the following:

- Housing Action Task Force
- Peterborough Environmental Advisory Committee
- Arts, Culture and Heritage Advisory Committee
- Arenas, Parks and Recreation Advisory Committee

Advisory and stakeholder groups beyond those listed above may be approached to seek their submissions.

The broader community consultation will be done using a variety of methods to try to reach the greatest number of residents possible, including:

- In-person meetings during the Budget Roadshow, which is a series of drop-in-style sessions in each of the five wards;
- A survey that will be available both online and in hard copy; and
- The use of various tools on the City's online community engagement platform, Connect Peterborough, at connectptbo.ca.

Besides these more structured ways for residents to share ideas and comments, residents provide input through in-person conversations, phone calls and emails with Council members and City staff.

Results from the consultation will be reported back to Council in June 2020 for its consideration when deciding how to proceed.

Submitted by,

Richard Freymond
Commissioner of Corporate and Legislative Services

Contact Name:

Richard Freymond
Commissioner of Corporate and
Legislative Services
Phone: 705-742-7777 Ext. 1863
Toll Free: 1-855-738-3755
Fax: 705-876-4607
E-mail: rfreymond@peterborough.ca