

PETERBOROUGH DISTRIBUTION INC.

Public Session
March 3, 2016

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

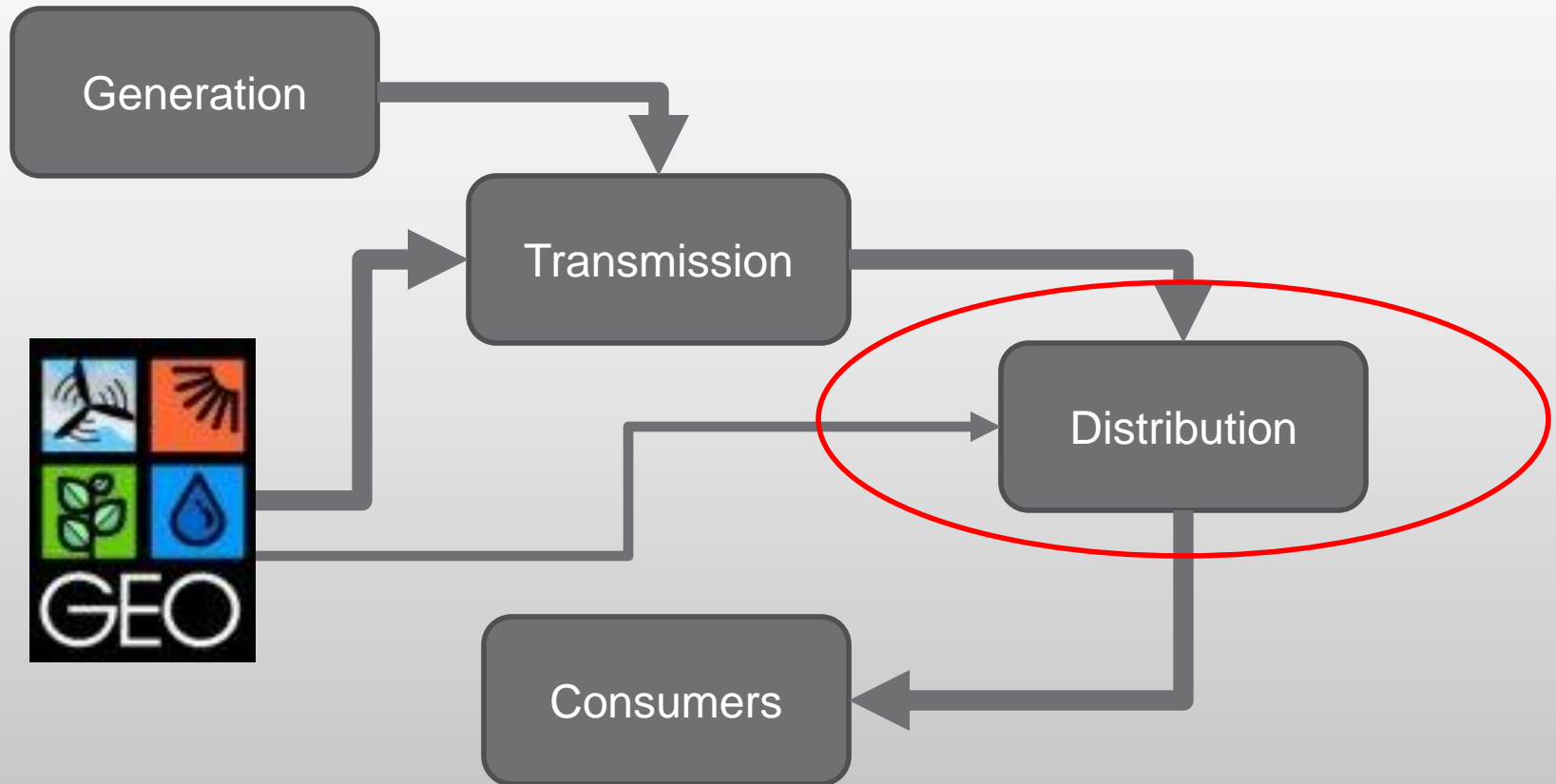
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HOW WE GOT HERE

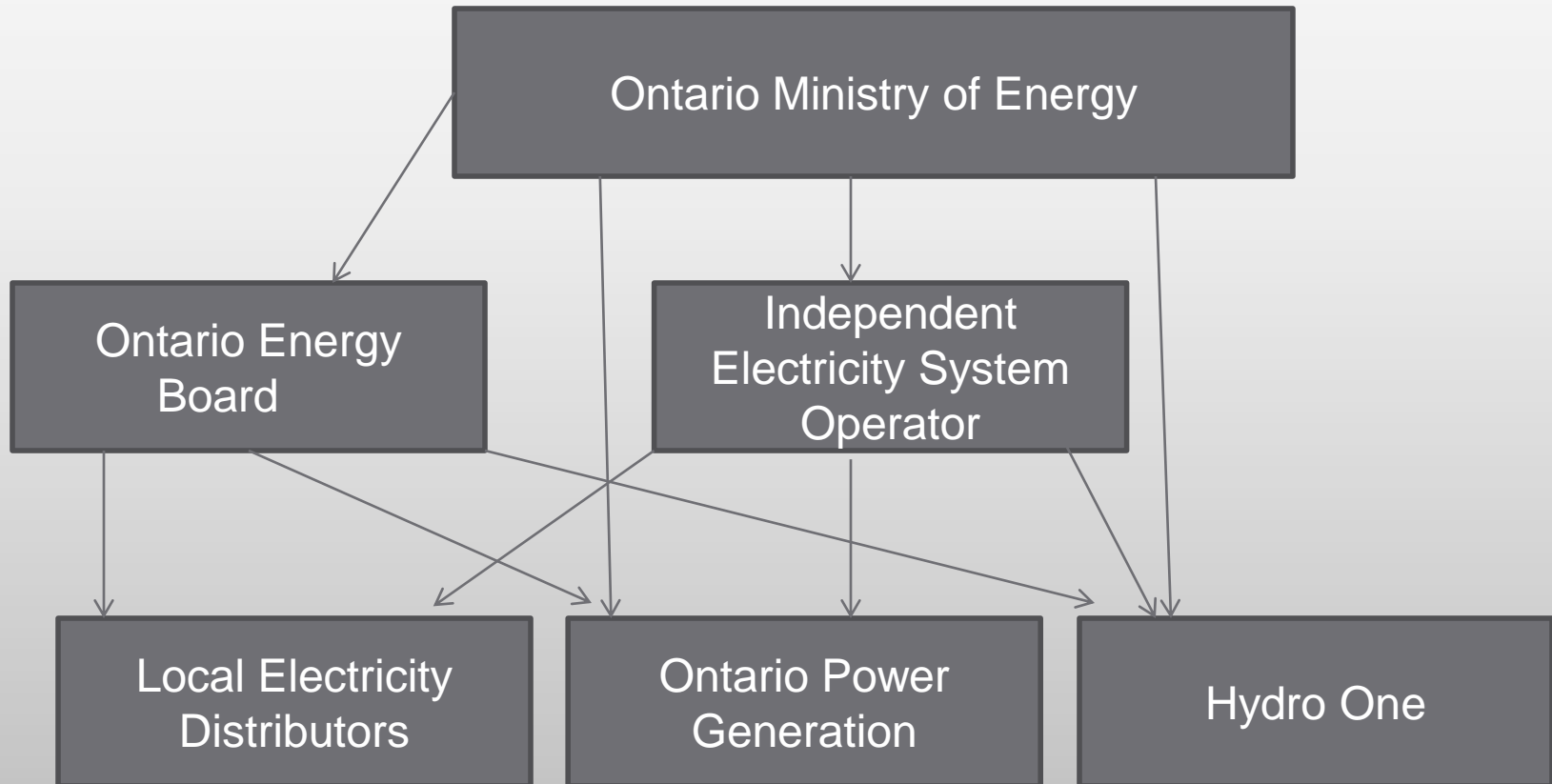


- The starting place is to understand the history of local electricity distribution in Ontario.
- Ontario's electricity sector has undergone dramatic change over the past 15 years.
- This background and change are directly linked to the discussions between the City, Peterborough Distribution Inc. & Hydro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

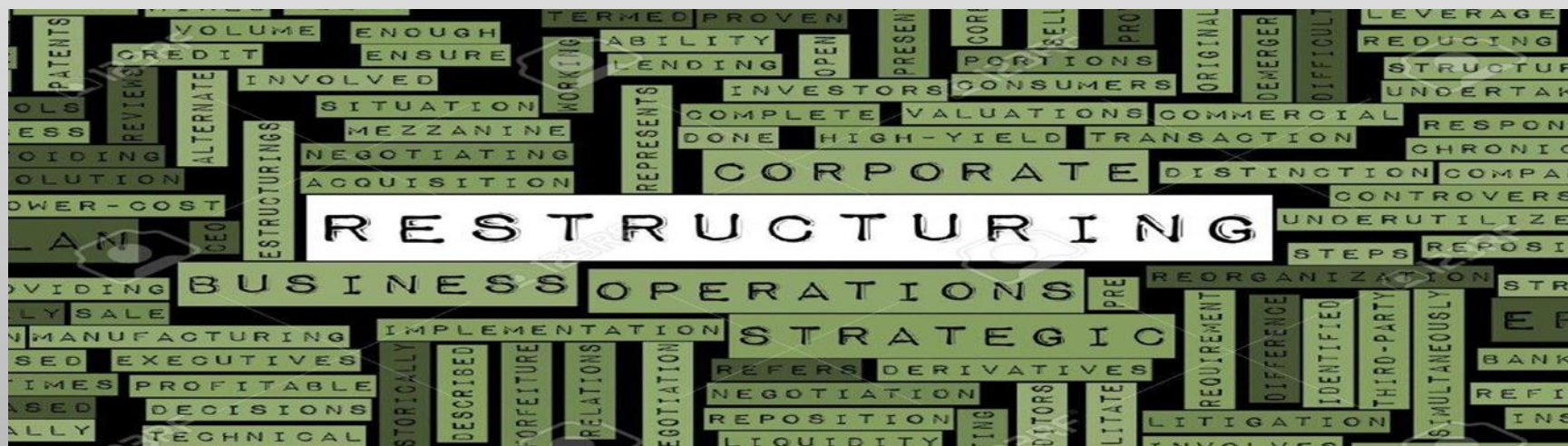
LOCAL ELECTRICITY DISTRIBUTION IN ONTARIO: A BRIEF HISTORY

- 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.***



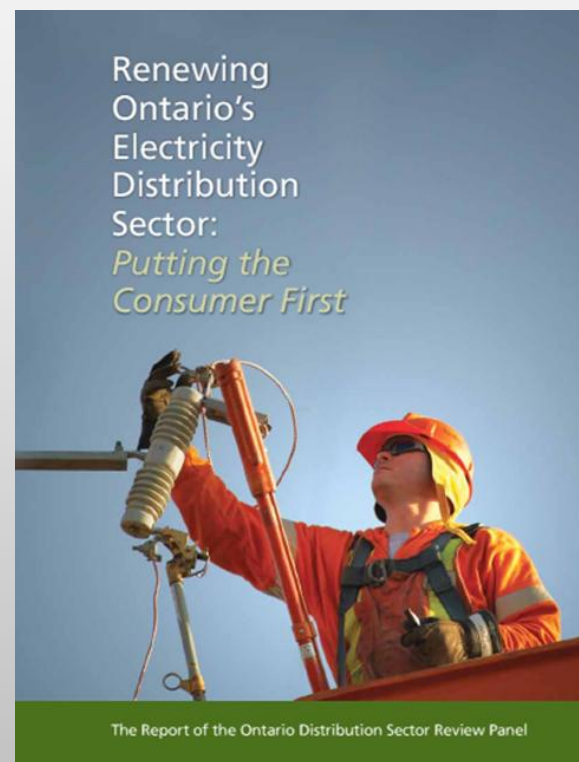
DISTRIBUTION SECTOR REVIEW PANEL

(DECEMBER 2012)

www.energy.gov.on.ca/en/lcd-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...

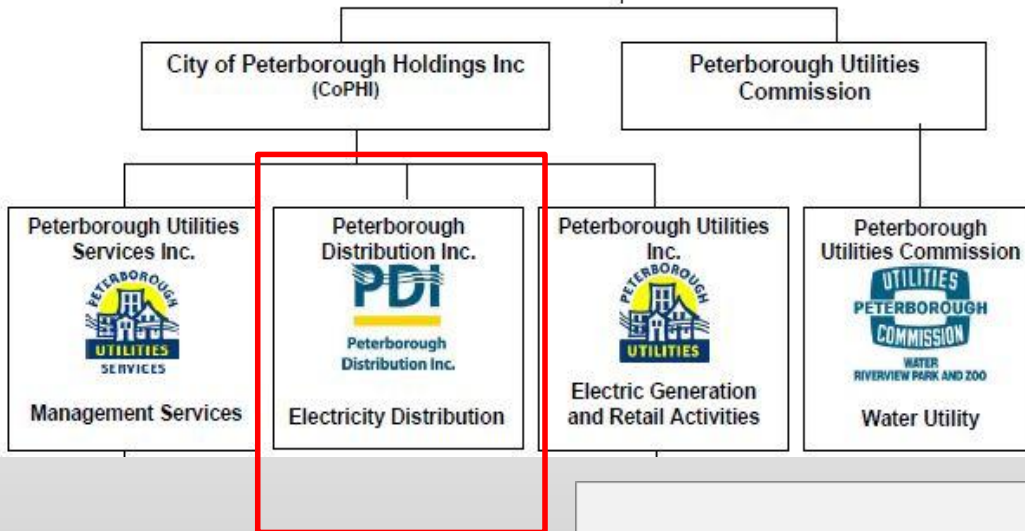
- Discussions about the future of local distribution are occurring across Ontario – not only in Peterborough.
- Significant change will continue to occur.
- Peterborough's leadership will assist other municipalities.



PETERBOROUGH DISTRIBUTION INC. (“PDI”)

JOHN STEPHENSON, PRESIDENT & CEO

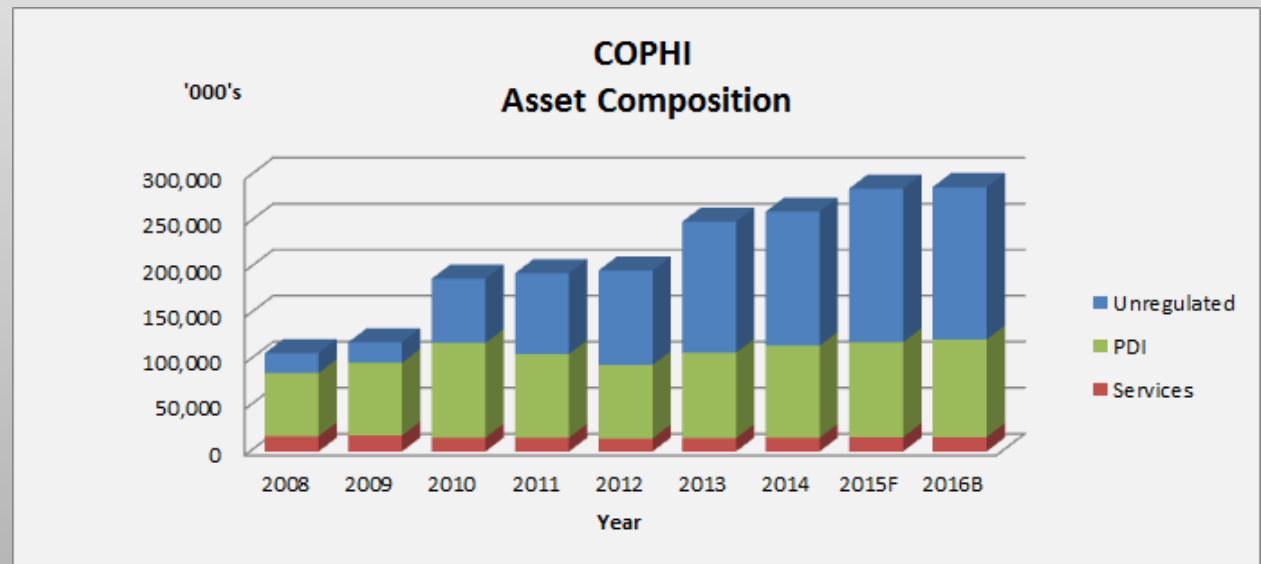
Peterborough Utilities Group



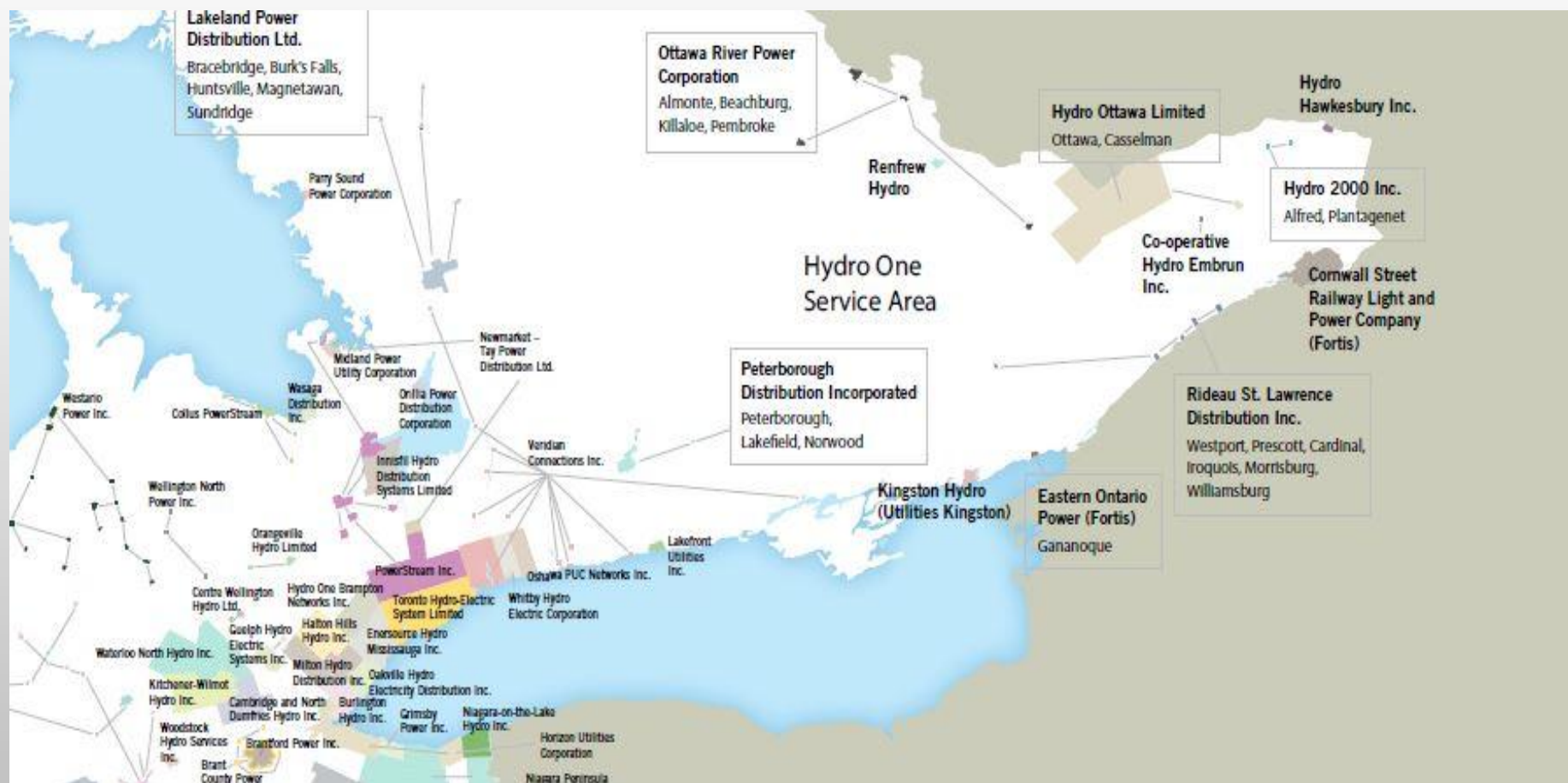
ABOUT PDI

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

PDI represents
~37% of the total
COPHI assets



PDI SERVICE TERRITORY



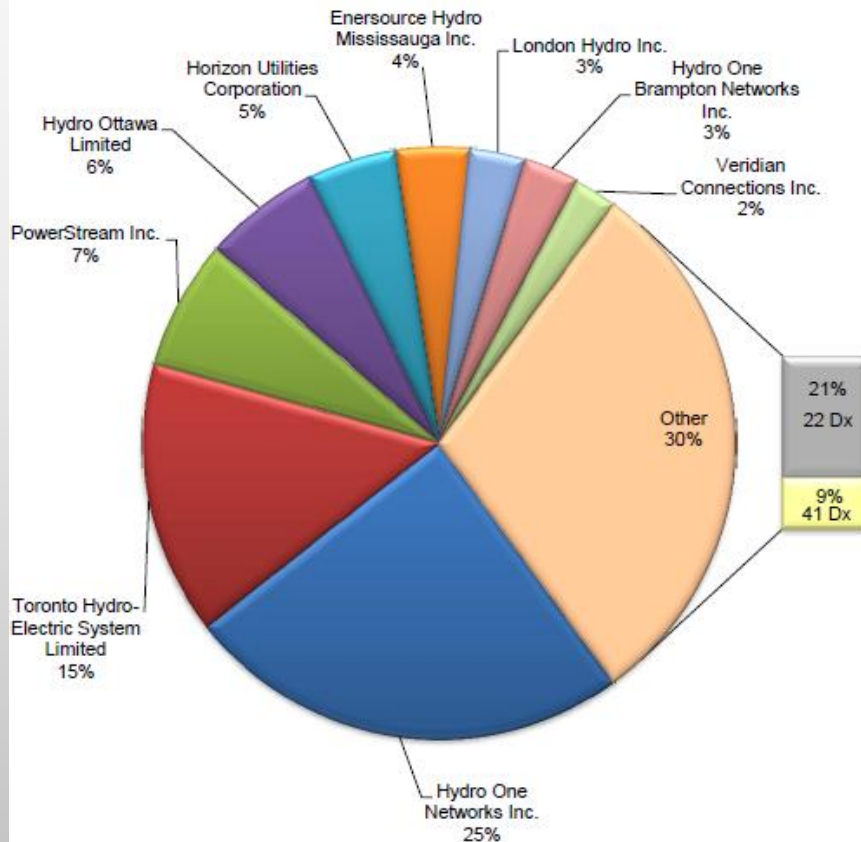
Contiguous Service Territory is Desirable

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

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
