



December 1, 2016

Ms. Cathy Saunders, City Clerk
The Corporation of the City of London
300 Dufferin Avenue, P.O. 5035
London, ON N6A 4L9

Re: Hydro Industry Consolidation

Dear Ms. Saunders:

This letter is for the Strategic Priorities and Policy Committee for their information.

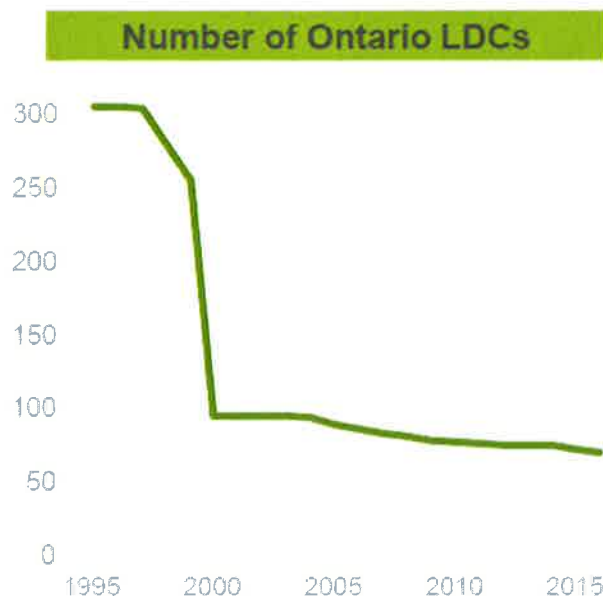
Background

Pursuant to Schedule "A" (copy attached) to the Shareholder Declaration of London Hydro Inc. ("LHI"), amended May 2016, LHI has been assessing various opportunities to merge or amalgamate with other like-minded local distribution companies ("LDC's). Schedule "A" provides guidelines to LHI to assess any such merger to ensure that any transaction achieves the principles set forth in the guidelines. LHI has proceeded in its review of potential transactions in accordance with the guidelines established by the Shareholder in Schedule "A".

In pursuing corporate combinations, it is customary that LHI signs a mutual confidentiality and non-disclosure agreement with the party to the potential transaction. Accordingly, discussions, submissions, any information exchanged pursuant to negotiations and, often, the fact that merger discussions have been undertaken are confidential. Any specific information cannot be disclosed except in compliance with the mutual decision of the participants. However, the Shareholder Declaration requires that LHI's shareholder, The Corporation of the City of London ("City of London"), approve the transaction. If a transaction proceeds to the point that definitive agreements, preceded by exhaustive due diligence and negotiation, are finalized, the City of London will be asked to consider and, if thought appropriate, approve, the transaction. ,

Current Industry Trends

LDC's in Ontario operate in a complex regulated environment, which is sensitive to shifts in Ontario government policy. The current distribution sector makeup is a product of a number of pieces of legislation. The Electricity Act, Bill 235 of 1998, transformed local electric commissions of the day into business corporations under the Ontario Business Corporations Act. Since then, the number of Ontario LDC's has decreased through consolidation. In 2015, the Ontario government introduced changes to taxes to encourage further consolidation. There has been a rapid consolidation in the industry (as illustrated in the figure below) from over 300 LDC's in 1996 to 66 in 2015. Given the recent policy and regulatory changes enacted by the province and the Ontario Energy Board ("OEB"), significantly more consolidation and private sector participation is expected.



As such, 2016 has seen an increasing number of initiatives undertaken by various LDCs to merge and/or divest so as to become viable and relevant corporations in the future. The tax relief for increased consolidation is available for two years, from January 1, 2016 to December 31, 2018, and regulatory policy and incentive base rate making are also encouraging consolidation in the utility industry. The following is a list of activities currently underway in the industry:

- The GTA merger, involving PowerStream (Vaughn), Enersource (Mississauga) and Horizon (Hamilton), is all but complete and the new consolidated entity will be acquiring Hydro One Brampton.
- Peterborough Distribution Inc. has been sold to Hydro One.
- Durham region utilities (Oshawa Hydro, Veridian and Whitby Hydro) are expected to announce a memorandum of understanding to merge.
- Guelph's City Council has announced a project to evaluate various alternatives, including a sale of Guelph Hydro.

- The Town of Midland has announced it will commence a competitive process for the potential sale of Midland PUC.
- West Huron Energy Inc. (Goderich Hydro) presented a report to their City Council on an exclusive merger with Erie Thames Utilities. Their Council rejected the exclusive deal and directed West Huron Energy's CEO to exhaustively analyze all other alternatives, including a sale.

LHI's Initiative

LHI has been very careful in seeking opportunities in this changing industry landscape, where there are potentially significant benefits to all stakeholders including customers, shareholders, employees, and communities, in accordance with the guidelines set out in the Shareholder Declaration. We have expressed interest in pursuing a merger where such benefits are achievable. The purpose of this correspondence is to make the City of London aware that LHI has been involved in a confidential competitive process for the potential merger with an enterprise (the "Merger Target") that LHI believes would fulfill the requirements of the Shareholder Declaration and LHI's internal criteria. This process has been under way for several months and the potential exists that LHI could be selected as the preferred party, in which case negotiations to create definitive agreements for consideration by the shareholder(s) of the respective parties would begin. We wish to advise the City of London that, should LHI be selected as the preferred proponent, a public announcement identifying that LHI and the Merger Target are working together exclusively to pursue a potential merger could be made by the end of 2016. This is a competitive process and there is no assurance that LHI will be selected as the preferred proponent.

Key Aspects of LHI's Proposal to Merge

While LHI would like to share specifics of the potential transaction and the identity of the Merger Target, for the time being, LHI is bound by the confidentiality provisions. As a competitive business corporation, LHI does not wish to disclose information that could reasonably be expected to (a) prejudice significantly the competitive position of LHI; (b) interfere significantly with the process undertaken by the Merger Target; or (c) result in economic loss or gain to the parties involved in this matter.

We can, however, provide you with some high-level comments on the principles on which a merger would proceed, if LHI is selected as the preferred proponent:

1. The City of London's ownership and involvement in governance of the merged entity would be commensurate with its investment. The value of each participant is calculated on the same basis for purposes of determining their respective initial equity positions in the merged entity.

2. The dividend policy of the merged entity is anticipated to be similar to that contained within LHI's existing Shareholder Declaration, i.e. to declare 40% of net income as an annual dividend and consideration of special dividends if the merged entity's net earnings exceed the norm, subject to the board's consideration of the cash needs of the corporation. The declared dividend would be disbursed in proportion to the common shares of the respective Shareholders.
3. A Unanimous Shareholders' Agreement ("USA") will establish the governance structure for the merged entity and the respective rights and obligations of the shareholders. The final determination of specific Shareholder rights and specific contractual provisions will be negotiated and subject to the City of London's approval. Furthermore, other provisions such as "tag-along" and "drag-along" rights would also be negotiated and included in the USA
4. Customers are expected to benefit from future rate reduction arising from efficiency gains.
5. Reasonably significant synergistic savings are anticipated to be realized through the merger, resulting in potential rate reduction /mitigation for customers and gains for shareholders.
6. The merger would not impact the employees of either participant, primarily due to the employee demographics and ensuing retirement(s) and progression(s).
7. The merged entity would continue to have a strong local presence and would maintain offices in London.

Risks & Mitigation

- Synergies Risk – Synergies may not be achieved. Although the due diligence process is pending, we have done a preliminary analysis and our initial estimated level of synergies is rather conservative and as such, we have a high level of confidence in achieving them.
- Integration Challenges & Risk – We foresee very little of this risk to be material. LHI has a strong technology platform to achieve successful integration and change management.
- Unidentified Expense/Liability Risk – This risk will be mitigated through extensive due diligence and specific contractual protection.
- Financial Risk – Since this is a merger as opposed to a sale transaction, there is minimal financial and/or capital risks. Any cash required to effect the merger transaction will be paid through LHI with no cash call to the Shareholder.
- Regulatory Risk – This risk exists for LHI as a standalone utility and is no different for a merged entity.

Next Steps

Should LHI be the preferred proponent:

1. A public notice will be issued, likely by the end of December 2016, identifying the participants and confirming their intention to pursue a potential merger.
2. LHI will begin due diligence and negotiating detailed terms and conditions of definitive agreements. These negotiations are expected to take about 3 to 6 months.
3. Upon completion of negotiations, final, definitive agreements will be presented to LHI's Shareholder at a public meeting for approval sometime in mid-2017.
4. If approved by the respective shareholders, a Mergers, Acquisitions, Amalgamations, Divestitures (MAAD) application will be filed with the OEB for their consideration and approval. We anticipate that the MAAD application process at the OEB would take another 3 to 6 months.
5. Following MAAD approval, the merger activities will begin, which may require our Shareholder to consider creating additional business structures, such as a holding corporation, or such other structures as are deemed appropriate by legal counsel.
6. On the presumption of all approvals, we anticipate the merged entity to become operational January 1, 2018 at the latest.

The above letter is for your information and if you require any further clarification, please do not hesitate to contact us. To reiterate, if we are successful, we will undertake due diligence and exhaustive negotiations and present the final agreement with all the detailed terms and conditions to our Shareholder for their consideration and final approval.

Sincerely,

A handwritten signature in black ink, appearing to read "M Mathur", with a horizontal line underneath.

Mohan Mathur, Chair
London Hydro Inc.

Attachment: Schedule "A" London Hydro Inc. Shareholder Declaration

SCHEDULE "A"

LONDON HYDRO INC.

SHAREHOLDER DECLARATION

**ARTICLE 1
INTERPRETATION**

1.1 **Defined Terms.** For the purposes of this Declaration, unless the context otherwise requires, the following terms shall have the respective meanings set out below and grammatical variations of such terms shall have corresponding meanings:

"Affiliate" has the meaning ascribed thereto in the OBCA;

"Board" means the board of directors of the Corporation;

"Business Day" means any day other than a Saturday, Sunday or holiday in the Province of Ontario;

"CEO" means the chief executive officer of the Corporation;

"Chair" means the chair of the Board;

"Corporation" means London Hydro Inc.;

"Council" means the municipal council of the Shareholder;

"Electricity Act" means the *Electricity Act*, 1998 (Ontario) as amended by the *Electricity Restructuring Act*, 2004 (Ontario) and as otherwise amended from time to time;

"IESO" means the Independent Electricity System Operator;

"Laws" means laws, regulations, codes, rules and applicable decisions of courts and regulatory, administrative or other governmental or public agencies, boards, tribunals and other bodies;

"Municipal Act" means the *Municipal Act, 2001* (Ontario);

"OBCA" means the *Business Corporations Act* (Ontario);

"OEB" means the Ontario Energy Board;

"OEB Act" means the *Ontario Energy Board Act, 1998* (Ontario) as amended by the *Electricity Restructuring Act*, 2004 (Ontario) and as otherwise amended from time to time;

"ordinary course of business" means any act, conduct, matter or thing required to be done by the Corporation to provide services to the Corporation's customers or as mandated by applicable Laws;

"Shareholder" means the Corporation of the City of London;

"Shareholder Declaration" means this shareholder declaration; and

"Subsidiary" has the meaning ascribed thereto in the OBCA.

1.2 Purpose. This Shareholder Declaration outlines the expectations of the Shareholder relating to the principles of governance and other fundamental principles and policies of the Corporation and any Subsidiaries. Except as and to the extent provided in Section 5.4 and Article 8, this Shareholder Declaration is not intended to constitute a unanimous shareholder agreement under the OBCA or to formally restrict the exercise of the powers of the Board.

1.3 Amendment and Restatement. This Shareholder Declaration amends, restates, supersedes and replaces in its entirety the Shareholder Declaration dated November 26, 2007 and amendment dated August 18, 2008.

ARTICLE 2 PERMITTED BUSINESS ACTIVITIES

2.1 General Authority. Subject to the restrictions in Article 8 of this Shareholder Declaration, the Corporation and the Subsidiaries may engage in the business activities which are permitted by any Law applicable to the Corporation and its Subsidiaries from time to time, including without limitation the *Electricity Act (Ontario)* and the OEB Act, as the Board or the respective board of directors of a Subsidiary may authorize, including without limitation the business activities referred to in Section 2.2 as applicable to the Corporation and any Subsidiaries. In so doing, the Corporation and its Subsidiaries shall conform to Laws and, in particular, to all requirements of the OEB, the IESO and all other relevant regulatory or governmental authorities.

2.2 Enumerated Activities. The Corporation or one or more Subsidiaries may engage in any one or more of the following business activities and such other business activities as may be permitted by Law and authorized by the Board or the respective board of directors of a Subsidiary from time to time:

- (a) transmitting or distributing electricity;
- (b) retailing electricity;
- (c) business activities that enhance or develop the ability of the Corporation or its Subsidiaries to carry on any of the activities described in paragraphs (a) or (b) above;

- (d) business activities the principal purpose of which is to use more effectively the assets of the Corporation or any Subsidiary;
- (e) the provision of telecommunication services and the development, ownership, expansion, operation and maintenance of a telecommunications network, whether fibre-optic, wireless or otherwise, and the provision of services that make use of such network, including without limitation wireless connectivity, dark and lit fibre services, sale, lease or other disposal of telecommunications fibre, and related business activities, in support of the Corporation's regulated electricity distribution and transmission business;
- (f) renting, selling or maintaining equipment and appliances such as water heaters;
- (g) managing or operating, on behalf of the Shareholder, a public utility as defined in Section 1 of the *Public Utilities Act* or providing sewage services;
- (h) providing services related to improving energy efficiency including, without limitation, conservation and demand management measures;
- (i) providing meter reading, installation and repair services to other utilities and hydro customers; and
- (j) entering into joint ventures, whether through investments in corporations or otherwise, partnerships, contracts or other arrangements to provide services to other utilities or the public sector in London, including, without limitation the municipality, universities, schools and hospitals;

2.3 Statutory Limitation. It is acknowledged that certain activities contemplated in Section 2.2 may be required to be carried on by one or more Subsidiaries or other Affiliates of the Corporation to be incorporated from time to time in order to comply with applicable laws, including the OEB Act, the Affiliate Relationships Code for Electricity Distributors and Transmitters, and the Corporation's electricity distribution license.

ARTICLE 3 STANDARDS OF GOVERNANCE

3.1 General Standard. As required by the OBCA, the Board shall supervise the management of the business and affairs of the Corporation and, in so doing, shall act honestly and in good faith with a view to the best interests of the Corporation and shall exercise the same degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

**ARTICLE 4
BOARD OF DIRECTORS**

4.1 Number of Directors. The Corporation shall be governed by the Board which shall consist of seven (7) directors.

4.2 Composition of Board. The Board shall be composed of one member of Council and six other "at-large" members.

4.3 Qualification of Directors. In addition to qualifications and requirements for directors as set out in the OBCA and the by-laws of the Corporation, and while it is not necessary that each director possess each of the following qualifications, the Board, as a whole, should possess most or all of the following:

- (a) Financial and legal knowledge;
- (b) A reasonable understanding of accounting and tax matters;
- (c) Comprehensive understanding of the core business and objectives of the Corporation;
- (d) Utility industry knowledge;
- (e) Strategic planning, including human resource planning;
- (f) Corporate stewardship and risk management;
- (g) Regulatory knowledge;
- (h) Experience in a competitive business environment;
- (i) Awareness of the needs of electric utility customers;
- (j) Awareness of municipal government and local issues;
- (k) Leadership and integrity;
- (l) Experience and knowledge of London industry; and
- (m) Experience and expertise in economic development initiatives.

4.4 Election and Term. The Board shall be divided into four classes, each of the first three of which shall consist of two directors and the fourth of which shall consist of one director. The term of office for members of the first class shall expire at the annual meeting of shareholders every third year, commencing at the annual meeting to be held during 2007; the term for members of the second class shall expire at the annual meeting of shareholders every third year commencing at the annual meeting to be held during 2008; the term for members of the third class shall expire every third year, commencing at the annual meeting to be held during 2009; and the term for the member of the fourth class shall also expire every third year

commencing at the annual meeting to be held during 2007. At the expiration of each succeeding term of each class, the directors of each class shall, subject to the re-election of any such director, be elected to serve for a three year term, provided that any member of the fourth class shall be entitled to serve as a director only so long as he or she remains a duly elected member of Council. A director shall hold office until the annual meeting of shareholders for the year in which his or her term expires and until his or her successor is elected and qualified. Notwithstanding the foregoing, a director may be elected for a term of less than three years. The election of directors shall be by resolution and shall take place at each annual meeting of shareholders and any directors who retire at such meeting shall, if qualified, be eligible for re-election. If an election of directors is not held at the proper time, the incumbent directors shall continue in office until their successors are elected.

4.5 Board Committees. The Board may establish committees of the Board in the Board's discretion. Such committees may include the following:

- (a) Audit Committee: The Audit Committee reports to the Board and is responsible for the coordination and oversight of the Corporation's management and external audit to ensure the effective development and maintenance of adequate financial controls and reporting. The committee will review the financial reporting process, the system of internal control and management of financial risks, the audit process, and the Corporation's process for monitoring compliance with laws and regulations and its own code of business conduct.
- (b) Corporate Governance Committee: The Corporate Governance Committee will assist the Board in ensuring that the Corporation operates within a sound corporate governance framework through the development of an appropriate governance structure, including policies, processes and procedures that satisfy legal, health and safety and regulatory requirements in this regard, and reflect best practice in the industry. The Corporate Governance Committee shall also monitor the effectiveness of the Corporation's system of corporate governance
- (c) Human Resources and Public Policy Committee: The Human Resources and Public Policy Committee is responsible for providing advice to the Board with respect to Human Resources policies and practices including the review of Employee Policy Manuals, Employee Handbooks, and Collective Agreements.

4.6 Directors' Compensation. The Shareholder shall establish compensation for directors of the Corporation, the Chair and any other officers who are directors of the Corporation in amounts sufficient, in the opinion of the Shareholder acting reasonably, to attract candidates with necessary qualifications and consistent with industry norms and standards for comparable Ontario electricity distribution utilities. A director that is a member of Council shall receive no additional compensation for acting as a director.

The Shareholder acknowledges and agrees that if no compensation adjustment is specified by the Shareholder for the directors pursuant to section 8.8, the compensation for the directors shall be increased annually in accordance with the policy of the Council for remuneration of elected official and citizen appointments.

4.7 Compensation of Officers of the Corporation. The Board shall set the compensation for the officers of the Corporation, other than the Chair and any other officers that are directors.

4.8 Vacancies. The Board shall promptly provide notice to the Shareholder of a vacancy among the directors, other than a vacancy arising due to expiry of a term of a director. The Shareholder shall appoint a director to fill such vacancy.

4.9 Place of Meetings. Meetings of the Board may be held at the registered office of the Corporation or at any other place within the City of London, Ontario.

4.10 Calling of Meetings. Meetings of the board shall be held from time to time at such place, on such day and at such time as the Board, the Chair, the CEO, the secretary or any two directors may determine.

4.11 Notice of Meetings. Notice of the time and place of each meeting of the Board shall be given to each director not less than 48 hours before the time when the meeting is to be held and need not be in writing.

4.12 First Meeting of New Board. Provided a quorum of directors is present, each newly elected Board may without notice hold its first meeting following the annual shareholder meeting at which such Board is elected.

4.13 Adjourned Meeting. Notice of an adjourned meeting of the directors is not required if the time and place of the adjourned meeting is announced at the original meeting.

4.14 Regular Meetings. The Board may appoint a day or days in any month or months for regular meetings at a place and hour to be named. A copy of any resolution by the Board fixing the time and place of regular meetings of the Board shall be sent to each director forthwith after being passed, but no other notice shall be required for any such regular meeting.

4.15 Votes to Govern. Any question at a meeting of the board shall be decided by a show of hands unless a ballot is required or demanded.

4.16 Chair and Secretary of the Meetings. The Chair or, in the absence of the Chair, the Vice Chair, or in the absence of both the Chair and the Vice Chair, the CEO if a director or, in the absence of the CEO, a vice-president who is a director, shall be chair of any meeting of the Board. If none of the said officers is present, the directors present shall choose one of their number to be chair of the meeting. The secretary of the Corporation shall act as secretary at any meeting of the Board and, if the secretary of the Corporation is absent, the chair of the meeting shall appoint a person who need not be a director to act as secretary of the meeting.

**ARTICLE 5
FINANCIAL POLICIES, RISK MANAGEMENT
AND STRATEGIC PLANNING**

5.1 Capital Structure. The Board shall develop and maintain a prudent financial and capitalization structure for the Corporation consistent with industry norms and sound financial principles and established on the basis that the Corporation is intended to be self-financing.

5.2 Distribution Rates. The Board shall establish just and reasonable rates for the regulated distribution business of the Corporation which are:

- (a) consistent with similar utilities in comparable growth areas and as may be permitted by the OEB and applicable Laws;
- (b) intended to enhance the value of the Corporation;
- (c) consistent with the encouragement of economic development activity within the City of London, it being noted that under applicable Laws, classes of customers may not be subsidized through rates; and
- (d) based on such other factors which the Board shall determine to be reasonable and not inconsistent with the foregoing considerations.

5.3 Returns. The Board shall provide the Shareholder with a competitive rate of return relative to other similar utilities.

5.4 Dividend Policy. The Board shall use its best efforts to declare and pay a regular dividend to the Shareholder. The payment of any dividend shall be subject to the following:

- (a) As a target, annual dividend payment are expected to comprise 40% of annual net earnings of the Corporation;
- (b) Where annual net earnings of the Corporation exceed normal net earnings, the Board shall consider declaring a special payment in an amount equal to such excess net earnings; and
- (c) No dividend is to be declared where to do so would, in the Board's reasonable opinion, impair the Corporation's ability to carry out necessary or appropriate improvements and maintenance of existing infrastructure.

5.5 Payment of Regular Dividend. A dividend, if any, will be declared by the Board at its meeting to approve the annual financial statements of the Corporation for the preceding year. Equal payments of the dividend will be made on a quarterly basis to the Shareholder.

5.6 Return to Shareholder. Any special payment may be declared by the Board after the review of the annual audited statements of the Corporation. The special payment, if any, will be made within two years of the declaration date on a date or within a range of dates set by the Board.

5.7 Unregulated Business. The Board shall seek to maximize profits and the return to the Shareholder on any unregulated, competitive business.

5.8 Risk Management. The Board shall manage all risks related to the business conducted by the Corporation and its subsidiaries, through the adoption of appropriate risk management strategies and internal controls consistent with industry norms.

5.9 Strategic Plan. The Board shall develop a long range strategic plan for the Corporation and its Subsidiaries which is consistent with the maintenance of a viable, competitive business and preserves the value of the business for the Shareholder.

ARTICLE 6 SHAREHOLDER APPROVALS AND COMMUNICATIONS

6.1 Communications. Approvals or decisions of the Shareholder required pursuant to this Shareholder Declaration or the OBCA shall require a by-law of the Shareholder passed at a meeting of Council and, in the case of resolutions under Section 104 of the OBCA, shall be communicated in writing and executed by the Shareholder.

6.2 Right to Inspect. Upon an authorizing resolution of the Shareholder (but not otherwise), the auditors of the Shareholder shall have the right, on reasonable notice and during regular business hours, to inspect the accounts, books, records and documents of the Corporation, but such inspection shall not extend to procurements (e.g. RFPs, RFQs and RFIs) of any kind that are underway but not yet completed at the time of inspection.

ARTICLE 7 ANNUAL RESOLUTION AND MEETINGS

7.1 Annual Report to Shareholder. The Board shall, not less often than annually and within six months following the end of the fiscal year of the Corporation, report to the Shareholder on matters to be addressed at an annual general meeting of the Corporation as provided in subsection 154(1) of the OBCA.

7.2 Annual Meeting or Resolution in Lieu: Within six months after the end of each fiscal year of the Corporation the Shareholder shall, as appropriate pursuant to this Shareholder Declaration, the bylaws of the Corporation and the OBCA, at an annual meeting or by resolution in lieu of such annual meeting:

- (a) elect or re-elect directors of the Corporation to fill any vacancy;
- (b) appoint auditors of the Corporation;
- (c) receive the audited financial statements of the Corporation for the last completed fiscal year; and
- (d) complete such other business as would normally be completed at an annual meeting of shareholders under the OBCA.

ARTICLE 8
MATTERS REQUIRING SHAREHOLDER APPROVAL

Without Shareholder approval given in accordance with Section 6.1 of this Shareholder Declaration, the Corporation or any Subsidiary respectively shall not:

Statutory Approval Rights.

- 8.1 change the name of the Corporation or a Subsidiary; add, change or remove any restriction on the business of the Corporation or a Subsidiary; create new classes of shares; or in any other manner amend its articles of incorporation or make, amend or repeal any by-law;
- 8.2 amalgamate with any other corporation(s) other than amalgamations which may, under the OBCA, be approved by a resolution of directors;
- 8.3 take or institute proceedings for any winding up, arrangement, or dissolution of the Corporation or its Subsidiaries;
- 8.4 apply to continue the Corporation or any Subsidiary under the laws of another jurisdiction;

Additional Approval Rights.

- 8.5 issue, or enter into any agreement to issue, any shares of any class, or any securities convertible into any shares of any class, of the Corporation or any Subsidiaries respectively;
- 8.6 redeem or purchase any of the Corporation's or its Subsidiaries' outstanding shares;
- 8.7 enter into any joint venture, partnership, strategic alliance or other venture, including without limitation ventures in respect of the generation or co-generation of electricity if the exposure to the Corporation is \$5,000,000 (five million dollars) or more in the aggregate. In assessing such opportunity, the Shareholder shall follow the Corporate Combination and Disposition Guidelines set out in Schedule "A";
- 8.8 change, alter or amend the compensation of any member of the Board beyond the prescribed annual increase set forth in Section 4.6 of this Shareholder Declaration;
- 8.9 borrow money or give security on the assets of the Corporation other than in the ordinary course of business, or in connection with the purchase of assets;
- 8.10 enter into any agreement, transaction or other arrangement which would cause the municipality to be liable to pay transfer tax under section 94 of the *Electricity Act*;
- 8.11 sell any distribution assets other than in the ordinary course of business;

8.12 incur any expenditure in respect of an unregulated, competitive business, whether within the regulated distribution company or otherwise, in excess of \$5,000,000 (five million dollars) and if in excess of \$5,000,000 (five million dollars), any Shareholder approval in respect thereof will require a business plan in support of such expenditure;

8.13 assume any financial obligation that would increase the ratio of debt to equity of the Corporation, on a consolidated basis, above 70:30;

8.14 make any decision or take any action that could reasonably be expected to materially and adversely affect the regulatory or tax status of the Corporation; and

8.15 enter into any agreement or arrangement to dispose of, by way of sale, transfer, exchange or lease, any real property, except in the ordinary course of business.

ARTICLE 9 REVISIONS TO THIS DECLARATION

9.1 Required Consultation. The Shareholder acknowledges that this Shareholder Declaration may be revised from time to time as circumstances may require and that the Shareholder will consult with the Board and the CEO prior to completing any revisions and will promptly provide the Board and the CEO with copies of such revisions.

ARTICLE 10 CONFIDENTIALITY

10.1 Dealing with Information. Subject to applicable Laws, including without limitation the *Municipal Freedom of Information and Protection of Privacy Act* (Ontario) and the *Municipal Act*, the Shareholder shall keep confidential all confidential and/or proprietary information obtained by it relating to the business and affairs of the Corporation.

ARTICLE 11 NOTICES

11.1 Delivery. Any notice, designation, communication, request, demand or other document, required or permitted to be given or sent or delivered to the Shareholder by the Corporation or Board or to the Corporation or Board by the Shareholder shall be in writing and shall be sufficiently given or sent or delivered if it is

- (a) delivered personally,
- (b) sent to the party entitled to receive it by registered mail, postage prepaid, mailed in Canada, or
- (c) sent by telecopy machine

Notices shall be sent to the following addresses or telecopy numbers:

- (i) in the case of the Corporation or Board,

c/o London Hydro Inc.
111 Horton Street
London, Ontario
N6A 4H

Attention: Vinay Sharma
Chief Executive Officer

Facsimile: (519) 661-5052

- (ii) in the case of the Shareholder,

The Corporation of the City of London
300 Dufferin Avenue
London, Ontario
N6A 4L9

Attention: City Clerk

Facsimile: (519) 661-4892

or to such other address or telecopier number as the party entitled to or receiving such notice, designation, communication, request, demand or other document shall, by a notice given in accordance with this section, have communicated to the party giving or sending or delivering such notice, designation, communication, request, demand or other document.

Any notice, designation, communication, request, demand or other document given or sent or delivered as aforesaid shall:

- (a) if delivered as aforesaid, be deemed to have been given, sent, delivered and received on the date of delivery;
- (b) if sent by mail as aforesaid, be deemed to have been given, sent, delivered and received (but not actually received) on the fourth Business Day following the date of mailing, unless at any time between the date of mailing and the fourth Business Day thereafter there is a discontinuance or interruption of regular postal service, whether due to strike or lockout or work slowdown, affecting postal service at the point of dispatch or delivery or any intermediate point, in which case the same shall be deemed to have been given, sent, delivered and received in the ordinary course of the mails, allowing for such discontinuance or interruption of regular postal service; and

if sent by telecopy machine, be deemed to have been given, sent, delivered and received on the date the sender receives the telecopy answer back confirming receipt by the recipient.

IN WITNESS WHEREOF the undersigned has executed this declaration this 6th day of June, 2016.

THE CORPORATION OF THE CITY OF LONDON

By: 

Name: **Matt Brown, Mayor**
Title:

By: 

Name: **Catharine Saunders City Clerk**
Title:

ACKNOWLEDGED this ___ day of _____, 2016.

LONDON HYDRO INC.

By: 

Name: **VINAY SHARMA**
Title: **CEO**

By: 

Name: **David Arnold**
Title: **CFO**

SCHEDULE "A"

to Shareholder Declaration of Corporation

Corporate Combination and Disposition Guidelines

The Shareholder has acknowledged that the OEB policies and approvals are encouraging a reduction in the number of electricity utilities in Ontario through mergers, acquisition or sale. It is inevitable that the Corporation will have to combine with another utility based on the current policy and regulatory environment.

The Shareholder is mindful of the significance of these matters and the amount of work and effort that is necessary to meet the requirements defined by these guidelines. In order to encourage the Board and Management of the Corporation to seek out appropriate opportunities and to ensure a full and proper consideration of such proposals by all parties including the Shareholder, as sole shareholder, any opportunities submitted in accordance with these guidelines will be presented to Council

The following guidelines should be considered in the evaluation of any corporate combination such as a proposal for merger, sale or acquisition:

- 1) In the case of a merger:
 - (a) The newly combined entity should provide an opportunity for increased investment value to the Shareholder and/or lower electricity costs for Londoners;
 - (b) The newly combined entity should have a strong local presence and preferably be headquartered or have a regional office in London;
 - (c) The Shareholder should not be unduly constrained from disposing of its investment in the new entity, in a reasonable timeframe and manner;
 - (d) The newly combined entity should have a governance structure that is commensurate with the Shareholder's investment in the new entity;
 - (e) The proposed combination presents the best strategic objective to the Shareholder given the existing and expected future policy and regulatory environment in Ontario over the next ten to fifteen years.
- 2) In the case of an acquisition:
 - (a) Any proposed acquisition will not require additional financing from the Shareholder;
 - (b) The proposed acquisition presents the best strategic objective to the Shareholder given the existing and expected future policy and regulatory environment in Ontario over the next ten to fifteen years.

3) In the case of any contemplated corporate disposition, including a transaction that results in the dilution of the Shareholder's wholly-owned investment in the Corporation, or disposes or leases substantially all of the Corporation's assets other than in the normal course of business:

- (a) The disposition should demonstrate that the new entity would lead to lower electricity costs to Londoners than otherwise would exist, without degradation of existing capital infrastructure or service levels;
- (b) It should be demonstrated that the return on investment of reinvested disposition proceeds is greater than the return expected to be provided under the current investment in the Corporation, or than contemplated under other proposed business combinations or alternatives;
- (c) After disposition, the new entity would maintain a strong regional presence in London and ideally London would serve as a regional centre for the new entity;
- (d) The sale should not be subject to any transfer tax by the Ontario Government and;
- (e) The disposition presents the best strategic objective to the Shareholder given the existing and expected future policy and regulation environment in Ontario over the next ten to fifteen years.