Hydro/Water Shared Utilities Model

City of London
Finance and Administration Committee
October 19, 2011
A Combined Utility Corporate Model

City of London

London Utilities Inc. (HoldCo)

London Hydro Inc.
London WaterCo
SolidWasteCo
ParkingCo
How Will the City Benefit?

1. Extending the LHI structure and experience to the City’s water/wastewater utilities and other services (waste collection and parking) will allow these utilities to be **financially self sufficient without credit support from the City.**

2. This structure will allow LHI and the water/wastewater utilities to **optimize cost efficiencies** by employing a shared service model across all the corporations.

3. This structure will **free City governance from day to day responsibility for operating these utility businesses** that are well suited to be operated on a stand alone commercial basis, similar to LHI – while still retaining full regulatory oversight.

4. Moving the City’s water/wastewater utilities to a cost of service rate structure will **allow the City to realize the full financial value of its investment in these utilities** – including realizing a dividend that can be used to offset property tax increases.

5. Creation of a business oriented utility services corporation with the potential to **grow across southwestern Ontario from a London based Head Office.**

6. The structure **facilitates partnering opportunities** that provide additional access to capital and business expertise.

7. Any loss in current efficiencies at the City will be offset by increased proceeds from interest and dividends.

October 19, 2011
London Hydro / City of London / EPCOR Municipal Utility Partnership Opportunity

Don Lowry, President & CEO EPCOR Utilities

Presentation to City of London Finance and Administration Committee October 19, 2011
Outline

Who is EPCOR?
What is the Opportunity?
Why EPCOR?
EPCOR’s Commitment
Moving Forward
Who is EPCOR?

- Predecessor company began operating in Edmonton, 1891; 120 year anniversary in 2011
- Stand alone corporation; Jan 1, 1996
- 100% municipally-owned
- Fully independent Board of Directors - operates at arms length from Shareholder
- Raise own debt without credit support from City
- Stand alone credit is A low (S&P) and BBB+ (DBRS); report on SEDAR
- “Narrowly-held private company” with a strong commercial orientation
• EPCOR has operated with a commercial orientation and a strong growth mandate that has taken us outside the City – including Ontario.

• Governance model – with a strict separation between politics and business – is a key to success.
EPCOR Board of Directors

Hugh J. Bolton (Chair)
Edmonton
Retired Chairman & Chief Executive Partner of Coopers & Lybrand Canada

Sheila C. Weatherill (Vice Chair)
Edmonton
Past President and CEO of the former Capital Health Region in Edmonton

Allister J. McPherson
Edmonton
Retired EVP of Canadian Western Bank and former Deputy Provincial Treasurer Alberta

James E. Carter
Edmonton
Retired President and COO of Syncrude

Alex Davidson
Orillia
Former National Managing Partner PricewaterhouseCoopers

Douglas H. Mitchell
Calgary
National Co-Chair of Borden Ladner Gervais LLP

Michael B. Percy
Edmonton
Former Dean of the University of Alberta’s School of Business

Robert L. Phillips
Vancouver
Former President and CEO of the BC Rail Group of Companies

Larry M. Pollock
Edmonton
President and CEO of Canadian Western Bank

Helen Sinclair
Toronto
Founder and CEO of BankWorks Trading Inc

Wesley Twiss
Calgary
Former EVP & CFO PanCanadian & Petro-Canada

October 19, 2011
• Growth in asset base: $1.8 B in 1996 to $7.1 B by mid-2009 (prior to sale of generation business), about $4.5 B in 2011

• $1.67 B in dividends paid to the City, including $138.5 M in 2011 alone – equal to about 15% of residential property taxes collected by the City

• EPCOR also pays property taxes and franchise fee

• EPCOR Community Essentials Council created in 2011, directing charitable giving in communities we operate in
Capital Power Corporation (TSX:CPX), an independent public company created in 2009, headquartered in Edmonton

Exited power generation business after assessing capital requirements to grow and risk appetite of Shareholder

Current 49% non-controlling interest; intent to sell over time

Focus on lower risk investments in power transmission and distribution and water / wastewater
EPCOR Today

- About 2,500 employees in Alberta, B.C., Arizona, Ontario business office
- Core business: own and operate water / wastewater and electric distribution / transmission; regulated electricity retailing including supporting back office billing, customer care services.

Reinvestment well underway:

- CDN$50 M investment in Suncor’s potable water and wastewater assets in Ft. McMurray
- US$35 M investment in Chaparral City Water Company, Arizona, marks entry into U.S. water market
- US$470 M investment in Arizona American and New Mexico American water businesses; expected to close Q1 2012.
Electricity Distribution & Transmission
- 341,000 sites within the City of Edmonton
- regulated by the Alberta Utilities Commission
- 203 km of aerial transmission line and underground transmission cable
- Own and operate 37 substations
- 284 distribution feeders

Energy Services
- Provides Regulated Rate Option (procurement, billing and customer care) for 676,000 sites - Edmonton and Fortis Alberta customers - regulated by the Alberta Utilities Commission
- Provides billing and customer care for 245,000 EPCOR water customers in Edmonton and City of Edmonton drainage and waste collection services.

Technologies
- Provides operating & maintenance and construction services for street lighting and traffic signals in the City of Edmonton
- Provides operating & maintenance and construction services for the electrical infrastructure for Light Rail Transit system in Edmonton
- Provides similar to municipalities across Alberta
Municipal Water and Wastewater – City of Edmonton

City of Edmonton – Water Treatment & Distribution
- Two large water treatment plants on the North Saskatchewan river – 680 MLD
- 245,000 in City water customers – fully metered
- Rates regulated by City under a PBR
- Water also sold to 61 surrounding communities under wholesale rates regulated by the Alberta Utilities Commission

City of Edmonton – Wastewater treatment
- Gold Bar Facility transferred from the city in 2009
- Enhanced Primary treatment – 1,200 MLD
- Some treated effluent re-used by Suncor Refinery
- Rates regulated by City under a PBR

Municipal Water and Wastewater – Alberta / BC Arizona

Alberta
- Operating contracts in Banff, Canmore, Chestermere, Okotoks, Red Deer County, Taber

BC
- Regulated water utility in White Rock and French Creek
- Operating contracts in Port Hardy, Sooke, Whistler Olympic Park

Arizona
- Regulated water utility – Chaparral City Water Company in Fountain Hills AZ

Industrial Water and Wastewater

Alberta
- Own 3 water treatment and 4 wastewater treatment facilities at Suncor’s Fort McMurray Oil Sands operations under long-term contracts.
- Operate 4 water treatment and 4 wastewater treatment facilities at Suncor and Shell Albian Sands oil sands operations in Fort McMurray.

BC
- Operate the Britannia mine wastewater treatment facility
EPCOR Core Business Assumptions

- Delivery of safe and reliable power and water is our core business.
- We invest in the communities we serve.
- Good governance and prudent fiscal management are essential to preserving EPCOR’s ability to pay a stable dividend.
- Shareholder’s risk appetite remains low.
## EPCOR Governance Principles

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What is the Opportunity?

1. Develop growth-oriented combined water / wastewater and electricity distribution / transmission utility services organization serving southwestern Ontario with London head office.

2. A “Shoulder to Shoulder” partnership between the City of London / London Hydro and EPCOR – not an acquisition.


4. Leverage advantage of EPCOR’s similar municipal ownership structure.
A combined electricity distribution, water and wastewater corporation based in London can create significant value for shareholders and customers:

1. Shared service model will bring operating efficiencies.
2. Full cost service rate structure for water / wastewater utilities will improve returns, and allow it to raise its own capital for future infrastructure investment – without credit support from the City. City’s borrowing capacity freed up for other projects.
3. City would have immediate access to capital for other civic priorities.
4. Potential to significantly grow London-based utility services corporation across southwestern Ontario.
5. Structure should result in improved returns and dividends to the City over time.
Opportunity to Create Significant Value

Partnering Model

- Operating synergies from corporatized model and improved earnings from full cost-of-service water and wastewater rates will serve to offset transition costs.
- Operating on a stand-alone full cost-of-service basis frees City borrowing capacity for other civic priorities.
- Partnering provides a platform to create significant value from growth across the region – dividend growth that can support other municipal activities.

Status Quo

- Slow growth
- Low return, small dividends
- Tax increases to support borrowing for utility infrastructure
Transitioning to a corporatized stand alone utility will be challenging.

- Delivery of safe, reliable power and water must remain top priority.
- Separate support services for business functions, including human resources, payroll, treasury, IT needed; London Hydro likely has the capability today.
- Utility rates must cover all direct operating costs, a fair allocation of shared service costs, depreciation, interest and return in equity invested in the utility.
- Efficiencies achieved over time through attrition; commitment to no layoffs.
- Time to stabilize business before pursuing growth.
- Growth depends on instilling a commercial orientation.
Why Partner with EPCOR?

1. **Experience** – successful, respected operator of combined water and power utility.

2. **Growth** – history of strong commercial growth orientation and creation of shareholder value.

3. **Governance** – unique model supports commercial orientation, underpins growth.

4. **Municipal Ownership**
   - sensitive to the needs and expectations of municipal shareholder
   - preserves municipal tax treatment

5. **Track Record** – knowledge and experience in successfully transitioning municipal departments and utilities into stand-alone corporations.
   - City of Edmonton’s Gold Bar wastewater treatment plant (200 employees) transitioned to EPCOR in 2009
   - American Water acquisition – replacing all corporate support services currently being provided by the seller
EPCOR’s Commitment

We won’t over promise.

- Potential for significant growth and value creation, but it will be hard work over time. There will likely be transition costs to absorb.
- Moving to full cost of service rates may not be lower in the near term. This needs to be assessed.
- Dividends to the City may not be higher in the near term.

We won’t under deliver.

- Delivery of safe, reliable power, water and wastewater will remain a top priority.
- As a partner, we will bring resources and experience to the table to help realize a successful transition.
1. EPCOR sees a very unique opportunity for the City and London Hydro to develop a joint partnering structure with potential to create significant value.

2. Considerable time and effort required to develop concept.
   - assess value of a possible investment in a partnership
   - assess the capacity to support truly full cost-of-service rates for the water and wastewater utilities; potential to earn a fair return on investment
   - explore terms of a partnering arrangement

3. To move forward, EPCOR needs to work with the City and London Hydro on an exclusive and confidential basis to determine if it makes sense to move forward together; agreements would be brought back to Council (and our EPCOR Board) for review and final approval.
1. EPCOR has provided the City of London with an “Expression of Interest” letter – an interest in working with City and London Hydro to explore a partnering framework.

2. EPCOR has asked the City and London Hydro to enter into a “Cooperation Agreement”, allowing the parties a period of time to explore a partnering arrangement on an exclusive and confidential basis.

3. If a suitable partnering arrangement can be worked out, it would be brought to City Council for review and consideration at a public meeting.