



July 31, 2019

Ms. Cathy Saunders, City Clerk
The Corporation of the City of London
300 Dufferin Avenue, 3rd Floor
London, ON N6A 4L9

Re: London Hydro Corporate Restructuring

Dear Ms. Saunders:

London Hydro has been considering restructuring London Hydro Inc. ("LHI") to enable it to have a non-regulated affiliate in order to leverage the marketing of our utility related technologies and applications, which are developed and owned by LHI. These are a unique set of technologies with a niche focus in managing a large amount of smart meter customer consumption data and associated applications for customer billing, online customer care and for energy and demand management. These technologies are designed for all utilities including electricity, gas and water. LHI has become a global leader in developing these applications based on standards for utilities and utility customers. LHI has been successful in providing these new applications for its customers and is now contemplating marketing these technologies to others across North America. Presently, London Hydro is servicing four electrical utilities, one water utility, and has piloted these technologies with a gas utility. LHI has also deployed these technologies on a pilot basis in the province of Alberta. As well, LHI has been successful in marketing these applications to a limited number of industrial customers across Ontario.

As a regulated entity, LHI is not permitted to market technologies and applications to other utilities and entities on a competitive basis. As a result, we had sought special approval from the Ontario Energy Board (OEB) to undertake marketing of our uniquely developed utility related technologies. This special approval was sought and granted in 2018 and is time limited. This is not the most appropriate vehicle to achieve optimum benefits from marketing the technologies. Though for the time being, by using this special authority we have been successful in marketing our services to some utilities and industrial customers outside of our

franchise service area. A long term alternative is to market these technologies and applications through a competitive non-regulated affiliate of LHI. As such, we request Civic Administration to work with us to develop various by-laws and shareholder requirements to enable LHI to avail itself of the marketing opportunities.

It is proposed that LHI be restructured as follows: LHI incorporates a subsidiary called London Hydro Distribution Inc. ("LHDI"). LHI's current assets are transferred to the new subsidiary such that the subsidiary, LHDI, becomes the regulated electricity distributor. LHI then becomes the holdco and, at a later date, the holdco might incorporate a new subsidiary corporation as the unregulated affiliate. This restructuring requires an asset and employee transfer, which would trigger various third party consent and notice requirements. Briefly, the following steps are proposed for the reorganization of LHI's corporate structure.

1. LHI will remain 100% owned by The Corporation of the City of London.
2. Through a by-law, LHI would be authorized to create a new corporation LHDI for the sole purpose of operating as a regulated entity licenced to distribute electricity in the city of London. The new company will still provide services and retain the London Hydro brand.
3. Through an asset purchase agreement between LHI and LHDI, move the entire regulated business and related contracts, including employees and executives (but excluding certain renewable energy and/or technology assets), to LHDI.
4. LHI will then seek OEB approval for the assignment of its electricity distribution Licence ED-2002-0557 to LHDI.
5. LHI will retain the renewable assets (comprising 13 projects) as well as enter into all necessary agreements in order to be able to market the technologies and applications presently available and all other future marketable developed technologies.

The LHI Board has passed a Resolution regarding the above corporate restructuring. A copy of the Resolution is attached herewith. Also attached is an Executive Summary which gives our reasons for creating the above corporate structure.

I kindly request that you prepare your report and recommendation to the SPPC so as to seek their approval for authorizing LHI management to prepare, together with the Civic Administration, the necessary reports including Shareholder Resolutions and the necessary by-laws to affect the above LHI corporate restructuring.

I also request delegation status at the upcoming SPPC meeting on August 26, 2019, where Civic Administration would seek aforementioned approval. My purpose for the delegation status is to present our brief requirements to the SPPC and answer any questions pertaining to this.

Sincerely,

A handwritten signature in black ink, appearing to read "Sharma". The signature is stylized with a large, looped initial 'S'.

Vinay Sharma, CEO
London Hydro Inc.

Attachments: London Hydro Inc. Board Resolution
Executive Summary: Basis for Corporate Restructuring of London Hydro Inc.

RESOLUTION OF THE BOARD OF DIRECTORS OF LONDON HYDRO INC.

RECOMMENDATION RE RESTRUCTURING OF LONDON HYDRO INC.

WHEREAS the sole shareholder of London Hydro Inc. (the “**Corporation**”) is The Corporation of the City of London (the “**City**”);

AND WHEREAS the board of directors of the Corporation (the “**Board**”) has been provided with an Executive Summary: Basis for Corporate Restructuring of London Hydro Inc. (the “**Recommendation Materials**”);

AND WHEREAS the Recommendation Materials contemplate that London Hydro Distribution Inc. (“**LHDI**”) be incorporated by the Corporation and that the Corporation files articles of incorporation, adopt bylaws, appoint directors, issue a shareholder declaration (the “**LHDI Shareholder Declaration**”), and do all such other acts and things to validly create LHDI (collectively, the “**LHDI Incorporation**”);

AND WHEREAS the Recommendation Materials contemplate that the Corporation transfer, in exchange for shares in the capital of LHDI, its regulated electricity distribution business, including assets and liabilities, employees and permits and licences (but not its renewable energy and non-regulated technology businesses) to LHDI pursuant to an asset purchase agreement (the “**Asset Purchase Agreement**”);

AND WHEREAS the Recommendation Materials contemplate that, following the entry by the parties into the Asset Purchase Agreement, the City would amend the shareholder declaration with respect to the Corporation (the “**LHI Shareholder Declaration**”);

AND WHEREAS the LHDI Incorporation requires approval by the City pursuant to the Corporation’s current shareholder declaration;

IT IS RESOLVED THAT:

1. the recommendations set out in the Recommendation Materials are hereby adopted and approved;
2. the Corporation recommends to the City that it take the steps described in the Recommendation Materials, including the approval of the LHDI Incorporation and the amendment of the LHI Shareholder Declaration;
3. the CEO of the Corporation is authorized and directed, for and in the name of and on behalf of the Corporation, to cause to be prepared a draft Asset Purchase Agreement, LHI Shareholder Declaration and, together with the City, a draft LHDI Shareholder Declaration for presentation to the Board for approval and to do all such other acts and things as the CEO may determine to be necessary or advisable in connection with the recommendations contained in the Recommendation Materials or to carry out the intention of the foregoing resolutions, the

execution and delivery of any such agreement, amendment, instrument, certificate or other document or the doing of any such other act or thing by the CEO being conclusive evidence of such determination.

DATED this 25 day of July, 2019.



Gabriel Valente



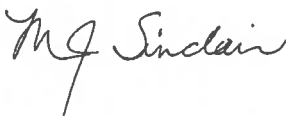
Michael van Holst



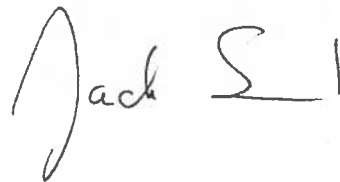
Connie Graham



Radhey Mohan Mathur



Marilyn Sinclair



Jack Smit



Guy Holburn

Executive Summary:

Basis for Corporate Restructuring of London Hydro Inc.

Presently, London Hydro Inc. ("LHI") is a wholly owned subsidiary of The Corporation of the City of London ("City") and is governed by the By-Law #2 and the associated Shareholder Declaration. LHI is proposing to create a corporate structure comprising a Holding Company (see Figure 1 below) which would be a wholly owned subsidiary of the City. The Holding Company would in turn hold the regulated electricity distribution company and a non-regulated affiliate.

To implement the Holding Company structure, LHI proposes the following: existing LHI incorporates a new subsidiary (London Hydro Distribution Inc. or "**LHDI**"), LHI's assets, employees, executive, and Board are transferred to LHDI such that the subsidiary becomes the regulated distributor (i.e. LHI becomes the Holding Company) and, at a later date, the Holding Company incorporates a new subsidiary corporation as the non-regulated affiliate. This approach requires an asset and employee transfer from LHI to LHDI, which would trigger various third party consent and notice requirements.

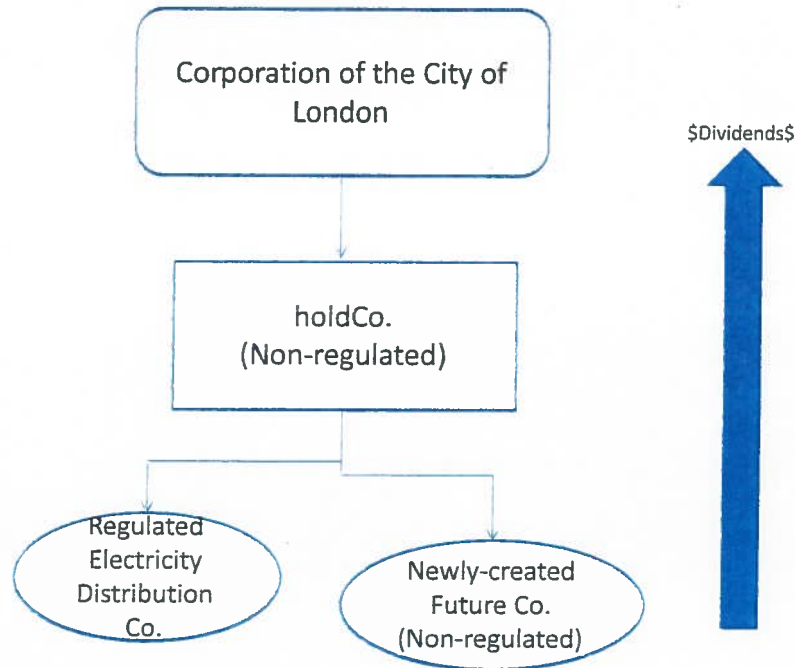
This Holding Company corporate structure is proposed for the reasons given below.

1. LHI is a strictly rate regulated utility, under OEB licence ED-2002-0557. All of its costs, revenues and net incomes are subject to strict review and adjudication by the OEB, who also mandates the types of services that LHI can provide. As such, LHI is not permitted to market any technologies and/or services that the OEB does not approve (except as noted in paragraph 3 below).
2. LHI has developed a unique set of technologies with a niche focus in managing a large amount of smart meter customer consumption data and associated applications for customer billing, online customer care and for energy and demand management. These technologies are designed for all utilities including electricity, gas and water. LHI has become a global leader in developing these applications based on standards for utilities and utility customers. LHI has been successful in providing these new applications for its customers and is now contemplating marketing these technologies to others across North America. Presently, London Hydro is servicing four electrical utilities, one water utility, and has piloted these technologies with a gas utility. LHI has also deployed these technologies on a pilot basis in the province of Alberta. As well, LHI has been successful in marketing these applications to a limited number of industrial customers across Ontario.

3. Presently, as a regulated utility, LHI is able to market the above services in a limited manner under a special authority granted by the OEB on September 7, 2018. The special approval granted by the OEB to LHI to market these services is neither a long term one nor is it an ideal alternative for the following reasons:
 - a. Net earnings from the competitive services would be subject to OEB preview.
 - b. LHI's regulated rate making process is rendered quite complex.
 - c. LHI would be fully exposed to the risks related to the competitive services.
 - d. The OEB could reverse its decision in the future and not allow LHI to continue to market these services.
 - e. LHI's existing governance likely to limit the potential of marketing these services.
 - f. LHI has limited sources of investment to market and further develop these services.
 - g. LHI's regulated mission and vision might limit the market potential of the services.
 - h. If revenue generated from outside the city of London boundaries exceeds 10% of LHI's total revenue, this would render the entire net income of regulated LHI to the Federal income taxes (as opposed to currently being under PILs).
4. A long term alternative of marketing these technologies and applications through an entity other than LHI would alleviate the above barriers and provide freedom to decision makers to greatly succeed, including the advantages given below.
 - a. Shareholder is the sole recipient of the net earnings from the competitive services (until the establishment of a non-regulated subsidiary, at which time a Shareholder Direction would be adopted containing a dividend policy).
 - b. Holding Company's operations as well as those of its competitive affiliate are outside of the OEB's review except for its obligations to maintain independent relationship with the utility (LHI) in accordance with the Affiliate Relationship Code.
 - c. Risks and rewards are segregated from those of the regulated utility.
 - d. Holding Company will have an independent and broader approach to market.
 - e. Holding Company will also have more freedom in accessing capital markets including private capital markets, subject to its governance.
 - f. Maintain the confidentiality of business and market proprietary information.

- g. Allows the regulated utility (including its board of directors) to focus on the regulated distribution business in the city of London.

Figure 1: New Corporate Structure



Notes

- All corporations are subject to PILs
- Regulated LDC subject to Affiliate Relationships Code
- Section 142 of Electricity Act requires new company to be created for purpose of generating, distributing, transmitting or retailing electricity

The above corporate structure is a nominal change in the governance of LHI and would not impact the current level of dividends for the Shareholder and going forward, will provide additional protection for the electric distribution utility (which would be LHDI) while providing enabling tools for expanding the technology based business opportunities in a controlled and incremental manner.

Recommendations

1. Enact By-laws to:
 - (a) Authorize LHI to create the necessary corporation;
 - (b) Authorize LHI to transfer to assets and employees as needed;

- (c) Approve appointment by LHI of a Board of Directors for the Holding Company; and,
- (d) Create a shareholder declaration for the new subsidiary setting out governance principles and shareholder requirements.

2. Amend LHI's Shareholder Declaration.

Following the approval of various actions noted above, the Civic Administration together with LHI will be authorized to proceed to undertake the following:

- a. Incorporation of the new corporations;
 - b. Application to the OEB for a transfer of distribution licence;
 - c. Amend Shareholder Declaration between the City and the Holding Company;
and,
 - d. New Shareholder Declaration between the Holding Company and the regulated subsidiary.
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