

Holdco vs Newco

January 24, 2021

Dear Colleagues,

I am grateful for your confidence in our London Hydro team to deliver market-worthy services that meet demand in Ontario and Canada. With President Biden signing the Paris Accord, there will be increased demand for these specific services south of the border and, with an affiliate, LHI could deliver them.

I appreciate the work of our staff and London Hydro for preparing this report, but the best path forward still seemed unclear. Fortunately, when I reached out to councillors and Hydro CEOs who have already seen the successes we hope to achieve, they were very happy to share their experience (and would be willing to do so again). I hope their thoughts provide some valuable context.

The substantial increase in the dividends some municipalities have obtained is inspiring. Ottawa Holdco's dividend with their affiliates is 40% greater than their utility alone. Oakville has a dividend 100% greater with their affiliates, such as London-based G-Tel Engineering, whose services we use. There is a path common path to successes, which involves leveraging the strength of the utility through the Holdco to grow affiliates more quickly than otherwise possible. It was not felt that a Newco structure could accomplish the same.

The Holdco allows affiliates to **easily** piggyback their incremental investments onto those the utility is already making. For instance, when Ottawa Hydro laid 270 km of 10-strand data cable for their own use, an affiliate bought materials for an extra 134 strands and can now offer services for 5G. Economies of scale, opportunities for shared services and the utility's balance sheet were also described as reasons for choosing the Holdco.

One councillor felt it was "incredibly important" that the hydro utility and affiliates were able to operate independently of the city, as the organization will need to be nimble and respond to the market place in a way that a municipality never could. She felt that their council had adequate representation and oversight with members on the board of the Holdco.

CEOs I spoke with felt that the risks of a Holdco-owned-utility were amply mitigated by council's ability to appoint directors and create the terms of the shareholder declarations. Most of the significant decisions float up to the Holdco board which has council representation. To require council's approval to sell, purchase or invest in assets outside of the regular course of business for any affiliate was seen as an powerful way to mitigation of risk.

Since one CEO directs the whole operation, that too provides oversight and accountability to council. For example, since the only three directors of Ottawa Hydro are the CEO and Chair of the Holdco plus the VP of utility operations, there is little risk that they will deviate from plan.

The following page provides a list of the 35 Ontario utilities that use the Holdco structure while none have a Newco arrangement. If we are going to ask London Hydro to innovate technologies that can be competitive across North America, it would be counter-productive to ask them to also innovate a new corporate structure unused (and unrecommended) by their own industry.

Because a Newco is not seen as viable by London Hydro, and because there are individuals willing to share their time and expertise to advise our council in making a decision, I suggest two paths forward:

- A) Have staff begin to prepare shareholder agreements for the Holdco structure forthwith, and/or
- B) Strike a working group to invite and evaluate input from the councilor/board members and Hydro CEOs of other municipalities for the purpose of providing a recommendation to council.

Sincerely,

Michael van Holst
Councillor Ward 1

Ontario Local Distribution Companies with a Holding Company in 2019 (35 LDCs or 59% of Municipally Owned utilities)

Local Distribution Company	Holding Company
Alectra Utilities Corporation	Alectra Inc.
Bluewater Power Distribution Corporation	Bluewater Power Corporation
Brantford Power Inc.	Brantford Energy Corporation
Burlington Hydro Inc.	Burlington Enterprises Corporation
Centre Wellington Hydro Ltd.	Centre Wellington Energy Inc.
Elexicon Energy	Elexicon Corporation
Energy+ Inc.	Cambridge and North Dumfries Energy Plus Inc.
Entegrus Powerlines Inc.	Entegrus Inc.
ENWIN Utilities Ltd.	Windsor Canada Utilities Limited
Espanola Regional Hydro Distribution Corporation	Espanola Regional Hydro Holding Corporation
Essex Powerlines Corporation	Essex Power Corporation
Greater Sudbury Hydro Inc.	Greater Sudbury Utilities
Grimsby Power Incorporated	Niagara Power Incorporated
Guelph Hydro Electric Systems Inc.	Alectra Inc.
Halton Hills Hydro Inc.	Halton Hills Community Energy Corporation
Hydro Ottawa Limited	Hydro Ottawa Holdings Inc.
Kitchener-Wilmot Hydro Inc.	Kitchener Power Corp.
Lakefront Utilities Inc.	Town of Coburg Holdings
Lakeland Power Distribution Ltd.	Lakeland Holdings Ltd.
Milton Hydro Distribution Inc.	Milton Hydro Holding Inc.
Newmarket-Tay Power Distribution Ltd.	Newmarket Hydro Holdings Inc.
Niagara Peninsula Energy Inc.	(1) Niagara Falls Holding Company & (2) Peninsula West Power Inc.
Niagara-on-the-Lake Hydro Inc.	Niagara-on-the-Lake Energy Inc.
North Bay Hydro Distribution Limited	City of North Bay Holdings Ltd.
Oakville Hydro Electricity Distribution Inc.	Oakville Enterprises Corporation
Orillia Power Distribution Corporation	Orillia Power Corporation
Oshawa PUC Networks Inc.	Oshawa Power and Utilities Corporation
Peterborough Distribution Incorporated	Peterborough Utilities Group
PUC Distribution Inc.	PUC Inc.
Rideau St. Lawrence Distribution Inc.	Rideau St. Lawrence Holdings Inc.
Thunder Bay Hydro Electricity Distribution Inc.	Synergy North Corporation
Toronto Hydro-Electric System Limited	Toronto Hydro Corporation
Wasaga Distribution Inc.	Geosands Inc.
Waterloo North Hydro Inc.	Waterloo North Hydro Holding Corp.
Whitby Hydro Electric Corporation	Whitby Hydro Energy Corporation