

Tuesday, May 19, 2015 at 1:30 PM  
Council Chambers

Agenda compiled on 19/05/2015 at 12:53  
PM

## **Declarations of Interests**

## **Deputations**

1. Mr. John Heckbert to address the Committee regarding Gigabit Broadband. p. 1

## **Items**

2. Presentation by Mr. Troy MacDonald and Mr. Brent Jackson, Grant Thornton Consulting Firm regarding Newmarket Tay Power. p. 2
3. Community Services Report 2015-18 dated May 19, 2015 regarding Update for Ultra-High Speed Corridor Pilot Project. p. 3

The Commissioner of Community Services and the Economic Development Officer recommend:

a) THAT Community Services Report - Economic Development 2015-18 dated May 19, 2015 regarding the Ultra-High Speed Corridor Pilot Project be received and the following recommendations be adopted:

i) THAT staff be directed to proceed to the next step of negotiations with the preferred proponent;

ii) AND THAT staff be directed to provide a further report to Council with the results of the negotiations, a proposed model, governance structure and budget impact;

iii) AND THAT all negotiations be conditional on Council approval.

## **Adjournment**

# Deputation and Further<sup>1</sup> Notice Request Form

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Subject:

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Grant Thornton

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# Project G T Strategic Advice

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## Presentation to the Town of Newmarket Council

May 19, 2015

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### **Brent Jackson**

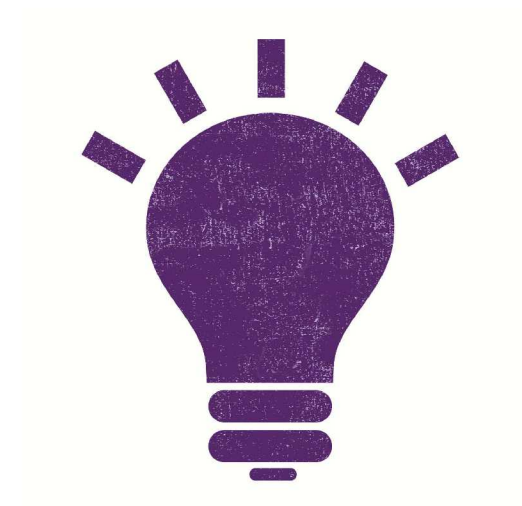
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## Introductions



**Troy MacDonald, CPA, CA, CBV**  
National Practice Leader – Corporate Finance

Troy is an advisory services partner based in our Toronto office, specializing in Corporate Finance and Infrastructure. Troy is also a member of the global Energy, Environment and Sustainability sector group with a focus on the power sector.

Troy is our firm's national leader for corporate finance. He specializes in advising public and private sector clients on implementing transactions and debt and equity financing solutions in both domestic and international markets. Troy specializes in advising on power and infrastructure projects.

Previously, Troy was a member of the Grant Thornton capital markets team based in London, England with Grant Thornton UK LLP. This team focused on implementing public market transactions in global capital markets.

Troy is also a member of the Grant Thornton LLP Partnership Board.



**Brent Jackson, CPA, CA, CBV**  
Director – Corporate Finance

Brent helps lead the business valuations practice for Grant Thornton LLP's Corporate Finance group. Over the twelve years Brent has worked in Grant Thornton's Corporate Finance group, he has performed over 100 valuations in relation to M&A transactions, estate planning, tax reorganizations, fairness opinions and financial reporting (purchase price allocations and goodwill review) and has worked on several different power company advisory engagements.

Brent has been a key team member on all of the LDC engagements referenced in the proposal; including a review related to a potential merger of three utilities, advising on the potential merger of a municipally owned utility, and the financing of capital expenditures for another utility. In all instances, Brent worked closely with the management team and board of directors to help exceed the clients' needs.

Brent holds both the Chartered Accountant (2003) Chartered Business Valuator (2005) designations.

## Our Scope of review

- The Town of Newmarket have engaged Grant Thornton LLP to prepare a report that provides an analysis on matters pertaining to Newmarket Tay Power ("NT Power"), the shareholder and the Ontario LDC Market, including items such as:
  - Potential Transactions analysis: financial/operational issues surrounding the potential sale or merger of NT Power.
  - Hydro service rates: comparative information and influences on hydro service rates
  - Service level benchmarking: NT power service level feedback and evaluation criteria.
  - Industry Risks: Discussion on the industry risks surrounding a Municipally owned Utility
  - Governance: Review of the current governance structure between NT Power and Newmarket Hydro Holdings.
  - Service level agreements: Discussion on potential improvements to current service level agreements with the shareholder.

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## Conclusion

- When compared to its peers, N T Power appears to be operating at an above average level in almost all of the metrics we analyzed (hydro rates, financial statement metrics, service levels, etc.).
- The current governance structure is sound and well positioned for future growth.
- The LDC is both financially and geographically well positioned to potentially take advantage of the current consolidation in the market and other strategic alternatives. Whether a buyer/seller or potential merger partner, there are plenty of opportunities to build greater scale and be positioned for consolidation.
- N T Power should continue with its current strategy

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# Our Findings

## Potential Transaction Analysis

- Our financial model comparing the economic value to the shareholder, created through a sale or merger with another utility resulted in the following:

	IRR	Economic Value	
		Annual Cash	Value creation
Status Quo	6.81%	\$ 17,092	\$ 21,847
Merger	7.10%	\$ 18,736	\$ 21,676
- Although the increase in financial benefits is not significant, a merger with the right LDC or group of LDCs could result in some financial gain while also keeping options for continued equity growth in the future
- We then qualitatively discussed an outright sale of the LDC, which we believe does not make sense today for the following reasons:
  - current uncertain market conditions;
  - a financially strong utility with healthy shareholder returns;
  - opportunity to generate returns in excess of the Town's cost of capital; and
  - maintain control of power distribution in the community.
- However, while NTPower continues to focus on their core business, we also think they should continue to actively monitor and explore merger activity to seek opportunities to build greater scale and be positioned for consolidation.

# Our Findings

## Hydro Service rates

- For our analysis on hydro service rates, we calculated the average rates paid by N T Power's customers (residential, commercial, and industrial) in 2013 and compared these rates to five other comparable LDCs, as well as industry averages. We then calculated average monthly rates for residential customers (as illustrated in the graph below) assuming identical consumption levels and allocations for peak, mid-peak, and off-peak time of use to give us an accurate comparison of rate differences between N T Power and the five comparable companies.

### Residential

	NT Power	Whitby Hydro	Innisfil Hydro	Orillia Power	Halton Hills Hydro	Oakville Hydro	Industry	Industry excluding HONI
Average distribution revenue per customer	\$ 303	\$ 409	\$ 419	\$ 353	\$ 287	\$ 337	\$ 428	\$ 321
Average billed kWh per customer	8,897	9,318	10,456	9,143	10,631	9,727	9,061	8,359
Average distribution rate per kWh	\$ 0.03410	\$ 0.04387	\$ 0.04009	\$ 0.03857	\$ 0.02701	\$ 0.03462	\$ 0.04720	\$ 0.03844

### Commercial

Distribution Revenue per Customer	\$ 910	\$ 1,219	\$ 649	\$ 1,134	\$ 562	\$ 1,032	\$ 1,001	\$ 852
Average billed kWh per customer	29,533	40,758	32,439	34,025	32,183	34,371	30,425	31,919
Average distribution rate per kWh	\$ 0.03081	\$ 0.02992	\$ 0.02000	\$ 0.03332	\$ 0.01745	\$ 0.03001	\$ 0.03290	\$ 0.02669

### Industrial

Average distribution revenue per customer	\$ 9,422	\$ 11,037	\$ 8,420	\$ 11,061	\$ 9,783	\$ 9,876	\$ 13,199	\$ 12,218
Average billed kWh per customer	747,485	1,084,988	770,268	861,144	1,030,504	841,917	1,110,117	1,155,786
Average distribution rate per kWh	\$ 0.01260	\$ 0.01017	\$ 0.01093	\$ 0.01285	\$ 0.00949	\$ 0.01173	\$ 0.01189	\$ 0.01057

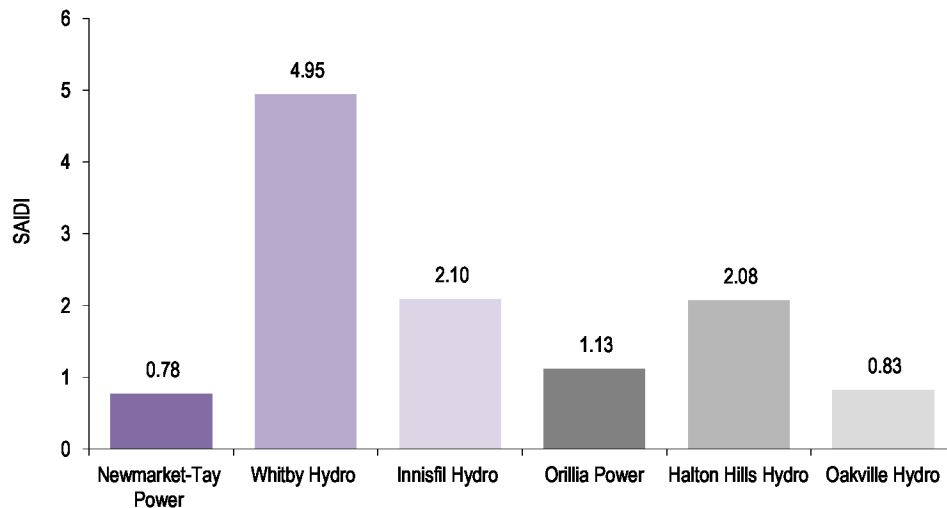
- N T Power's residential customers pay rates in line with, if not below, those of its most comparable counterparts in the LDC industry and significantly below industry average. Its commercial and industrial customers pay rates slightly above its most comparable LDCs and industry averages.

## Our Findings

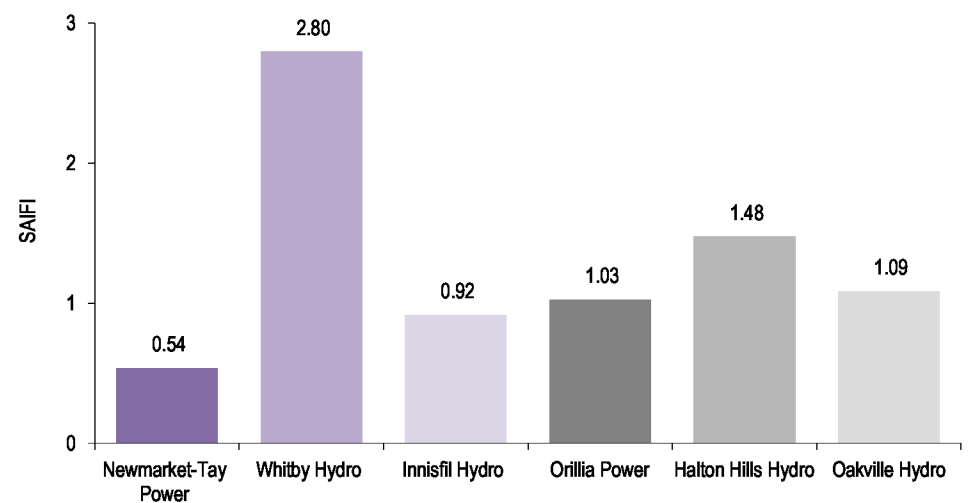
### Service Level Benchmarking

- For our analysis on service level reliability, we compared the three most relevant service level reliability metrics of N T Power to those of five other comparable L D C s.
- We found that the average duration (SAIDI) of service interruptions was shorter and the average frequency (SAIFI) of service interruptions experienced by N T Power's customers was far fewer than those of its most comparable L D C counterparts, illustrating the Company's excellent service levels in its most recent year (2013).

**SAIDI**



**SAIFI**



## Our Findings

### Industry Risks

- As part of our analysis, we were asked to consider all of the potential risks associated with owning a utility. The following risks were discussed in our report:
  - Regulatory: The OEB regulates the industry, restricting utilities on rates, leverage ratios, transactions (who you transact with and for how much), with penalties in all instances. A good grasp of the regulatory environment and any upcoming changes is essential.
  - Operational: The two main operational risks include maintaining service levels and working with a unionized labour force
  - Market Value: Although values have remained stable and high, the OEB could change this and it is still unclear what effect, if any, the Provincial Government's recent consolidation incentives will have on the industry.
  - Political: The low electricity rates and high service levels of an efficient LDC help alleviate political risks associated with a municipally owned utility.
  - Financial: High reporting costs (due to the regulatory nature of the business) as well as a desire to look outside of the utility to generate higher returns can lead to additional risks
- Although there are several risks associated with owning regulated utility, the risks can be mitigated effectively within the risk tolerance of a municipality.

## Our Findings

### Governance

- We reviewed N T Power and the N H H L's organizational governance structure, processes and practices against the Institute of Internal Auditor model's essential elements to determine which have been adopted by N T Power and determined the level at which they are operating. In providing our commentary, we also considered other municipally owned utilities and their current governance practices.
- We looked at the board meetings, the board members, the committees and corporate mission and objectives of N T Power
- Based on our experience, it would appear N T Power is following best practices for the majority of their governance structure, policies and activities
- For the time being, the current governance structure for N H H L appears adequate.



## Our Findings

### Service Level Agreements

- We understand that N T Power and its shareholder have two SLA s for street lighting and water. We also understand N T power and its shareholder both have separate contracts with the same third party provider for billing services and customer information systems.
- We understand there are many other services that could potentially be shared, including:
  - call centre
  - purchasing
  - fleet
  - street lamp
  - asset management
  - Corporate (treasury, IT, accounting)
  - leasing of office and operational facilities
  - communications
  - facilities operations
  - customer service support
  - back office admin support
  - human resources
- N T Power should potentially explore additional SLA s with the municipality ensuring the SLA s are structured not to limit their further options while also giving the shareholder protection.

## The changing Ontario Electricity Distribution market

- To date, 2015 has been a period of significant change in the Ontario LDC industry. The Provincial Government of Ontario (the "Provincial government") has put forward a series of initiatives to drive industry consolidation, including the following:
  - the planned Western GTA merger of Powerstream, Hydro One Brampton, Enersource and Horizon;
  - the planned initial public offering and partial monetization of Hydro One;
  - the changes to the MAAD rules to allow for greater synergy retention by LDCs; and
  - the changes to the departure and transfer taxes for LDCs (including the removal of the tax for LDCs serving less than 30,000 customers).
- The next few years are extremely important to Ontario's electricity distribution sector. Stakeholders will be evaluating new ownership structures, transaction opportunities and business models to create efficiencies and achieve shareholder objectives.



May 19, 2015

**REPORT # 2015-18**  
**COMMUNITY SERVICES REPORT – ECONOMIC DEVELOPMENT**

TO: Mayor Van Bynen  
Members of Council

SUBJECT: Update for Ultra-High Speed Corridor pilot project

ORIGIN: Community Services

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**RECOMMENDATIONS**

**THAT Community Services Report – Economic Development 2015-18 dated May 4, 2015 regarding the Ultra-High Speed Corridor pilot project be received and the following recommendation(s) be adopted:**

- 1. THAT staff be directed to proceed to the next step of negotiations with the preferred proponent,**
- 2. AND THAT staff be directed to provide a further report to Council with the results of the negotiations, a proposed model, governance structure and budget impact,**
- 3. AND THAT all negotiations be conditional on Council approval.**

**COMMENTS**

In August 2014, Council received staff report # 2014-20 and subsequently directed staff to issue a Request for Proposal (RFP) seeking interested Internet Service Providers (ISPs) who may be willing to provide ultra-high speed broadband service in Town. Council further requested that staff report back to Council with the results of the RFP, alternate options if necessary, along with recommendations and budget impact. This report is to provide Council with a summary of the RFP process and to request authorization to proceed to the next steps of this project.

RFP # 2015-02 was issued on January 5, 2015 with a closing date of February 12, 2015 seeking proposals for the design, implementation and/or the ongoing operation of ultra-high speed internet infrastructure and services. During the process, there was one non-mandatory proponent information meeting, and three (3) addendums were issued providing additional information and clarification of our requirements. The intent of the RFP was to identify a partner who would be willing to work with the town to help us achieve our vision of becoming a connected community that harnesses innovation for growth and prosperity. The RFP stipulated the Town requires the service being offered will be maintained as one of the top ten ranking in

Canada in terms of pricing and affordability as well as in speed and growth capacity for a minimum of the next 10 years. The RFP expressed the Town's willingness to work with the successful proponent to help achieve this vision to the extent possible. These included providing access to Town facilities and assets, facilitating meetings with other agencies and helping to market and promote the service offering.

An evaluation team was established consisting of Town staff, including the CAO, Commissioners, Economic Development Officer, Director IT Innovation, Manager of Procurement and Financial Analyst. Also included on the evaluation team was the President of Newmarket Tay Power and three (3) community representatives. An outside subject matter expert has been retained to provide technical consulting advice to the team.

Two (2) proposals were received, both offering different solutions and options. After a thorough review, the evaluation team recommended the Town pursue more detailed negotiations with one vendor whose proposal seemed to be most closely aligned with the requirements and vision. A smaller team has been created to continue discussions and negotiations. This team includes the CAO, Commissioner Community Services and the President Newmarket-Tay Power with support from the Director IT Innovation, Financial Analyst, a resident who has been involved in the project as well as the outside consultant. Several meetings have been held with the preferred vendor and staff and the project is now at the point where Council approval is sought to continue to the next step.

As background, the traditional model most seen in Ontario is that the private sector carriers or Internet Service Providers (ISPs) build, operate and own the infrastructure for service delivery. The decision of where to build is based on their own internal business case analysis. ISP's will build or expand their service for a particular business customer but usually the business must pay for much of the capital cost necessary to upgrade the service. In recent years, provincial and federal government programs have assisted providers in building out their infrastructure primarily in northern or rural areas. This funding has allowed for internet service to be provided in areas where the business case is not viable without the government funds. It should be noted this funding has allowed for only the most basic of internet speeds, 5 megabits per second (Mbps) for downloads and 1 Mbps for uploads. This is the current minimum standard as set by the Canadian Radio-television and Telecommunications Commission (CRTC).

The Town of Newmarket has not been eligible for any of the grant programs to date but we have also specified a level of speed and service much beyond the minimum standard. For this reason, the Town has looked at alternate options for service provision resulting in the RFP. The scope of work defined in the RFP stated that the Town was interested in finding a service provider to own the network and provide retail and wholesale services. The RFP stated the Town is willing to provide assistance and guidance to support the project. The RFP also noted that alternative solutions that meet the requirements and that will promote the long term economic and community interests were invited. The preferred proposal offers a willingness to discuss different scenarios for service provision in the pilot area.

Different options can be considered relative to funding a new broadband infrastructure build and the potential role of local government. In a public-private partnership model, the government can have varying

degrees of responsibility and commitment in a project while the private sector partner takes on the other side. There is also the option of the municipality being the sole owner of the infrastructure and they enter into a service contract for the operation of the network. There are many examples in Canada of municipally or utility owned internet service providers. Each has a slightly different business model to meet the slightly different requirements of the community. Factors affecting the model include:

- are there are other providers in the area,
- is there a municipally owned utility company,
- is the service provided to only public sector organizations or also private and residential,
- varying degrees of ownership:
  - design, financing only
  - design, financing and contract for performance levels
  - design, financing, shared ownership and maintenance
  - design, financing, ownership and maintenance
- other government agency involvement, i.e. funding

At this stage, several different models are available that will provide the solution needed. Each model has different governance structures, different financing options and varying outcomes but all will still meet the ultimate goal of providing a high speed internet service that will become the foundation for future innovation and economic development. The amount of capital investment and operating funds required differ with each option. The proponent has expressed their willingness to work with the Town to find the best possible solution that best aligns with the Town's objectives while at the same time allows the preferred vendor good options for business growth. The goal is to reach a win/win solution for both parties.

Council may recall that we engaged the firm Sandel & Associates in July 2014 to complete an economic development impact assessment with the objective to identify the most feasible area of town for the pilot project as well as to identify the potential benefits of providing this service. The consultant's scope of work was to:

1. Inform local decision-makers of the potential short-term and long-term economic return on investment in a lower cost, gigabit level internet system deployed within designated areas of the community;
2. Determine which areas of deployment would generate the greatest of economic benefit; and
3. Provide local officials with preliminary benchmarks for tracking future economic activity.

The consultants toured the area, reviewed available documentation and reports (including the York Region Broadband study) and participated in a number of community stakeholder meetings in order to prepare their findings.

The report identified the three target areas including the **Main Street Business District** from Davis Drive to Water Street; **Davis Drive Health/Life Sciences Corridor**; and **Leslie Street/Harry Walker Parkway**

**Business Corridor.** These areas provided the greatest potential for economic growth based on increased access to improved internet service. The report also identified the pilot project would realize:

- 17 new firms with 205 employees
- Annual wages at \$14,935,366
- 126 in-direct jobs generated across the community
- \$13,174,963 of additional economic output value as a result of wages spent

In the end, the consultant's recommendation strongly supported the Town moving forward with the pilot project in order to attract and retain businesses seeking market advantage through the ultra-high speed broadband service.

#### **Next steps**

Staff is seeking Council's approval to move forward with negotiations with the preferred proponent and to further investigate the different models to determine the one best suited to meet the Town's requirements. A core team is to be established including the CAO, Commissioner of Community Services, Director IT Innovation, Financial Analyst, community representative, Newmarket-Tay Power President and his designated staff. Outside legal representation that specializes in business will be retained to assist in the development of the model and the contract negotiations.

#### **BUSINESS PLAN AND STRATEGIC PLAN LINKAGES**

##### **Living Well**

- Health education, wellness services and state of the art medical facilities

##### **Well Balanced**

- Educational, hotel and meeting/conference facilities

##### **Well Equipped and Managed**

- Leadership excellence and leading edge management
- Clear vision of the future and aligned corporate/business plans
- Efficient management of capital assets and municipal services to meet existing and future operational needs
- Ideal mix of residential, commercial, industrial and institutional land use
- Small town feel with big city amenities

- Appropriate mix of jobs to population and people to industry

**Well Planned and Connected**

- Long term strategy matched with short term action plan
- Revitalization of neighbourhoods starting with the downtown area
- Telecommunications infrastructure and policies for an increasingly wired world

**Well Respected**

- Discovering innovative and creative solutions for future well being

**CONSULTATION**

Public consultation was conducted during the earlier research and data collection phases of this project. Public consultation has not occurred during this RFP process however, it is within the overall project plan to include marketing and community consultation once the partner has been selected and approval to proceed with the project has been received by Council.

**HUMAN RESOURCE CONSIDERATIONS**

Staffing levels are not impacted as a result of the recommendations in this report.

**BUDGET IMPACT**

Potential capital and operating budgets may be impacted by the model selected and the final negotiated agreements. As such, any budget impacts will be brought to Council for approval in subsequent reports.

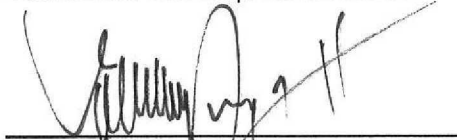
**CONTACT**

For more information on this report, contact:

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