

**Newmarket-Tay Power Distribution Ltd.**



# **Newmarket Council Orientation Session**

**December 11, 2018  
Paul Ferguson, President**

# Agenda

## **NTPDL in Context**

- **Our Vision and Strategy**
- **Our Customers**
- **Our Regulatory Environment**
- **Our Role in the Ontario Electricity Sector**
- **Evolution of Our Corporate Structure**

## ***Break***

## **Finance and Governance**

- **Market Finance**
- **Cost of Capital**
- **Shareholder Value**

## **Current Industry Initiatives**

## **AGM**

## **Other Business**

# NDPDL in Context



# Our Vision

**An independent, industry-leading  
Local Distribution Company  
("LDC") committed to  
our customers' changing needs**



# NTPDL – Strategic Framework 2017-2022



Newmarket-Tay Power Distribution Ltd.

## Our Vision

An independent, industry-leading LDC committed to our customers' changing needs.

## Our Mission

Earning the trust of our customers by safely and reliably meeting their electricity needs.

## Core Values

Our Team is the strength of our company. We demonstrate the following values in everything we do:

- Safety First – our top priority on the job and in the communities we serve.
- Respect – is how we treat each other and our customers.
- Reliable – our customers depend on us to provide electricity and the services they need.
- Customer-focus – serving our customers is why we exist.

## Strategic Imperatives

1. Enhance the company and its governance to meet the changing demand profile
2. Continuously develop our strong and capable team
3. Engage customers and stakeholders as partners in creating the future
4. Deliver strategic growth within the distribution business

## Key Objectives

Ensure Leadership Alignment	Empower Our Team	Deliver on Customer Needs	Continuously Improve Operations	Achieve Smart Control Across the Distribution System	Run an Effective, Efficient and Financially Sustainable LDC	Assess Emerging Needs in Context
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# Our Customers

We serve:

- The Town of Newmarket
  - Part of the Town of East Gwillimbury
    - South side of Greenlane from Bathurst to Leslie Streets
  - Northern portion of Tay Township
    - Port McNicoll, Victoria Harbor and Waubaushene
  - Town of Midland (as of September, 2018)
- ❖ ~50,000 customers

# The Service Areas - Newmarket

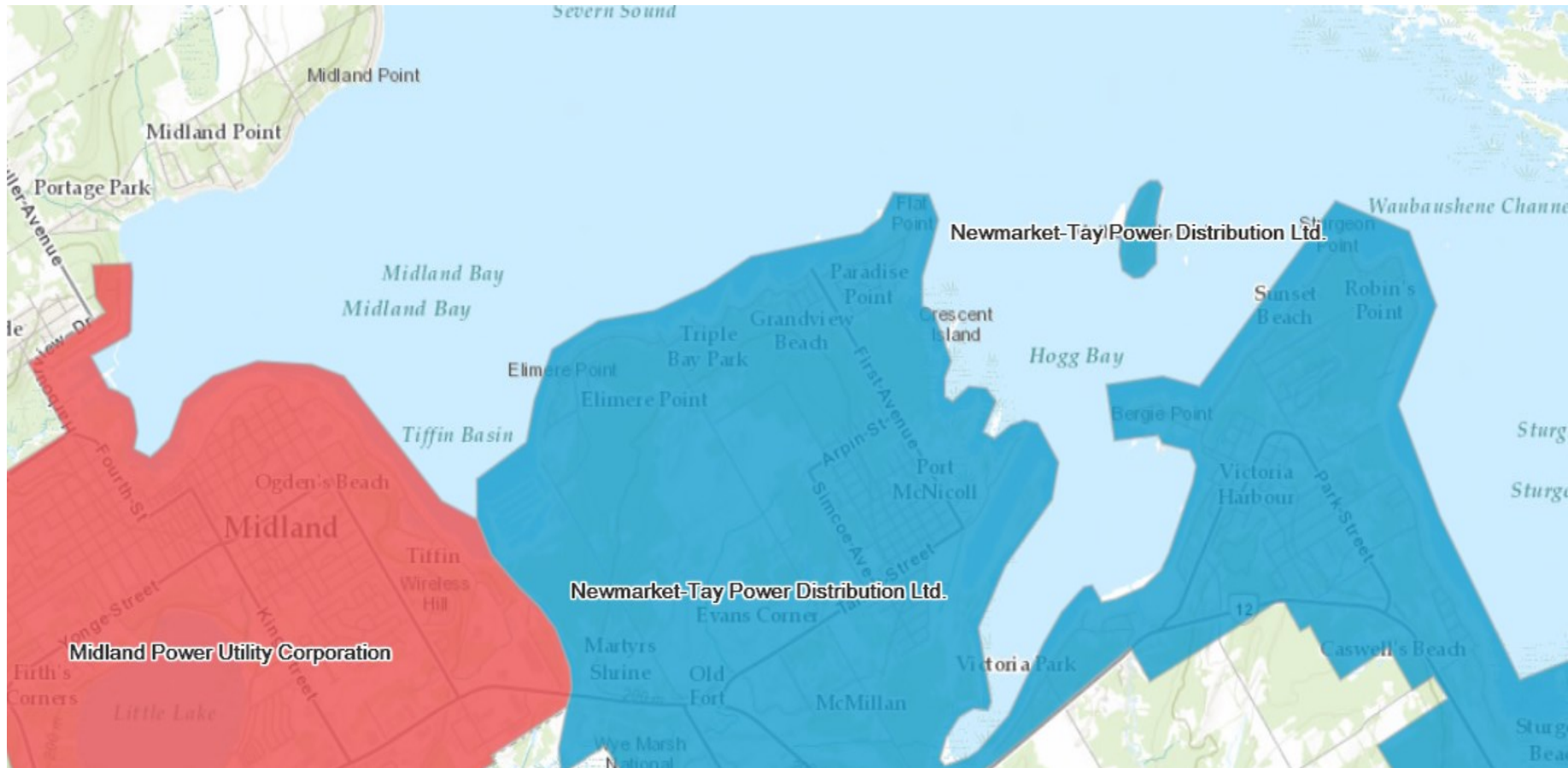


# The Service Areas - Tay





# The “Midland – Tay” Area



# Our Regulatory Environment



# Ontario Government

- **Regulations**

- » Smart Meters
- » Special Purpose Charges
- » Smart Grid
- » Price Protection
- » Market Operation

# Independent Electricity System Operator

## • Wholesale Market

### » Market Rules

- Prudential Requirements
- Metering Requirements
- Emergency Planning

### » Settlement Administration

### » Conservation and Contract Generation



# Ontario Energy Board

- **Licencing**
- **Rates**
- **Distribution System Code**
- **Standard Supply Service Code**
- **Retail Settlement Code**
- **Affiliate Relationship Code**
- **CDM Code**



# Electrical Safety Authority

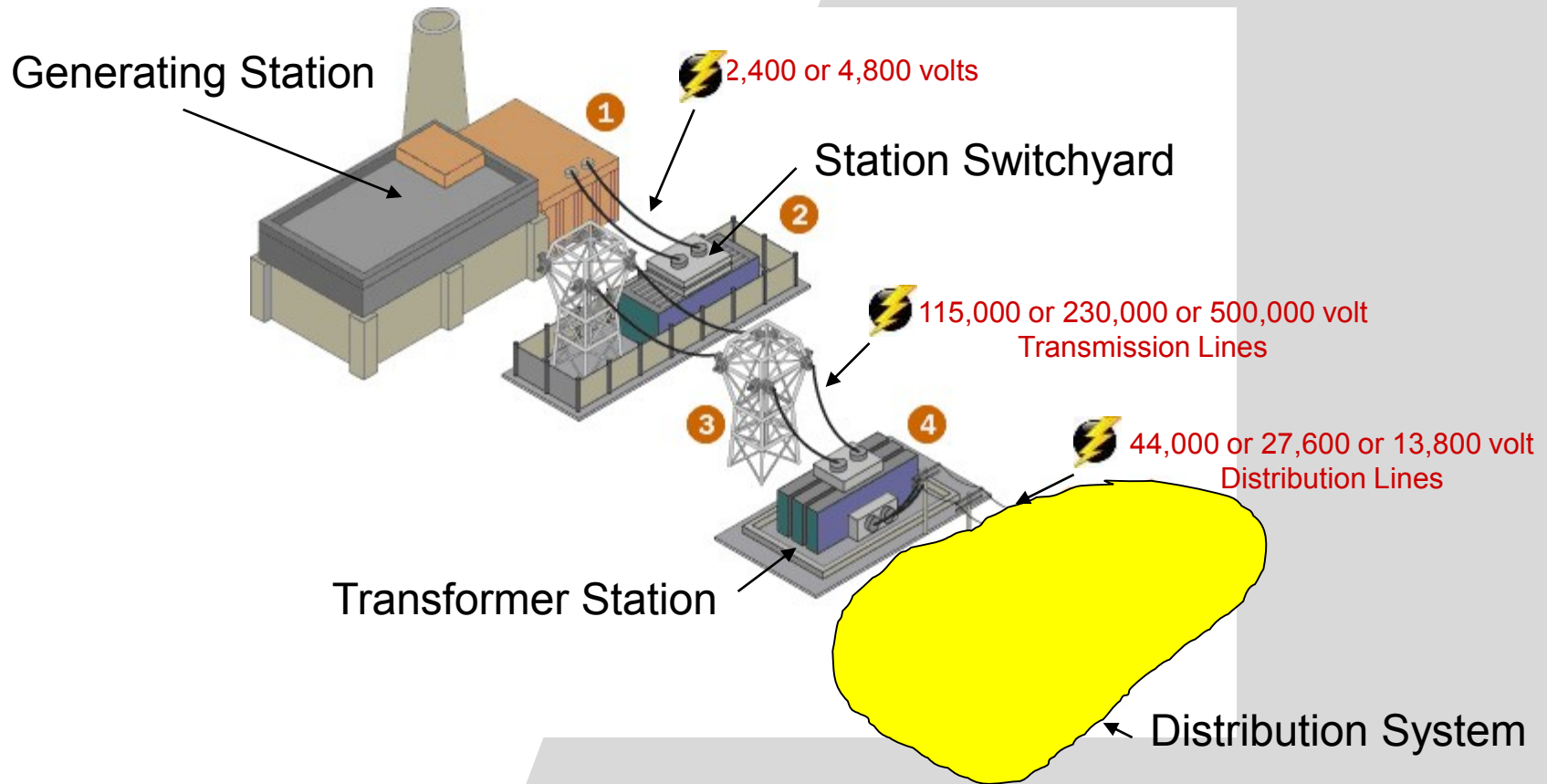
- **Equipment Standards**
- **Construction Standards**
- **Approval processes**
- **Annual Audits**
- **Bi-Annual Due Diligence Inspections**



# Our Role in Ontario's Electricity Sector



# Power System Overview





# Newmarket – Tay Distribution

- **We take delivery of power from Hydro One at 44,000 volts**
  - » Armitage TS – Mulock Drive
  - » Holland TS – Dufferin and Miller Side Road
  - » Waubaushene TS – West of Hwy 400 south of Hwy 12

# NTPDL Distribution System

- **44,000 volt distribution system**

- » Used to supply large General Service customers directly

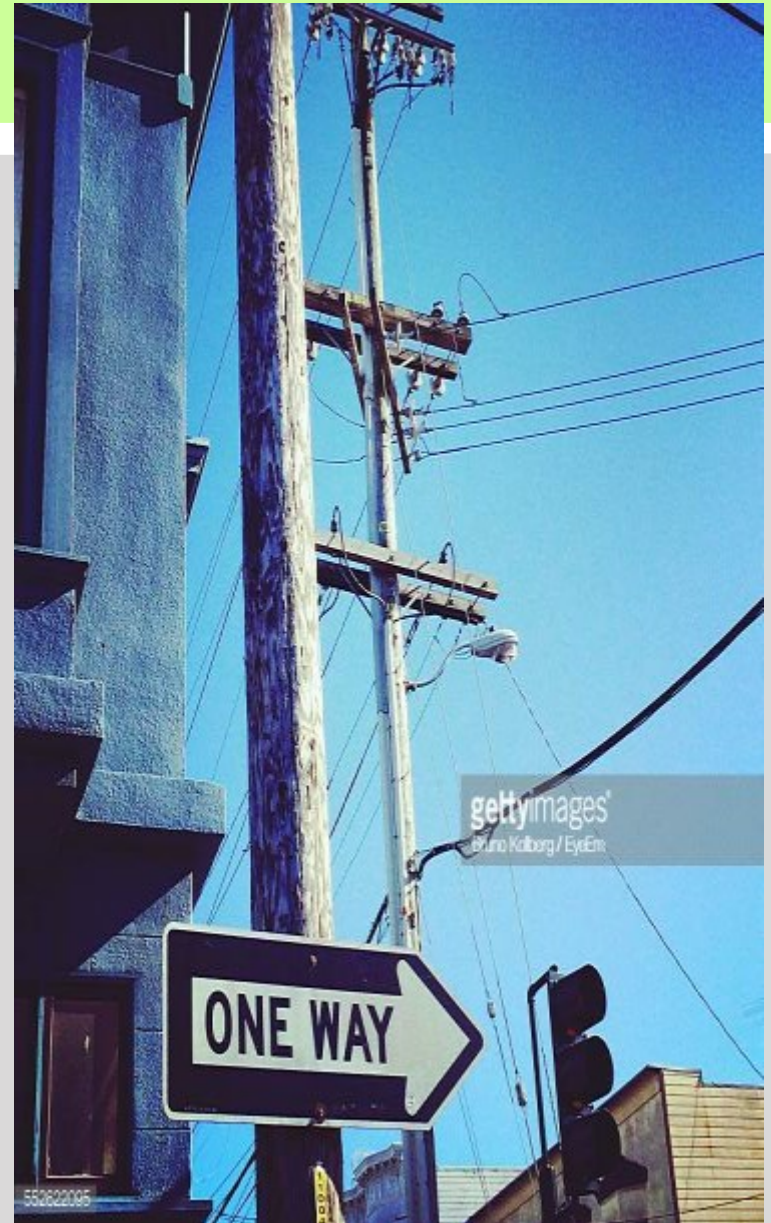
- Hospital
- Secondary schools
- Industrial plants and large commercial buildings

- » Transformed to supply 13,800 volt distribution system

- 8,000 volts in Tay, 4,000 volts in Midland
- Various substations within the Town
- Used to supply
  - Residential
  - Small General Service customers

# Our LDC Today

- **Our distribution system is a one way street...**
  - » We receive electricity from the IESO
  - » We deliver it to customers
  - » The price is what it is
  - » All electrical protection and metering systems are one-way
  - » We only get paid to deliver

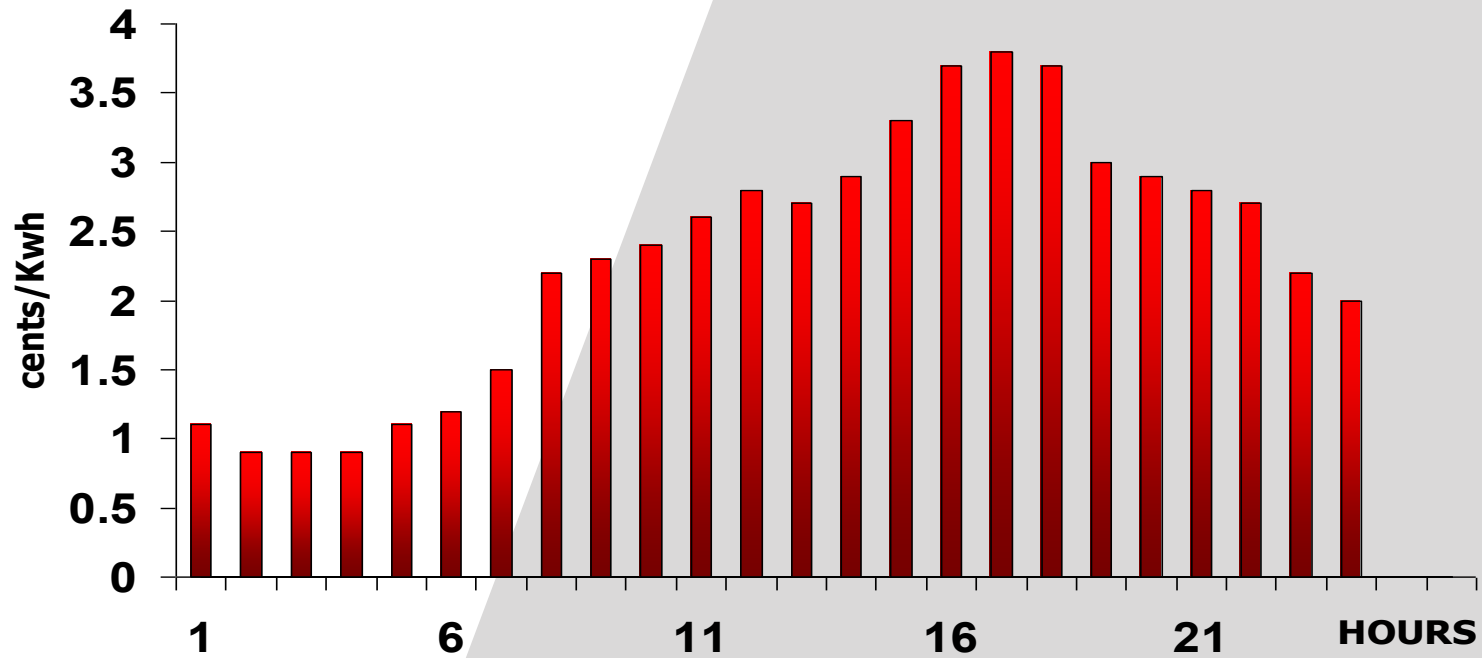


# Billing and Settlement

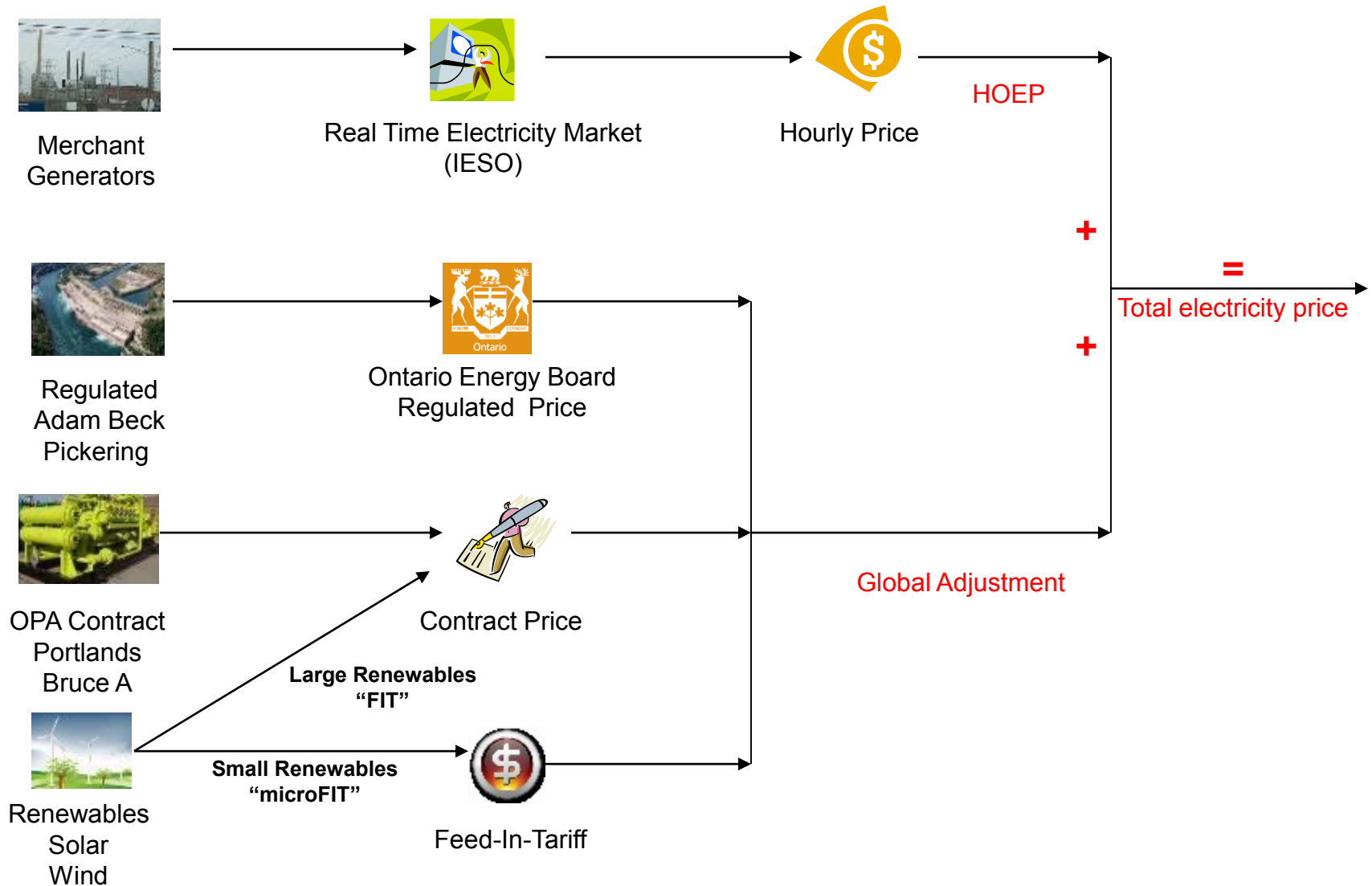
- Electricity received from IESO market has two component prices:
  - » Hourly Ontario Electricity Price (HOEP)
  - » Global Adjustment
  - » “Hybrid Market”
- Also contains “Uplift”
  - » Ancillary services to support the interconnected transmission system
    - Reserve
    - Frequency control
    - Capacity



# Typical Hourly Electricity Price



# Hybrid Market



# Billing Our Customers

- Residential and small business
  - Regulated Price Plan (RPP)
  - Price set by the OEB every 6 months
  - Includes hourly electricity price and Global Adjustment
  - Time of Use buckets
- Large industrial, commercial and institutional
  - Hourly electricity price
  - Global Adjustment
- Customers who have signed with a Retailer
  - Contract price
  - Global Adjustment



# Evolution of LDC Corporate Structure

- **Pre 1999**

- » Hydro Electric Commissions

- Non-profit
- Non-taxed
- Asset ownership vested with customers

- **1999**

- » Electricity Act

- Assets vested with municipalities
- Created Ontario Business Corporation Act Company through Transfer By-Laws



# Transfer By-Laws

- **Transferred:**

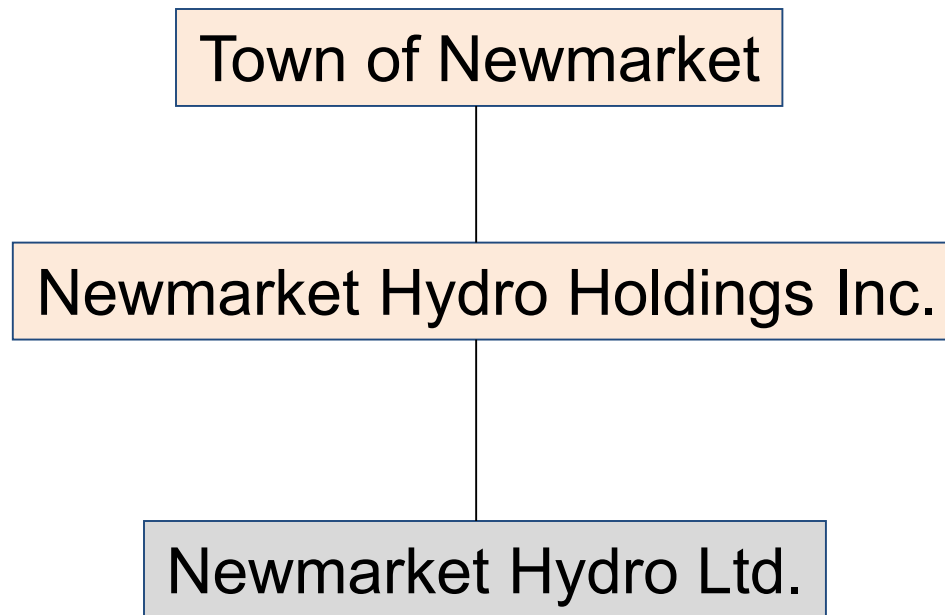
- » Distribution Assets
- » Employees
- » Liabilities

- **Consideration for Transfer**

- » Issuance of Shares (Equity)
- » Promissory Note (Debt)
- » Excluded Assets
  - Newmarket
    - 590 Steven Court, 500 Water St., 260 Eagle St.

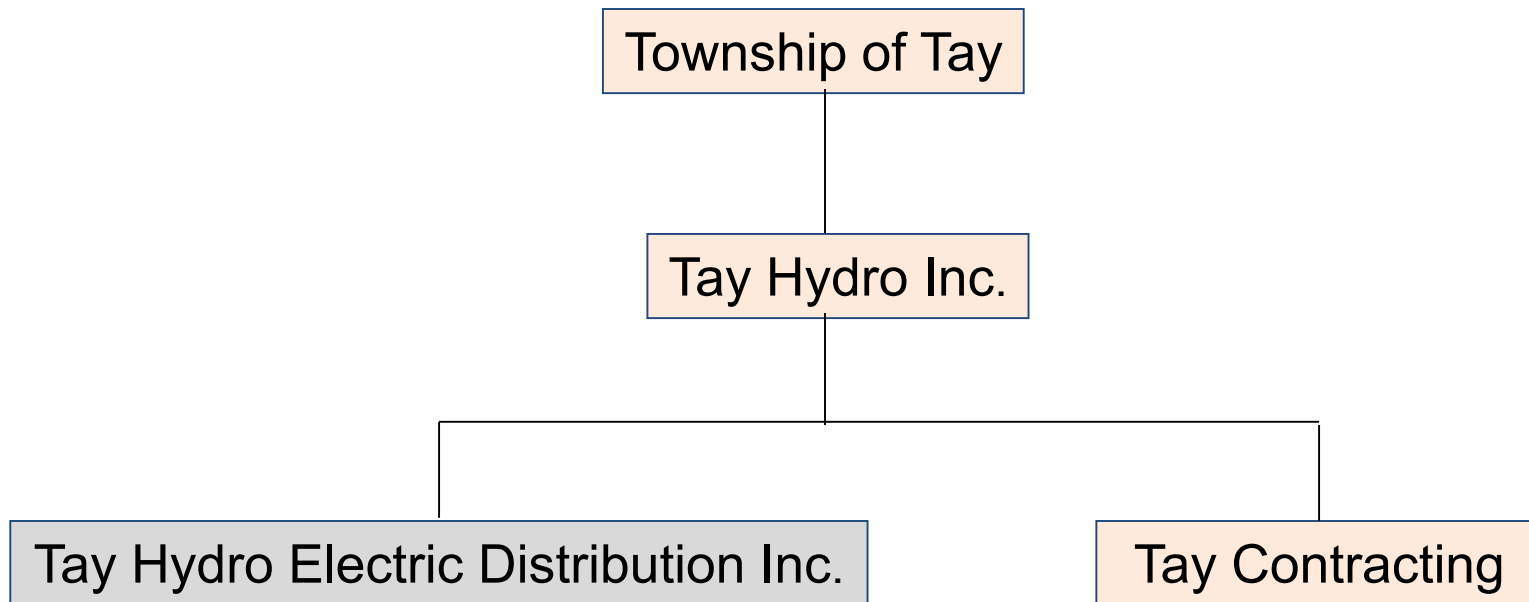
# Corporate Structure

## Pre-Merger Newmarket



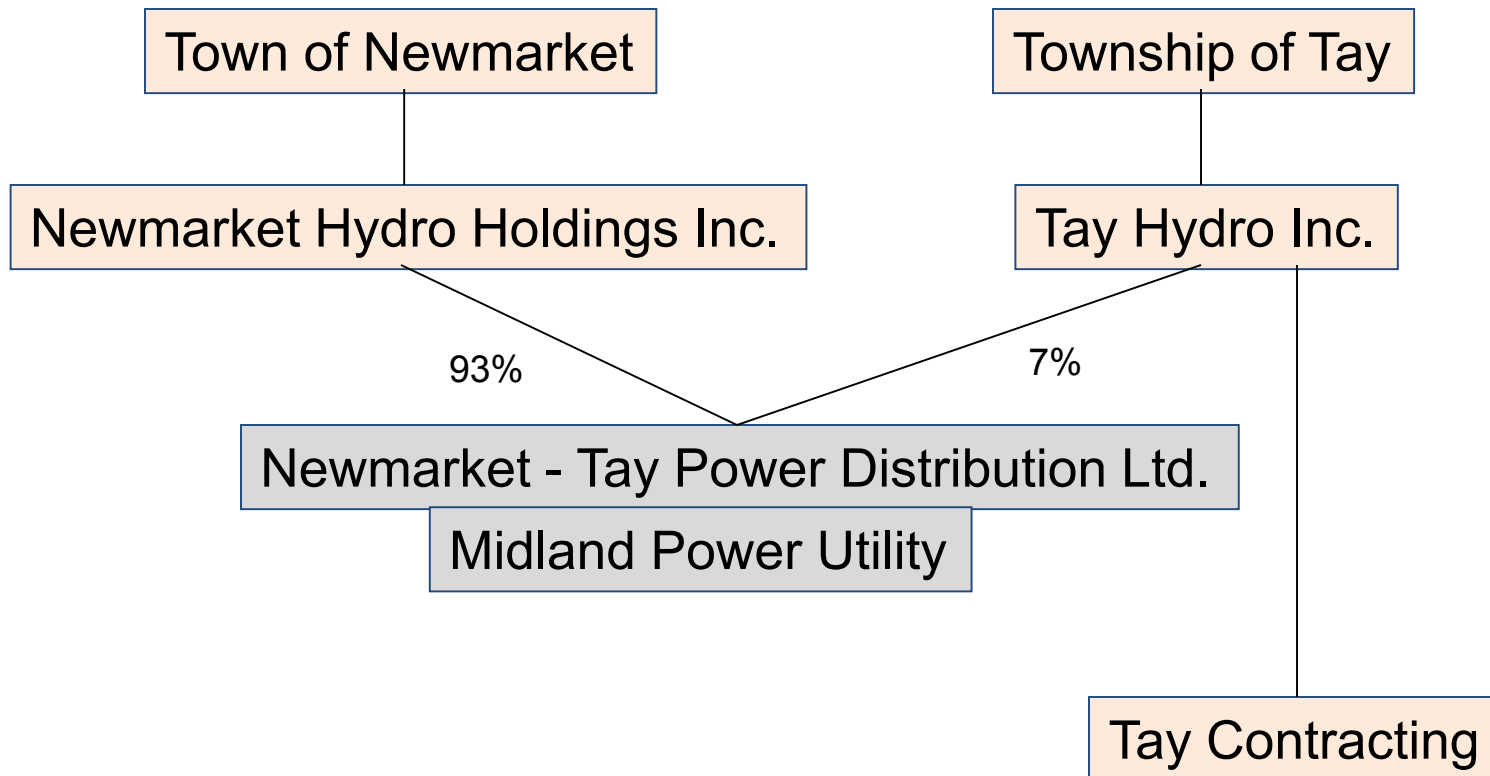
# Corporate Structure

## Pre-Merger Tay

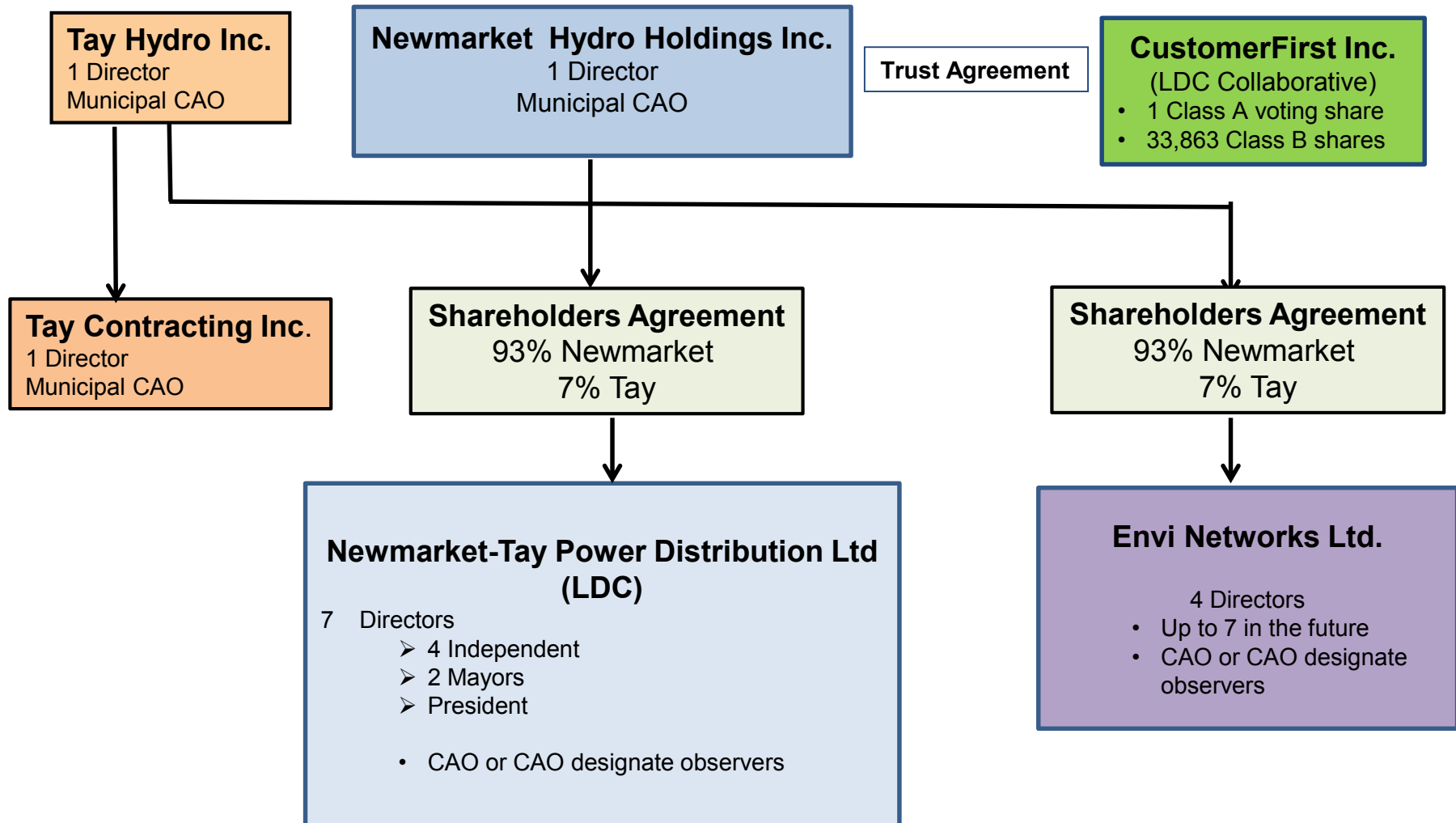


# Corporate Structure

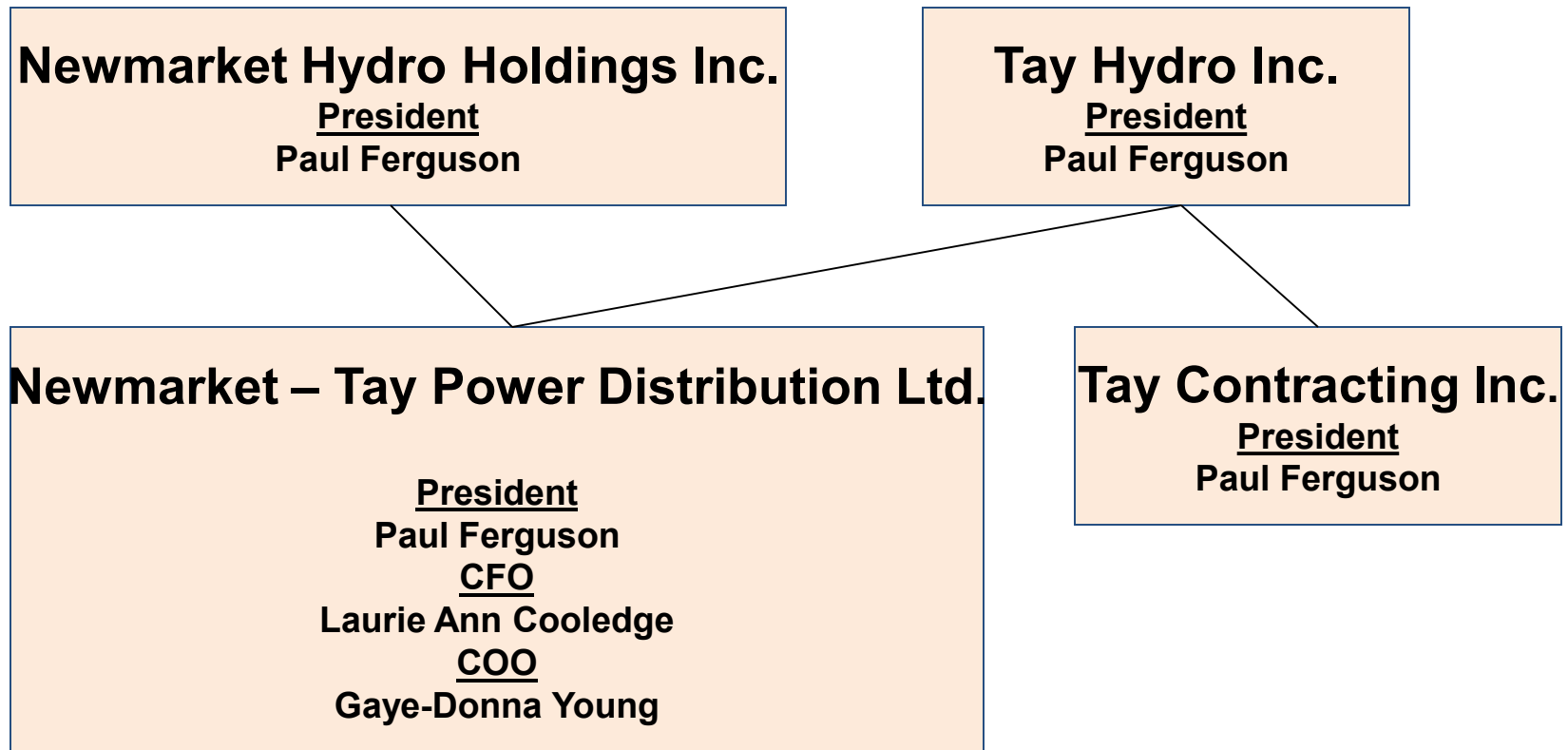
## Newmarket – Tay Power



# Corporate Structure Newmarket – Tay Group



# Newmarket – Tay Power Executive



# Newmarket – Tay Power Shareholders Agreement

- **Unanimous Agreement**

- » NHHI, THI are the shareholders of Newmarket – Tay Power
- » Unanimous article pierces through NHHI and THI, allowing for a direct relationship between Newmarket – Tay Power and the shareholding municipalities

# Shareholders Agreement

- i. Corporate structure**
- ii. Governance**
- iii. Objectives and Guiding principles**
- iv. Shareholder Approvals**
- v. Term of Agreement**
- vi. Dealing with Shares**
- vii. Participating Municipality Covenants**



# Governance

- **Seven Directors:**
  - **Three Stakeholder**
    - **Mayor of Tay**
    - **Mayor of Newmarket**
    - **President/CEO of LDC**
  - **Four Independent**
    - **No geographic restrictions**
  - **Chair is elected from the Independent Directors by the other Directors**

# Director Appointments

- » **For each director vacancy, the Board will retain a professional search firm to solicit candidates using best practices in corporate governance**
- » **Two candidates will be provided for each vacancy**
- » **Newmarket and Tay will strike an ad-hoc Joint Committee of Council to recommend final candidate(s) for appointment at the Annual General Meeting**

# Director Term

- **3 year term**
- **Eligible for 3 consecutive terms**
  - Maximum eligibility = 9 years

# Objectives and Guiding Principles

- **Business**

- Core business is distribution
- Business expansion only if related to Core and valid business case

- **For-Profit Corporation**

- Strive to earn regulatory return targets

- **Dividends and Capital Structure**

- Recognize the municipal nature of the Shareholders and use of funds received.
- Maximize dividends and interest payments

- **Shareholders**

- Fair treatment of both. Deliver high quality services to their constituencies

# Objectives and Guiding Principles

- **Customers**

- Focus of the Corporation

- **Employees**

- Fair and equitable treatment of all. Provide meaningful employment and develop a shared commitment to safety and productivity

- **Community**

- Good corporate citizen that is a part of the communities in which it operates

# Shareholder Approvals

- **Election of Directors**
- **Action leading to a material change in the business**
- **Wind up the business or a subsidiary**
- **Sale of Shares**
- **Amalgamation or merger**
- **Disposition of assets greater than 20%**
- **Change in issued capital**
- **Director remuneration**

# Shareholder Approvals

- **Appointment of Auditors**
- **Change in Articles or By-Laws of Incorporation**
- **Borrowing or issuing security**
- **Purchase of assets or business greater than 20%**
- **New businesses**

# Dealing With Shares

- **Right of First Refusal**
- **Mandatory Offer to Purchase**



# Dealing With Shares

## Right of First Refusal

- **Two Shareholders – ‘A’ and “B”**

- **Shareholder ‘A’ receives a *bona fide* offer to purchase their shares from a third party**
- **Shareholder “A” must first offer their shares to Shareholder “B” under the exact same terms and conditions as the third party offer**
- **Shareholder “B” may:**
  - **Purchase all shares; OR**
  - **Refuse to purchase, and allow the third party to become the other shareholder. The Shareholders Agreement remains unchanged**

# Dealing With Shares

## Mandatory Offer to Purchase

- **Two Shareholders – ‘A’ and “B”**

- **Shareholder ‘A’ receives a bona fide offer to purchase their shares from a third party**
- **Shareholder “A” must first offer their shares to Shareholder “B” under the exact same terms and conditions as the third party offer**
- **Shareholder “B” may:**
- **Require the third party to buy their shares as well under the exact same terms and conditions offered to Shareholder “A” (Piggyback on Shareholder “A’s” third party offer)**

# Municipality Covenants

- **Guarantee Holding Companies will observe requirements of Merged LDC Shareholders Agreement**
- **Cannot dispose of Holding Company without prior consent**
- **Equal knowledge and opportunity when redeeming debt**
- **Equal knowledge and opportunity for new business activities**

# Break!



# Finance and Governance



# Market Finance

- **LDC:**

- » Value based on “Rate Base”
- » Typically, utilities have two rate base values – “Approved” and “Actual”
- » Purchase offers are typically made on multiples of Actual rate base.
- » Multiples have ranged from 1.4X to 1.7X

# Regulatory Finance

- **LDC:**

- » Earns return on equity
- » Incurs debt
  - Tax efficiency
- » Pays taxes

# Regulatory Finance

- **Ontario Energy Board Ratemaking**

- » Approved Rate Base

- Average Assets + Working Capital Allowance

- » OEB Deemed debt/equity split

- 40% equity
- 56% long-term debt
- 4% short-term debt

- » OEB Deemed Cost of Capital

- Return on equity
- Short and Long Term Debt Rates
- Formulaic based on economic conditions



# Rate Setting Options

- Three options

1. Cost of Service (COS)

- Updates rate base and cost of capital values

- “Rebasing”
- Based on filing template

2. Custom COS – “Design it yourself”

3. Annual Incremental Rate Mechanism (IRM)

- Annual inflationary adjustment

- a. Price Cap IRM – If deferring a scheduled COS
- b. Annual Index IRM – no intent to file a COS in the near future

# Why Defer a COS? (Rebasing)

- **OEB Cost of Capital**

- » 2011

- ROE – 9.88%
    - Long Term Debt Rate – 5.48%

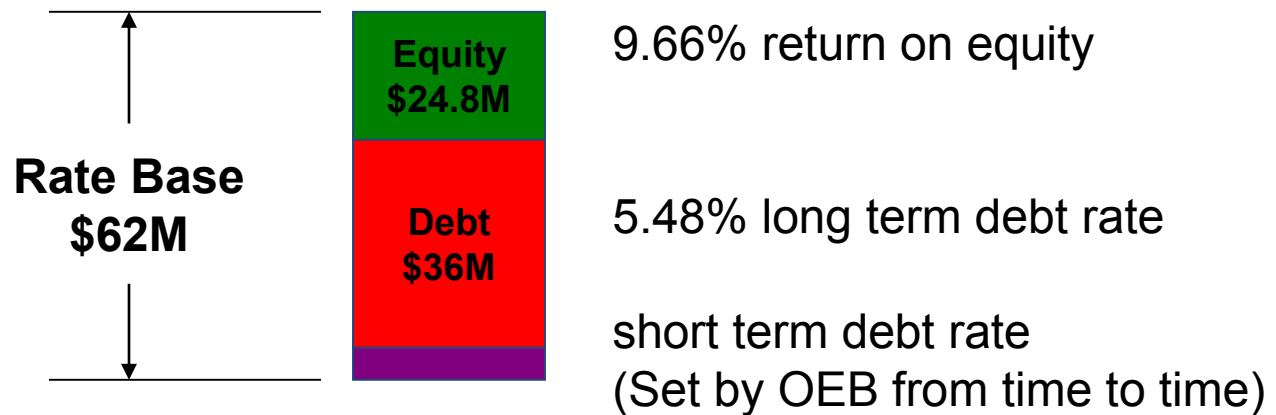
- » 2017

- ROE – 8.78%
    - Long Term Debt Rate – 3.72%

- **If the increase in Rate Base does not more than compensate for the reduction in Cost of Capital, most utilities will defer.**

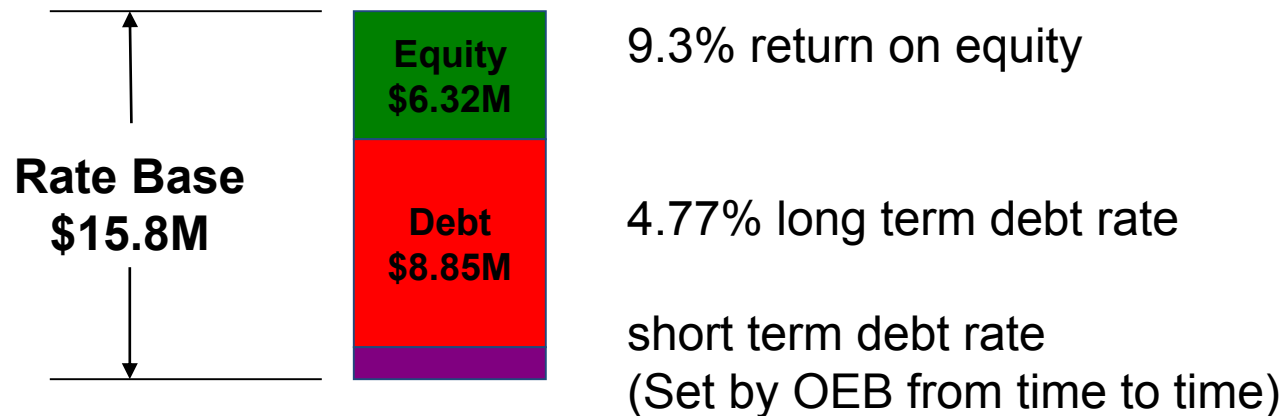
# Cost of Capital

## Newmarket – Tay Power 2011 COS Approved Rates



# Cost of Capital

## Midland Power Utility 2015 COS Approved Rates



# Distribution Rates

- **Recover:**

- » OM&A Expense
- » Depreciation
- » Property Taxes
- » Capital taxes
- » Income Taxes
- » Deemed Interest Expense
- » Deemed Return on Equity

# Shareholder Debt

- 1999 Restructuring
  - » OEB Deemed debt/equity ratio
    - 50/50
  - » Newmarket and Tay issued Promissory Notes to Shareholders
    - \$22 M Newmarket
    - \$1.7 M Tay
  - » Ontario Regulation 438/97 prohibits any increase in these amounts

# Shareholder Payments

- Interest on Promissory Notes at OEB deemed long-term interest rate
- Rent as applicable
- Dividend Policy
  - » 60% of return on equity
  - » 40% retained for investment in rate base

# Dividend Projection

## Newmarket Shareholder

NT Power Payment Projection Newmarket Shareholder 93% Shareholding, \$22M P Note Debt/Equity = 60/40					
	OEB Income (%)	2015	2016	2017	2018
<b>Dividend</b>	9.66	\$1,336,000	\$1,336,000	\$1,336,000	1,336,000
<b>Other Dividend</b>		0	0	0	\$1,506,600 <sup>[2]</sup>
<b>P Note Interest</b>	5.48	\$1,205,600	\$1,205,600	1,205,600	1,205,600
<b>Other<sup>[1]</sup></b>		\$270,000	\$270,000	270,000	270,000
<b>Total</b>		<b>2,811,600</b>	<b>\$2,811,600</b>	<b>\$2,811,600</b>	<b>\$4,318,200</b>

<sup>[1]</sup> Rent on Steven Court facility

<sup>[2]</sup> Investment in Envi Networks



# Newmarket – Tay Power Generating Shareholder Value

- Rate Base

- » Post Merger (2007)

- Newmarket     \$50 M
    - Tay               \$2 M
    - Total             \$52 M

- » 2011 – Approved Rate Base

- Total             \$62 M

- » 2017 – Actual Rate Base

- Newmarket – Tay     \$74M
    - Midland                 \$15.8M
    - Total                     \$89.8M

# Newmarket – Tay Power Creating Customer Value

- Northern York Region Supply
  - » Integrated Holland TS with Hydro One
    - Newmarket supply secure
- Smart Meters
  - » First to respond to Provincial Regulation
- Customer Satisfaction
  - » Highest overall rating

# Current Industry Initiatives



# “Conservation First” Framework

- Directive from Minister of Energy
- Conservation to be considered first ahead of new supply facilities
- Requirements
  - » Regional Supply Planning
  - » Municipal Energy Plans
  - » LDC Conservation Plans
    - Stand-alone
    - Co-operative
    - “Mid – Term” and “Final” Incentive Payments for achievement of targets

# Collaborative Opportunity

- **Joint Conservation Plan**
  - » Greater Sudbury Utilities
  - » North Bay Hydro
  - » PUC Distribution (Sault Ste. Marie)
  - » Northern Ontario Wires (Cochrane)
  - » Newmarket - Tay

# Collaborative Status

- Initial business is LDC support for the new Conservation First Framework
- CustomerFirst Inc.
  - » Incorporated in November, 2014
  - » Performance
    - Joint Plan Exceeded Mid – Term target by 14%
    - Projecting to exceed Final target by 20%
    - Cost effectiveness of \$0.21 per kWh compared to target of \$0.24 per kWh

# OEB Initiatives

- **Governance guidelines**
- **Cyber Security guidelines**
- **Fully fixed rate for distribution charge**
  - » Removes any disincentive for conservation

# IESO Initiatives

- **Market Renewal**
- **Conservation Post 2020**
  - » With Ministry of Energy



# Conservation Post 2020



# Annual General Meeting



# 2017 Annual General Meeting Agenda – February 4, 2019

- 2017 AGM deferred due to Municipal elections
- Two Companies
  - » Newmarket Hydro Holdings Inc.
  - » Newmarket –Tay Power Distribution Ltd.
- Newmarket – Tay Power Distribution business conducted through written resolutions for:
  - » Approval of Financial Statements
  - » Appointment of Auditors
  - » Appointment of Directors
  - » Direction to legal representative(s) to sign resolutions

# AGM Business - NTPDL

- Acceptance of Financial Statements
- Appointment of Auditors
  - » Collins Barrow
- Appointment of Directors
  - » 2018 Board of Directors
    - Mayor of Tay Township
    - Mayor of Newmarket
    - Independent Director Dave Charleson
    - Independent Director Robert Betts
    - Independent Director Cristine Prattas
    - One New Independent Director
    - Newmarket – Tay President Paul Ferguson

# AGM Business – NTPDL

- Director Changes:
  - » Phil Daniels has completed his eligible terms
  - » Newmarket – Tay President to be replaced with a fifth independent Director at the June AGM
- One vacancy to be filled at the 2017 AGM in February, 2019
  - » Newmarket – Tay Board retained Boydens to solicit candidates
  - » Two candidates have been identified for consideration by the ad-hoc Joint Committee of Council
  - » Newmarket – Tay President will request the Newmarket Council Committee members be identified at the December 17 Council Meeting
    - Three to be identified
    - Two Councillors to serve on the Committee
    - One Councillor to serve as Committee Chair

# AGM Business -- NTHHI

- Acceptance of Financial Statements
- Appointment of Auditors
  - » Collins Barrow
- Appointment of Director
  - » Municipal CAO
- Directions
  - » Direction to Mayor as legal representative of Newmarket Hydro Holdings Inc. to sign shareholder resolutions
  - » Mayor directs Newmarket Hydro Holdings Inc. director to sign Newmarket – Tay Power Distribution Ltd. shareholder resolutions

# Other AGM Business

- Amendment to Newmarket – Tay Shareholders Agreement
  - » Allow for Mayors to appoint a designate
- Special Shareholder Resolution for Envi Networks Ltd.
  - » Appointment of inaugural board
    - Jill Schatz
    - Ian Collins
    - Tony VanBynen
    - One Newmarket Councillor

# Envi Networks Ltd





## Our Vision

**An independent, values-based, Broadband Networks Company enabling our customers' and communities' changing needs.**

## Our Mission

**Lead ultra-highspeed, value-added broadband services in the communities we serve, earning the trust and loyalty of our customers, community stakeholders and partners.**

## Core Values

**We create social and economic value for our communities. We demonstrate the following values in everything we do:**

- **Customer-focus** – collaborating with customers to be responsive to their evolving needs.
- **Community-based** – providing the network to support community priorities and economic growth.
- **Relevant Service** -- providing our customers with Smart, reliable, cost-effective services.
- **Sustainable Growth** – innovating with and through partners.

## Strategic Imperatives

1. **Build a self-sustaining broadband company**
2. **Partner with customers, communities and stakeholders to create the future**
3. **Advance innovative and evolving technologies**
4. **Deliver strategic growth within the broadband business**

## Key Objectives

<b>Build a Strong, Customer-focused Team</b>	<b>Anticipate Customer Needs; Deliver Smart Services</b>	<b>Differentiate through Targeted Marketing &amp; Communications</b>	<b>Design, Build and Manage Operations that Scale</b>	<b>Build and Run a Self-Sustaining Broadband Company</b>
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