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**Newmarket-Tay Power Distribution Ltd.**

February 18, 2015

**Newmarket – Tay Power Distribution Ltd.  
Report of the President**

TO: Town of Newmarket Committee of the Whole

SUBJECT: Succession Planning for Director Appointments

ORIGIN: President, Newmarket – Tay Power Distribution Ltd.

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**RECOMMENDATIONS:**

**THAT the Newmarket – Tay Power Distribution Ltd. ( the “Corporation”) Report of the President dated February 18, 2015 regarding succession planning for director appointments be received and the following resolutions be adopted:**

**WHEREAS in keeping with good governance practice, the Shareholders desire to maintain a board of directors that has the ability and experience to exercise the care, diligence and skill to act in the best interests of the Corporation;**

**AND WHEREAS a staggered change in directors giving new appointees time to gain experience and knowledge in the affairs of the Corporation while maintaining a majority of experienced directors that ensures overall board of director competence is a critical component of good governance;**

**AND WHEREAS Non-Municipal Appointees A. Ott and P. Daniels will have been elected directors of the Corporation for three consecutive terms of three years as of the date of the 2015 annual general meeting and would otherwise not be eligible for election;**

**AND WHEREAS the loss of directors A. Ott and P. Daniels at the same time would cause a change of 50 percent in the Non-Municipal Appointees to the board of directors;**

**NOW THEREFORE BE IT RESOLVED by the Municipal Council of the Corporation of the Town of Newmarket as follows:**

Succession Planning for Director Appointments

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- 1. THAT Article 3, Section 3.03, Paragraph (3) of the Shareholders Agreement between Tay Hydro Inc., Newmarket Hydro Holdings Inc., Newmarket – Tay Power Distribution Ltd., the Corporation of the Township of Tay and the Corporation of the Town of Newmarket which states “Elected directors shall be elected for a three (3) year term. All elected directors shall be eligible for election for a total of three (3) consecutive terms.” be waived for the election of two Non-Municipal Appointees at the 2015 annual general meeting of Newmarket –Tay Power Distribution Ltd.;**
- 2. AND THAT A. Ott be elected to a one year term**
- 3. AND THAT P. Daniels be elected to a two year term**

Background:

The board of directors of the Corporation (the “Board”) consists of seven directors, four of whom are Non-Municipal Appointee (or “Independent”) directors. The other three directors are the Mayor of Newmarket, the Mayor of Tay and the president of the corporation.

Article 3.03(3) of the Shareholders Agreement states “Elected directors shall be elected for a three (3) year term. All elected directors shall be eligible for election for a total of three (3) consecutive terms.” As the appointment of the Mayors and the president are de facto, this restriction on the eligibility of directors to serve only applies to the Independent directors.

At the time of the merger between Newmarket Hydro and Tay Hydro, the four Independent directors were elected at the same time. This meant their eligibility to serve would also end at the same time. Since then some Independent directors have resigned at various times for career and personal reasons. This natural attrition has created some staggering in appointments.

The Independent directors play a significant role in the ability of the Board to perform its duties. Their perceived and real non-partisan exercise of skill and diligence provides well considered and diligent guidance in the affairs of the Corporation. The Ontario Energy Board recognizes this and requires that the board of directors of electricity distribution companies be composed of a majority of independent directors. It is essential to ensure new appointments of Independent directors be done in a manner that protects the competency of this segment of the Board’s membership. Staggered appointments, giving new appointees time to gain knowledge and experience while maintaining a core of experienced directors accomplishes this.

**Succession Planning for Director Appointments**

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The Governance and Compensation Committee of the Board (the “Committee”) has been engaged in succession planning for the Independent directors and monitoring director terms since the merger with a view to maintaining a staggering of appointments for the Independent directors as well as planning orientation and ongoing training for all directors. Through this process, the Committee has identified that, at the 2015 annual general meeting, two Independent directors, A. Ott and P. Daniels will not be eligible for further service. The result is “bow wave” of appointments representing a change in of 50 percent in the Independent directors at the same time. This “bow-wave” of appointments will affect the ability of the Independent directors to fulfill their role.

The Committee has reviewed the current appointment schedule, and has determined that, should the two Independent directors whose eligibility ends at the 2015 annual general meeting be re-appointed one time for a term of one and two years respectively, then the “bow wave” in appointment of Independent directors is avoided and does not recur in the future. A director search will also be initiated with a view of having two nominees available to replace director Ott at the 2016 annual general meeting and director Daniels at the 2017 annual general meeting. As two directors are being sought, a professional recruiting firm will be retained in accordance with article 3.03(1) of the Shareholders Agreement.

At its meeting of February 17, 2015, the Board received a report from the Committee that recommended requesting the Shareholders approve the resolutions contained in this report. The Board, with directors Ott and Daniels abstaining, approved the recommendation.

Yours truly,

A handwritten signature in blue ink, appearing to read 'P.D. Ferguson', is written over a horizontal line.

P.D. Ferguson, P.Eng.  
President  
Newmarket – Tay Power Distribution Ltd.