
TO: GENERAL COMMITTEE

SUBJECT: BARRIE HYDRO HOLDINGS INC. ANNUAL GENERAL MEETING MATTERS

PREPARED BY AND KEY CONTACT: D. MCALPINE, GENERAL MANAGER OF COMMUNITY AND CORPORATE SERVICES, EXT. 4421 AND L. JERMEY, SUPERVISOR, FINANCIAL REPORTING AND POLICY, EXT. 4530

SUBMITTED BY: D. MCALPINE, GENERAL MANAGER OF COMMUNITY AND CORPORATE SERVICES AND C. MILLAR, TREASURER/DIRECTOR OF FINANCE

GENERAL MANAGER APPROVAL: D. MCALPINE, GENERAL MANAGER OF COMMUNITY AND CORPORATE SERVICES

CHIEF ADMINISTRATIVE OFFICER APPROVAL: M. PROWSE, CHIEF ADMINISTRATIVE OFFICER

RECOMMENDED MOTION

1. That, acting as sole shareholder in Barrie Hydro Holdings Inc. (BHHI), the following actions be authorized:
 - a) The minutes of the BHHI Shareholder's Meeting held on September 25, 2017, attached as Appendix "A" to Staff Report CCS003-18, be approved;
 - b) The non-consolidated financial statements of BHHI attached as Appendix "B" to Staff Report CCS003-18 for the financial year ended December 31, 2017, be accepted; and
 - c) The City of Barrie's auditor (Deloitte) be reconfirmed as Accountants for BHHI, to compile the annual Non-consolidated financial statements through a Notice to reader engagement, with remuneration to be fixed by the Directors through the City's agreement with its auditor (Deloitte).
2. That BHHI's dividend policy be updated as follows:
 - a) A minimum cash balance of \$100K be maintained in BHHI bank account;
 - b) On a quarterly basis or after receipt of cash payments from Alectra, BHHI declare a dividend and allocate net proceeds to the City of Barrie;
 - c) For the next 10 years (ending December 2018), a total of \$650K of the annual BHHI dividend should be allocated to the City of Barrie's working capital, to repay the \$6.5 million equity injection; and
 - d) The remaining annual BHHI dividend should be allocated 80% to the Community Benefit Reserve and 20% to the Tax Capital Reserve.
3. That the Mayor and City Clerk be authorized to execute the Alectra Inc. Shareholders' Amending Agreement No. 1 on behalf of The Corporation of the City of Barrie.

PURPOSE & BACKGROUND

4. In February, 1999, City Council directed that the City of Barrie retain ownership of the assets of the Barrie Public Utilities Commission and incorporate a Holding Company and other Affiliate corporations under the Ontario Business Corporations Act to operate Barrie's electrical distribution corporation (the Corporation) for the benefit of the citizens of Barrie.
5. In October, 2000, City Council directed, through Resolution 00-G-291, the establishment of a Holding Company and its related subsidiaries in accordance with the requirements of The Electricity Act, 1998. The Holding Company was named "Barrie Hydro Holdings Inc." and the subsidiaries were named "Barrie Hydro Distribution Inc." and "Barrie Hydro Energy Services Inc."
6. Barrie Hydro Distribution Inc. (BHDI) was merged with PowerStream Inc. effective January 1, 2009.
7. On January 31, 2017, PowerStream Inc. merged with Enersource and Horizon Utilities to create Alectra Inc. On February 28, 2017, Alectra acquired Hydro One Brampton.
8. Alectra Inc., through its subsidiary Alectra Utilities Corporation, serves approximately one million homes and businesses in the Greater Golden Horseshoe Area. Efficiencies expected over time will result in reducing pressure on customer distribution rates, improved customer service and system reliability and more robust emergency response capabilities for inclement weather.

ANALYSIS

Financial Statements

9. In accordance with section 2.04 of the Shareholders Agreement, the non-consolidated financial statements of Barrie Hydro Holdings Inc. (BHHI) have been submitted for acceptance by the shareholder (See Appendix "B" attached).
10. As per the Non-consolidated Statement of Operating and Retained Earnings (Deficit), the net income of BHHI for the year ending December 31, 2017 was \$49,589,560. The accumulated surplus at year end was \$79,426,862, which is an improvement from an accumulated surplus of \$29,837,302 at December 31, 2016.
11. As a result of the amalgamation to create Alectra Inc ("Alectra"), BHHI control has been reduced. Instead of owning 20.5% of PowerStream, BHHI now owns 8.78% of Alectra. The change in the level of control has resulted in a change in the way the investment is classified on the financial statements. For accounting purposes and as a result of the merger, BHHI is reporting a gain of \$50.6 million (net of tax) in the 2017 financial statements.

Re-confirming the Appointment of Accountants

12. Additionally, the Board of Directors recommends that the City of Barrie's auditors (Deloitte) be re-confirmed as Accountants for BHHI and Barrie Hydro Energy Services Inc. Deloitte was the successful respondent to the City of Barrie's Request for Proposals from auditing firms, for the 2017 to 2019 years with an option for an additional two years. Utilizing the City's auditor as the accountants on behalf of BHHI and BHESI results in economic savings to the shareholder. The statement of work in the City of Barrie's Request for Proposals for auditing services, included the Notice to Reader Engagement for the annual Non-consolidated financial statements of Barrie Hydro Holdings Inc.
13. The Shareholder is being asked to reconfirm the previous motion concerning the appointment of the Accountant of the Corporation and its subsidiaries as provided in section 2.06 of the Shareholders Agreement. The engagement of the Accountant is to complete a Notice to Review by compiling the annual non-consolidated financial statements.

Alectra Inc. Shareholders' Amending Agreement No. 1

14. The Board of Directors of Alectra Inc. are requesting minor amendments to Alectra's Unanimous Shareholders' Agreement. The amendments would:
 - a) Change the time for providing quarterly reports to the Shareholders from 45 days to 60 days after the end of the first three fiscal quarters of each Fiscal Year;
 - b) Clarify that the requirement for Shareholders holding at least 66.66% of the issued and outstanding voting shares to approve transactions related to shares and other security (ies), applies to equity security(ies) only; and
 - c) Clarifying that the requirement to give notice to the Shareholders each time an offering of Voting Shares or other securities, applies to other equity security(ies) only.
15. The existing 45 day timeline for providing quarterly reports to the Shareholder has been challenging for Alectra and does not conform to normal practice of 60 days.
16. The existing language related to the requirements to give notice and approval of transactions related to shares and other securities, is unintentionally restrictive. The original intent of the provisions in the Unanimous Shareholders' Agreement were intended to require notice and approval by Shareholders for the issuing of additional equity securities and not for issuing securities for debt.
17. As the amendments are minor and in keeping with the original intent of the agreement, it is recommended that the Mayor and City Clerk be authorized to execute the Alectra Inc. Shareholders' Amending Agreement No. 1 on behalf of the City of Barrie, as a principal to the agreement.

ENVIRONMENTAL MATTERS

18. There are no environmental matters related to the recommendation.

ALTERNATIVES

19. The non-consolidated financial statements of Barrie Hydro Holdings Inc. have been compiled by the Corporate Treasurer and reviewed by Deloitte. Acceptance by the Shareholder is required under the Shareholders Agreement, and as a result, no other alternatives are presented with respect to the financial statements.
20. The following alternative is available to the Shareholder in regard to the re-confirmation of the appointment of the accountants:

Alternative #1 The Shareholder could recommend that the accountant not be reconfirmed.

A three year agreement with Deloitte with options for an additional two year term was executed by the City of Barrie in 2017. There are cost savings associated with a single accounting/auditing firm on behalf of each organization.

21. The following alternative is available to the Shareholder in regard to the proposed amendment to the Alectra Inc. Unanimous Shareholders' Agreement:

Alternative #1 The Shareholder could recommend that the amending agreement not be executed.

This alternative is not recommended as the amendments are minor and in keeping with the original intent of the Agreement. As a principal to the Unanimous Shareholders' Agreement for Alectra Inc., the City of Barrie is required to execute any amendments to the Agreement.

FINANCIAL

22. Barrie Hydro's dividend policy prior to the merger with PowerStream Inc. established a distribution of 30% of its net income after taxes to its Shareholder. However, a dividend declaration and related payment by Barrie Hydro Holdings Inc. to its Shareholder has been suspended until its commitment to fund its share of PowerStream equity drawdown requests have been completed. It should be noted that it has been Barrie Hydro's intent to pay the City back for the additional \$6.5M loan-turned-investment. Payment of dividends by Barrie Hydro to its Shareholder (the City of Barrie) is also limited by the amount of cash available after any other commitments or payments (loan payments and interest related to Hydro One Brampton acquisition, taxes, etc).
23. The City of Barrie's Financial Policy framework includes a provision that BHHI annual dividend to the City be allocated 80% to the Community Benefit Reserve and 20% to the Tax Capital Reserve. As Alectra is paying dividends to BHHI quarterly, it is recommend that BHHI dividend policy be updated as Follows:
- a) A minimum cash balance of \$100K be maintained in BHHI bank account;
 - b) On a quarterly basis or after receipt of cash payments form Alectra, BHHI declare a dividend and allocate net proceeds (Cash payment from Alectra less cost for loan payments and other expenses, less minimum cash balance of \$100K) to the City of Barrie;
 - c) For the next 10 years (ending December 2018), a total of \$650K of the annual BHHI dividend should be allocated to the City of Barrie's working Capital, to repay the \$6.5 million equity injection.
 - d) The remaining annual BHHI dividend should be allocated 80% to the Community Benefit Reserve and 20% to the Tax Capital Reserve.
24. By declaring and allocating dividends quarterly, will allow the transfer of any excess cash over to the City of Barrie, where the funds will be more efficiently utilized through investments or working capital needs.

LINKAGE TO 2014-2018 STRATEGIC PLAN

25. The recommendations included in this Staff Report are not specifically related to the goals contained in 2014-2018 Strategic Plan.

APPENDIX "A"

Minutes of the BHHI Shareholder's Meeting held on September 25, 2017



Shareholder's Meeting
Monday, September 25, 2017
Sir Robert Barrie Room, City Hall, 70 Collier Street, Barrie

Minutes of the Annual Shareholder's Meeting of Barrie Hydro Holdings Inc. with its sole Shareholder, The Corporation of the City of Barrie, held at 70 Collier Street, Barrie, Ontario on Monday, September 25, 2017 in the Sir Robert Barrie Room.

The General Committee Meeting of Council held at 70 Collier Street, Barrie, Ontario on Monday, September 25, 2017 in the Sir Robert Barrie Room was called to order by Mayor Jeff Lehman at 5:45 p.m.

Barrie Hydro Holdings Inc. Chairman Jeff Lehman called the meeting to order at 5:45 p.m. He welcomed Council and staff to the Barrie Hydro Holdings Inc. Shareholder's meeting. The following were recorded as being present:

Barrie Hydro Holdings Inc.:

Board of Directors: Chairman, Jeff Lehman.

Barrie Hydro Staff: President/ Chief Executive Officer, M. Prowse
Legal Counsel, I. Peters
Treasurer, L. Jermey
Corporate Secretary, D. McAlpine.

Barrie Hydro Holdings Inc. Shareholder, The Corporation of the City of Barrie:

Council: Mayor, J. Lehman
Councillor, B. Ainsworth
Councillor, R. Romita
Councillor, B. Ward
Councillor, S. Trotter
Councillor, A. Khan
Councillor, S. Morales.

City of Barrie Staff: Chief Administrative Officer, M. Prowse
City Clerk/Director of Legislative and Court Services, D. McAlpine
Director of Corporate Facilities, R. Pews
Director of Legal Services, I. Peters
Director of Finance/Treasurer, C. Millar
Manager of Accounting, L. Jermey.

A quorum being present and due notice of the meeting having been given, the Chair declared the meeting to be regularly constituted for the transaction of business. No declarations of conflict of interest were made.

Business

It was noted that the meeting was being held in accordance with *The Business Corporations Act*.

Authorization to the Corporate Secretary – Standard BHHI Shareholder resolutions

BHHI-2017-S-03 MOVED BY: Councillor, B. Ainsworth
SECONDED BY: Councillor, B. Ward

Resolved, that The Corporation of the City of Barrie acting as sole Shareholder of Barrie Hydro Holdings Inc. authorizes the Corporate Secretary to sign standard Barrie Hydro Holdings Inc. shareholders resolutions with respect to:

- a) Adoption of the Minutes of the previous Barrie Hydro Holdings Inc. Shareholder Meeting held on January 9, 2017;
- b) Receipt of the Non-consolidated Financial Statements of Barrie Hydro Holdings Inc. for the financial year ended December 31, 2016;
- c) Appointment of the City of Barrie's auditor (Deloitte) as Accountants for Barrie Hydro Holdings Inc. for the next three years, to compile the annual Non-consolidated financial statements through a Notice to reader engagement, with remuneration to be fixed by the Directors through the City's agreement with its auditor (Deloitte); and
- d) Approval, sanctioning and confirmation of all acts, contracts, by-laws, proceedings, appointments, elections and payments enacted, made, done and taken by the Directors and Officers as the same as are set out or referred to in the minutes of the meeting or in the financial statements.

CARRIED

Appointment of Director

BHHI-2017-S-04 MOVED BY: Councillor, B. Ainsworth
SECONDED BY: Councillor, B. Ward

That Councillor S. Trotter be appointed to the Board of Directors of Barrie Hydro Holdings Inc. for a term of office to expire on November 30, 2018.

CARRIED

APPENDIX "B"

Financial Statements for the year ended December 31, 2017