

1 - Assessment Note - ENERGY - Electricity Sector Engagement with Unions.pdf



TAB 19
TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	January 26, 2015
Agenda Class:	Major Item
Last reviewed by: N/A	Tracking to: Fast Track Cabinet (January 28, 2015)

SUBMISSION TITLE: Electricity Sector Engagement with Unions

I. DECISION BEFORE THE BOARD

- Approve the Ministry's proposed bargaining mandates for various electricity sector entities, as outlined in Appendix A.

II. RECOMMENDATIONS:

• Approve bargaining mandates to negotiate new collective agreements in the electricity sector. (Multi-year agreements, total labour costs to be net zero over the term of an agreement, enable restructuring activities in the sector, move towards equal pension contribution cost sharing between the employer and employees).	<i>Approve</i>
• Direct the Ministry to return to Treasury Board/Management Board of Cabinet (TB/MBC) to seek approval of tentative collective agreements, prior to final ratification by the board of each entity.	<i>Direct</i>

III. FINANCIAL SUMMARY – NOT APPLICABLE

\$ Millions	2014-15	2015-16	2016-17
Initiative cost requested	0	0	0
Initiative cost recommended	0	0	0
Recommended program base – Both are consolidated agencies	-	-	-
Offset Recommended (Specify Ministry/Program)	0	0	0
Total Fiscal Impact	0	0	0

IV. KEY COMMENTS AND CONSIDERATIONS

Electricity sector entities, including Hydro One, Ontario Power Generation (OPG), and the Independent Electricity System Operator (IESO), who are all successors to the former Ontario Hydro, will be engaging with the Power Workers' Union (PWU) and the Society of Energy Professionals (Society) on the renewal of their collective agreements in 2015. See Appendix C for expiring collective agreements.

The Ministry, in concert with Treasury Board Secretariat and the Premier's Advisory Council on Government Assets has worked with the entities in developing their respective negotiating mandates. The Ministry is now seeking approval of the proposed mandates for Hydro One, Ontario Power Generation, and Independent Electricity System Operator from Treasury Board/Management Board of Cabinet (TB/MBC).

IV. KEY COMMENTS AND CONSIDERATIONS (CONTINUED ...)

Government Direction on Bargaining Mandates & Other Considerations

Relevant parameters for the electricity sector include:

- Multi-year agreements (2-4 years)
- Net zero labour compensation cost over the term of collective agreements.
- Compensation elements can be bargained.
- Any costs in a given year in excess of net zero can be offset over the term of the agreement.
- Increases in pension contributions by employees should not be considered as offsets against net zero total labour compensation costs.

For the electricity sector, parameters should also reflect moving toward the implementation of the Leech Report on Sustainability of Electricity Sector Pension Plans on an agreed timeline, and, where relevant, enable restructuring activities recommended by the Premier's Advisory Council on Government Assets, and approved by government.

Additional bargaining considerations include:

- Reductions in, for example, benefit costs.
- Other elements in bargaining, in addition to meeting the parameters above, that could be considered as concessions to reach an agreement.

Assessment of Ministry of Energy's Proposed Bargaining Mandates

Appendix D includes Energy's proposed mandates for Hydro One, OPG, and the IESO. The mandates for Hydro One, OPG, and IESO are essentially the same. Appendix E provides further background and other considerations.

Overall, the Ministry's requested mandates align with government direction on bargaining mandates, consistent with the 2014 Budget, and address key goals such as net zero total labour compensation over the term of an agreement, improving the sustainability and affordability of pension plans (moving towards equal cost sharing), and also includes, for Hydro One and OPG, language enabling restructuring activities recommended by the Premier's Advisory Council on Government Assets.

Preliminary Timeline

The Ministry indicates that before three collective agreements expire on March 31, 2015, a facilitator would be expected to lead discussions between employers and unions (January/February 2015) (See Appendix E for more on the Facilitator). The Ministry may provide an interim update to TB/MBC in Spring 2015.

Risks

The Ministry's proposed bargaining mandates do not require net-zero outcomes in each fiscal year. This may create pressures (or savings) in a given fiscal year, absent other offsets that may impact ratepayers.

There is potential for labour disruptions (strikes, work-to-rule, etc.) within the electricity sector, which could have significant impacts on, for example, electricity generation and transmission assets. It would be prudent to have the Ministry report-in to the Treasury Board Sub-Committee on Public Sector Bargaining and Compensation outlining contingency planning and the Ministry's efforts to work with companies to ensure contingency plans are plausible and well understood.

Name of analyst:	James Strang	Phone number:	7-2071
Date:	January 22, 2015	Log number:	
Branch / Division:	General Government, Planning and Resources Branch, PEM, TBS		

APPENDIX A: PROPOSED MINUTE

Approve the Ministry of Energy's proposed bargaining mandates for electricity sector bargaining that includes the following parameters:

- i. Multiple year agreements (2-4 years).
- ii. Net zero total labour compensation cost increases over the term of collective agreements.
- iii. Where relevant, enable restructuring activities recommended by the Premier's Advisory Council on Government Assets, and approved by government.
- iv. Pension contributions to achieve equal cost sharing between employer and employee contributions on an agreed timeline.
- v. Increases in pension contributions should not be considered as offsets towards achieving net zero total labour compensation costs.

Note additional bargaining considerations to include:

- i. Reductions in, for example, benefit costs.
- ii. Other elements in bargaining, in addition to meeting the parameters above, that could be considered as concessions to reach an agreement.

Direct the Ministry to:

- i. Report back to Treasury Board Sub-Committee on Public Sector Bargaining and Compensation on progress of electricity sector bargaining, and also outline the Ministry's efforts to work with the entities on contingency planning in the event of any labour disruption and demonstrate that plans are well understood.
- ii. Return to Treasury Board/Management Board of Cabinet (TB/MBC) to seek approval of tentative collective agreements, prior to final ratification by the board of each entity.
- iii. Work with Cabinet Office and Premier's Office to develop communications strategy for the upcoming round of collective bargaining.
- iv. Report back to TB/MBC if the bargaining mandates cannot be met and/or a strike/lockout becomes probable.

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE – NOT APPLICABLE				TABLE B1
				Appropriations Basis
Fiscal Plan Basis				
\$ Millions	2013-14	2014-15	2015-16	2013-14
Initiative cost recommended	0.0000	0.0000	0.0000	
<i>Expense changes:</i>				
Operating item	Oper	0.0000	0.0000	0.0000
Total Fiscal Impact (draw from c-funds)	0.0000	0.0000	0.0000	0.0000

APPENDIX C: EXPIRING COLLECTIVE AGREEMENTS

The following table shows when current collective agreements expire.

PWU		Society
OPG	March 31, 2015	December 31, 2015
Hydro One	March 31, 2015	March 31, 2016
IESO	March 31, 2017	April 30, 2015

Employer (Bargaining Unit Description)	Union	Number of Employees	Current Effective	Current Expiry
HYDRO ONE INC (MAINTENANCE, ELECTRICIAN, ADMIN, TECHNICAL)	CUPE (PWU)	5,000	01-Apr-13	31-Mar-15
HYDRO ONE INC (PROFESSIONAL, SUPERVISORS)	ENERGY PROF SOCIETY	1,527	01-Apr-13	31-Mar-16
INDEPENDENT ELECTRICITY SYSTEM OPERATOR (ENGINEERS – IESO/OPA merger Jan. 1/15)	ENERGY PROF SOCIETY	595	01-Jan-13	30-Apr-15
INDEPENDENT ELECTRICITY SYSTEM OPERATOR (POWER WORKERS – IESO/OPA merger Jan.1/15)	CUPE (PWU)	81	01-Apr-14	31-Mar-17
ONTARIO POWER GENERATION INC (NUCLEAR/ NON-NUCLEAR)	ENERGY PROF SOCIETY	3,453	01-Jan-13	31-Dec-15
ONTARIO POWER GENERATION INC (NUCLEAR/ NON-NUCLEAR)	CUPE (PWU)	6,600	01-Apr-12	31-Mar-15

OF EMPLOYERS = 3
OF AGREEMENTS = 6
OF EMPLOYEES COVERED = 17,256

APPENDIX D: ENERGY'S PROPOSED MANDATES BY ENTITY

In the submission, the Ministry is proposing separate mandates for Hydro One, Ontario Power Generation (OPG) and the Independent Electricity System Operator (IESO). The individual proposed mandates for Hydro One, OPG, and IESO are identical except for a provision enabling restructuring activities recommended by the Premier's Advisory Council on Government Assets (applies to Hydro One and OPG, not IESO). The table below shows the Ministry's proposed mandate elements.

Note that government will not be directly involved in the negotiations between entities and unions. The Ministry indicates the various entity Boards are willingly setting mandates with the principles in Energy's proposed mandates.

HYDRO ONE, ONTARIO POWER GENERATION, AND INDEPENDENT ELECTRICITY SYSTEM OPERATOR	
i.	Multiple year agreements (2-4 years).
ii.	Pension contributions from employees be adjusted upwards gradually in order to achieve equal cost sharing between employers and employees.
iii.	While protecting all employee pension benefits earned under the plans to date, modestly reduce future service benefit accruals for current employees and new hires through a number of mechanisms which may include: A. Adjustment of number of years upon which the calculation of final average earnings would be based; B. Revising the points formula for the threshold for reduced early retirement; C. Reducing bridge benefit before age 65; and / or D. Basing indexation on a modestly reduce percentage of CPI.
iv.	Introduce a model of shared governance of risk through a combination of: A. Funded conditional indexation; and B. Limiting employer funding for deficits arising under a new funding policy to a defined corridor, after which the funding policy would define how to address deficits.
v.	<i>Hydro One and OPG only</i> – Where relevant, enable restructuring activities recommended by the Premier's Advisory Council on Government Assets and approved by government.
vi.	The cumulative effect of the resolution of compensation issues would reflect an overall net neutral costing result.

APPENDIX E: BACKGROUND ON HYDRO ONE, ONTARIO POWER GENERATION, AND INDEPENDENT ELECTRICITY SYSTEM OPERATOR (PROVIDED BY ENERGY)

Current collective agreements between electricity sector entities, the Society and PWU will expire beginning on March 31, 2015. Features of these agreements, and bargaining provisions, are detailed below.

Features of Collective Agreements by Entity

OPG:

- Approximately 90% of OPG's employees are represented by PWU (two thirds of OPG's workforce) and the Society.
- OPG and PWU reached a 3-year net zero agreement in 2012, which will expire March 31, 2015. The negotiated wage increases for this agreement were 2.75% in each of the three years, with the elimination of goal sharing. Pension contributions were unchanged.
- OPG and the Society reached a new 3-year collective agreement in late July 2013 through the collective bargaining process. It resulted in marginal increases to compensation costs, which had no impact on OPG's 2013 Business Plan. This agreement expires December 31, 2015.
- With respect to the PWU, OPG has strike-lockout provisions, while with respect to the Society OPG has interest arbitration provisions which provide for mandatory arbitration if the parties are unable to agree on a new deal without the ability for the parties to engage in strike or lock-out.

Hydro One:

- The most recently negotiated agreements with the Society and PWU have resulted in a net increase of base salary partially offset by a significant increase in pension contributions; this was not reflected in Hydro One's 2013 business plan, which assumed no base salary increases.
- Hydro One and the PWU currently have a 2-year agreement; it will expire on the same date as PWU's agreement with OPG, on March 31, 2015.
 - Its key features include a wage increase of 2.5% in each of 2013 and 2014, partially offset by increases in employee pension contributions of 1% in 2013 and 0.75% in 2014, and increased flexibility on contracting out drafting work.
- Hydro One and the Society's current collective agreement will expire on March 31, 2016.
 - This is a 3-year agreement, and includes a wage increase of 2% in 2013, and 2.25% in each of 2014 and 2015, partially offset by increases in employee pension contributions of 0.75% in 2013, 1% in 2014 and 0.75% in 2015, and increased flexibility in contracting out work.
- There are no arbitration requirements for Hydro One collective agreements; PWU and the Society have a right to strike, and management can lock out.

IESO:

- Approximately 55 employees are represented by PWU and approximately 595 employees are represented by the Society (this number includes 345 predecessor IESO employees plus an additional 250 employees from the predecessor OPA who have become employees of the IESO as of January 1, 2015).
 - Approximately 250 employees of the predecessor Ontario Power Authority (OPA) were represented by the Society but a collective agreement had not been negotiated.

- o Pursuant to a memorandum of agreement between the Society, the OPA, the IESO and PWU, the current IESO collective agreements apply to OPA employees who became employees of the IESO effective January 1, 2015.
- At the end of 2014, the IESO and PWU reached a new three year collective agreement, effective from April 1, 2014 to March 31, 2017.
 - o The agreement contains a wage increase of 2.5% every year for three years, offset by an increase in employee pension contributions of 0.5% every year; frozen compensation for co-op students every year, a 10% reduction of college co-ops; and a reduction of 1.75 full-time employees.
- The IESO and the Society's current two-year collective agreement was set to expire on December 31, 2014, however, pursuant to the memorandum of agreement between the IESO, the OPA, the Society and PWU, the expiration date has been extended to April 30, 2015.
 - o The agreement, which was reached through arbitration, included base salary increases of 2% effective January 1, 2013 and a further 2% effective January 1, 2014.
 - o The IESO and the Society have retained John Stout as the mediator-arbitrator to resolve any disputes in the current bargaining process. Mr. Stout is booked for interest arbitration on June 6, 2015 and Sunday, June 7, 2015.
 - o The IESO and the Society have agreed to two weeks of bargaining in March and April 2015.
- The IESO and Society settlement mechanism is arbitration.

The Ministry states that the passing of *Broader Public Sector Executive Compensation Act, 2014* (Bill 8), will have an impact on executive pay for all groups within the electricity sector. While this Bill has no impact on regular staff, it has set the government's tone on managing executive compensation within the electricity sector, including creating the ability to set compensation frameworks and hard caps.

The following table shows growth in wages by entity.

Table: Year-over-year PWU Growth in Wages by Entity

Year	OPG	Hydro One	IESO
2001	3.00	3.00	2.00
2002	2.00	3.00	2.00
2003	3.00	3.00	3.00
2004	2.50	3.00	3.00
2005	2.50	3.50	2.50
2006	3.00	3.50	3.00
2007	3.00	3.00	3.00
2008	3.00	3.00	3.00
2009	3.00	3.00	3.00
2010	3.00	3.00	3.00
2011	3.00	3.00	3.00
2012	2.75	3.00	3.00
2013	2.75	2.50	2.50
2014	2.75	2.50	2.50

Pensions

In the 2012 Budget, Ontario moved to manage the costs of public sector compensation, and highlighted that labour agreements are linked to public sector sustainability and improved productivity. It introduced

measures to make public sector pensions more affordable for taxpayers and sustainable for pension plan members, and noted government's expectation that all broader public service members would bargain responsibly, reflecting the fiscal circumstances of the Province and significant income and employment gains made over previous years.

This commitment that was reiterated in the 2013 Budget and Economic Outlook and Fiscal Review, which identified reviewing electricity sector pensions as a cost-savings goal.

As a first step of this review, the Province appointed Mr. Jim Leech as the special advisor to the Premier in December 2013. Mr. Leech was directed to provide his findings of the overall pension sector in the province, and provide recommendations for reform in order to make them more sustainable. Mr. Leech reviewed the pensions of Hydro One, the IESO, OPG and the Electrical Safety Authority, completed his report entitled, Report on the Sustainability of Electricity Sector Pension Plans to the Ministry of Finance, and delivered it to government in March, 2014.

Leech Report Findings

Some of the key findings and characteristics of the electricity sector pension plans, as identified in the Leech Report are as follows:

- A defined benefit pension plan model which can be cost-effective for employers is preferred over alternatives, provided it is affordable, sustainable and flexible.
 - As currently structured, the four electricity sector pension plans (those for the Hydro One, OPG, the IESO and the ESA) are generous, costly to employers, and no single change to the plans would make them sustainable over time.
 - Employers and unions agree more affordable and sustainable plans are needed; but, importantly do not agree on the definition of "sustainable and affordable".
 - Plans do not have stated strategies on how to handle future surpluses or deficits should the plans under/over perform.
 - No shared governance of risk exists between employer and employees.
- No shared governance of risk exists between employer and employees.
 - IESO and ESA plans are too small to allow for optimal and efficient asset management.
 - Conversion to jointly sponsored pension plans (JSPPs) will be challenging due to differences in current plans, potentially high costs and complexities in going through the collective bargaining process.

The following table outlines key characteristics that highlight the differences between the electricity sector's pension plans and that of the OPS as an example.

Table: Metrics of Pension Funds in the Electricity Sector (2012 statistics)

	Hydro One	OPG	IESO	ESA	OPB***
Valuation Date	Dec. 31, 2013	Jan. 1, 2014	Jan. 1, 2014	Jan. 1, 2014	Dec. 31, 2013
Number of Active Members	5,360	10,700	500	460	40,700
Number of Retired Members	7,283	10,600	300	280	35,800
Funded Status (\$M)	(667)	(1,143)	(47)	(33)	(804)
Funded Ratio	89%	91%	89%	88%	96%
Normal Cost Contributions: Employer / Employee (\$M)	85/35	227/73	9.9/4	7.6/3.5	276/276
Employer/Employee Contribution Ratio	2.4:1	3:1	2.5:1	2.2:1	1:1
Employer additional annual Special Payments (\$M)	89	131	6	3.9	99

- One of the biggest differences to note is the employer to employee contribution ratio. OPG as an employer contributes \$3 to the company's pension plan for every \$1 contributed by an employee. Within the OPS, this ratio is 1:1.
- In addition, all entities in the sector determine pension earnings for employees based on the individual's best three years of pay compared to 5 in the OPS. This tends to lead to a higher pension as it is calculated over fewer years.
- The Leech Report also indicates that the collective bargaining process, on its own, is not an optimal mechanism to ensure pension sustainability.

Leech Report Recommendations

- Equal Cost-Sharing - Contributions should move to the target 50/50 on an agreed timeline. The government's suggested timeline is 5 years.
 - The Leech Report notes that movement towards 50/50 at current levels is not sufficient as corresponding changes to benefits must also be made (on a going forward basis).
- Negotiate Contribution Ceiling – The report suggests incorporation of a ceiling on the contribution rate between 9% and 12% of salary. If the parties are unable to agree there could be a role for government in establishing a ceiling.
- Effective Management of Plans – Plans should remain as single employer pension plans (SEPP) with the incorporation of:
 - Institutionalized pension information and data sharing, and
 - A Funding Management Policy (FMP), which sets out what would happen in the event the pension plan is in surplus or deficit going forward. (i.e. contribution rate changes once specific funding thresholds are hit.)

- Pooled Asset Management – Facilitate IESO and ESA's joining of a new pooled asset management entity for public-sector SEPPs as both entities are too small to be efficient in asset management. Should be considered by Hydro One and OPG as well.
- Supplementary Pension Plans - Entities should consider exploring the establishment of a cap on pensionable earnings (e.g., exclude bonuses and/or cap pensionable salary) and/or lower the benefit accrual rate for the purpose of the supplementary pension plans.

Enabling Hydro One Restructuring & Transactions

The Premier established a Premier's Advisory Council on Government Assets ("the Council"), chaired by Mr. Ed Clark to examine how to maximize value from OPG, Hydro One, and LCBO. One of the recommendations made by the Council, in its November Phase I report, was the divestiture of certain Hydro One assets.

Hydro One will be mandated as part of this process to negotiate with its unions, the PWU and the Society, to allow for the restructuring and potential sale of a segment of the company. The Council is working with pension and labour experts to determine what changes to collective agreements may be required to enable these sorts of transactions.

Appointment of Facilitator

The Ministry states, as suggested by Mr. Leech, the Government of Ontario, along with all parties to the negotiation, will seek the support of an independent and neutral facilitator, who will facilitate discussions that respect but are outside of the collective bargaining process. It is hoped that these discussions will be supportive of the government's mandate.

As an independent and neutral facilitator, the Hon. John C. Murray, former Ontario Superior Court Justice, will be jointly retained by Hydro One, OPG, the Crown in Right of Ontario, PWU and the Society to facilitate discussions outside the collective bargaining process on pension issues and asset transfer issues involving multiple representatives of employers, unions and government.

A retainer of \$5,000 per day is proposed, plus reasonable, pre-approved disbursements, to be paid jointly and equally by the retaining parties, up to \$300,000 (excluding disbursements and applicable taxes). This is equivalent to 60 days, or two months.

The retainer is without prejudice of the parties' collective bargaining activities or their obligations to negotiate in good faith during the course of collective bargaining, and may be terminated by any party upon two weeks' notice.

APPENDIX F: CONTEXT OF NEGOTIATIONS AND KEY CONSIDERATIONS

Text indicating which entities have shared with government dropped from final draft from Energy.

Context of Negotiations & Key Considerations

- Restructuring of a portion of Hydro One: Consistent with recommendations made by the Council, the government believes that a restructuring of Hydro One and a potential sale of a portion of its assets to the private sector would be in the best interest of the province. Such a transaction would have a significant impact on a large number of Hydro One employees as affected staff could be transferred from a government-owned entity to a privately-owned entity along with their pension funds and their collective agreements. The process would require involvement from unions and thus an early dialogue should be pursued to seek a general agreement on a framework of changes to collective agreements and pension funds of those employees who may be impacted.
- Pickering Shutdown: The Pickering Nuclear Station is expected to shut down by 2020, and OPG's current workforce will need to be significantly reduced (approx. 4,000 of a workforce of fewer than 10,000). It is in the interest of both OPG and the PWU to allow for more flexibility in terms of work arrangements and re-training in the lead up to this shut down. Increased flexibility would allow OPG to take advantage of retirements between now and 2020 to gradually phase down its workforce and avoid the need for active right-sizing. The shutdown of Pickering in 2020 could have a significant benefit to ratepayers as it may potentially reduce electricity bills by \$6 per month for an average household in 2020.
- Pension Affordability: As concluded in the Leech Report, the current model for pension funds in the Ontario Electricity Sector is unsustainable and that changes are necessary in order to address this issue. Some of the entities' funds are significantly underfunded and contribution rates from employers are exceedingly high at a cost to ratepayers. An important goal going into dialogue discussions is to have a framework that all stakeholders can agree to that will allow for less pressure on pension costs borne by ratepayers and more long-term sustainability of the funds.
- Labour relations: Pensions are ultimately a collective bargaining issue and thus decisions related to such may have an impact on future relations with collective bargaining. It is important to consider what possible reactions may come from unions on the government's position on this area. Moreover, restructuring of Hydro One which will have an impact on a large number of unionized employees will impact union relations. After the release of the Council's interim report on government assets, PWU and Society publicly expressed that they were against the recommendations. Thus it is important that common ground be reached on these issues in order to achieve general agreement among unions, entities and government.
- OPA and IESO Merger: As the IESO is a recently merged entity, there will likely be pressure from unions (and IESO staff) to reach an agreement to ensure a smooth transition for staff. There is also discrepancy of wages between former OPA and IESO staff that will need to be considered prior to finalizing an agreement. The IESO is creating a job evaluation and pension committee that includes IESO and union staff to come to a mutual agreement.

Contingency Planning

The Ministry states it is important to consider that unions may take some form of job action including strikes or work-to-rule. Thus a clear strategy on how to manage such an outcome should be contemplated in advance. Action taken by unions could affect electricity generation and transmission assets. Given the scale of these organizations, substantial job action could result in brown-outs and black-outs across the province.

In addition to regular electricity system maintenance activities, several critical maintenance activities are scheduled for Spring and Summer 2015. These activities could be negatively impacted by a potential strike, lockout, or work-to-rule scenario, and could have consequential impacts on time-sensitive activities.

Preliminary Timeline

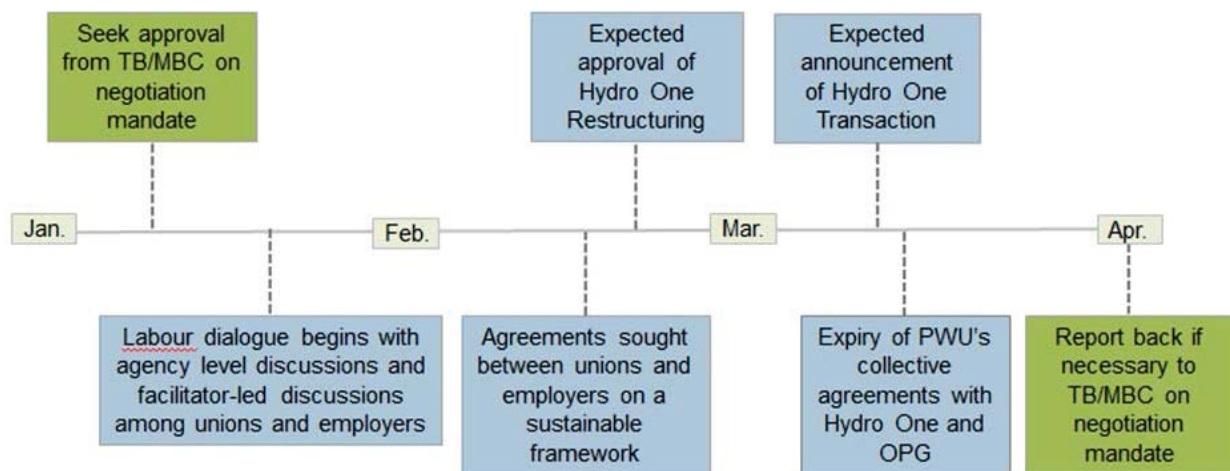
Negotiations

Before three collective agreements expire on March 31, 2015, the facilitator would be expected to lead discussions between employers and unions. These discussions are expected to take place in January/February 2015.

A similar process is expected to be followed in advance of other collective agreement expiries.

Separately, in response to the Council's recommendations, the province/Ministry expects to announce a decision with regard to the potential restructuring and sale of Hydro One's distribution assets as part of the document process (expected in March 2015).

The following diagram summarizes the activities and milestones expected in the short term (2015).



Approvals Process

Following TB/MC approval of the Ministry's proposed bargaining mandates, the Ministry may provide an interim update to TB/MBC on negotiations between employers and respective unions, where necessary, in Spring 2015. The Ministry will return to TB/MBC to seek approval of tentative collective agreements, prior to final ratification by the board of each entity.

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TREASURY BOARD/MANAGEMENT BOARD OF CABINET

TB/MBC Date: January 26, 2015, held in the Chair's Boardroom, 1st Floor, Frost Building South, at 3:00pm.

Attendees: Ms. D. Matthews (Chair), Mr. C. Sousa, Mr. B. Chiarelli, Mr. D. Oraziotti, Mr Y. Naqvi, Ms. M. Meilleur, Ms. L. Sandals, Mr. H. Takhar

Item Number: 07

Ministry: Energy

Title: Electricity Sector Engagement with Unions

Type of Item: General

Approved the Ministry's proposed bargaining mandates for electricity sector entities, including Hydro One, Ontario Power Generation, and the Independent Electricity System Operator, that include the following parameters:

- i) Multiple year agreements (two to four years).
- ii) Net zero total labour compensation cost increases over the term of the collective agreements.
- iii) Where relevant, enable restructuring activities recommended by the Premier's Advisory Council on Government Assets, and approved by government.
- iv) Pension contributions to achieve equal cost sharing between employer and employee contributions on an agreed timeline.
- v) Increases in pension contributions should not be considered as offsets towards achieving net zero total labour compensation costs.

In this regard, the Board:

- i) Noted additional bargaining considerations to include:
 - a) Reductions in benefit costs, for example.
 - b) Other elements in bargaining, in addition to meeting the parameters above, that could be considered as concessions to reach an agreement.

January 26, 2015

ii) Directed the Ministry to:

- a) Report back to the Treasury Board Sub-Committee on Public Sector Bargaining and Compensation on progress of electricity sector bargaining, and also outline the Ministry's efforts to work with the electricity sector entities on contingency planning in the event of any labour disruption and demonstrate that plans are well understood.
- b) Report back to Treasury Board/Management Board of Cabinet:
 - 1) To seek approval of tentative collective agreements, prior to final ratification by the Board of each entity.
 - 2) If the bargaining mandates cannot be met and/or a strike/lockout becomes probable.
- c) Work with the Office of the Premier and Cabinet Office to develop a communications strategy for the upcoming round of collective bargaining.

Secretary, Treasury Board and
Management Board of Cabinet

Distribution

Mr. S. Imbrogno
Mr. R. Burns

10 - June 15, 2016 - Hydro One Final Offer for Negotiation with the Chiefs of Ontario.pdf



TREASURY BOARD/MANAGEMENT BOARD OF CABINET

TB/MBC Date: June 15, 2016, held by teleconference, at 5:15 pm.

Attendees: Ms. L. Sandals (Chair), Mr. C. Sousa, Mr. S. Del Duca, Mr. K. Flynn, Mr. Y. Naqvi.

Item Number: 01

Ministry: Energy

Title: Hydro One Final Offer for Negotiation with the Chiefs of Ontario

Type of Item: General

Further to the Treasury Board/Management Board of Cabinet (TB/MBC) decision of January 12, 2016, received an update on negotiations with the Chiefs of Ontario (COO) regarding First Nation participation in the ownership of Hydro One.

In this regard, the Board:

- i) Approved a final negotiating mandate for the Ministry of Energy including:
 - a) The sale of up to 17,850,000 shares (three per cent) of Hydro One to First Nations at a value or price that is not below book value, as calculated consistent with Hydro One's financial statements.
 - b) Cash of up to \$60,000,000.
 - c) Terms and conditions of the share purchase and loan agreements, including:
 - 1) Up to a 25-year loan term.
 - 2) An interest rate on the loan equal to the Government of Ontario's borrowing rate plus a 15 basis points spread.
 - 3) Release of the Province's security interest in the shares as long as a 130 per cent value to loan threshold is met, enabling First Nations to leverage these shares and reducing the amount of pledged shares securing the loan.

June 15, 2016

- 4) Interest payments made only from dividends on the shares and are otherwise deferred in the event dividend payments are insufficient to cover interest costs.
- 5) Recourse under the loan and the Province's security limited to the pledged shares.
- d) The purchaser may exercise voting rights on shares immediately.
- e) A substantial minimum participation threshold to be negotiated and if fewer than 100 per cent of 133 First Nations participate, the cash amount would be reduced and the remaining cash and shares would be pro-rated on a negotiated basis.
- f) Release and indemnification:
 - 1) Participating First Nations are to provide release and non-interference agreements for any future sales of Hydro One shares by the Province.
 - 2) Purchaser to indemnify the Province for losses suffered as a result of claims relating to the broadening of ownership of Hydro One. Recourse under an indemnity to the Purchaser's shares and investment fund.
- g) Outside Date: Close by December 2017.
- h) Standstill: An agreed to period after closing during which no equity distributions to participating First Nations or change in First Nation ownership of vehicle is permitted.
- ii) Noted that:
 - a) Any future agreements with the Métis Nation of Ontario would be at a level proportionately lower than First Nations; in no case would the combination of First Nations and Métis agreements be more than four per cent.
 - b) The Ministry will work with COO in developing a communications strategy.

June 15, 2016

iii) Directed the Ministry to:

- a) Report back to TB/MBC for confirmation of transaction implications, including any direct and/or indirect fiscal plan impacts, such as changes in revenues already in the fiscal plan forecast for future share sales.
- b) Work with the Ministry of Finance (MOF) and the Ontario Financing Authority on the loan agreements.
- c) Work with Cabinet Office, Office of the Premier, Ministry of Indigenous Relations and Reconciliation, MOF and Treasury Board Secretariat on a communications plan.

Secretary, Treasury Board and
Management Board of Cabinet

Distribution

Mr. S. Imbrogno
Mr. S. Thompson
Mr. S. Davidson
Ms. D. Richardson
Mr. R. Burns
Mr. H. Zisser
Ms. P. Reid
Ms. B. Dunker

11 - Assessment Note - MOF - Trillium Trust Regulation Hydro One Initial Public Offering.pdf



**TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE**

Ministry:	Finance
Meeting Date:	August 23, 2016
Agenda Class:	Consensus
Last reviewed by: N/A	Tracking to: Cabinet August 24, 2016 (TBD)

SUBMISSION TITLE: Trillium Trust Regulation – Hydro One Initial Public Offering

I. DECISION BEFORE THE BOARD

- Approval to make a regulation that will prescribe and credit net revenue gains from Hydro One share sales in November 2015 to the Trillium Trust. This includes:
 - o net revenue gains from the Initial Public Offering (IPO) and certain related share sales to the Trillium Trust; and
 - o non-cash benefit in connection with the disposition of the shares to the Trillium Trust.

II. RECOMMENDATIONS:

• Approve a regulation under the <i>Trillium Trust Act</i> that prescribes and credits: - o net revenue gains from the Hydro One IPO and certain related share sales in November 2015 to the Trillium Trust; and - o non-cash benefit in connection with the disposition to the Trillium Trust.	<i>Approve</i>

III. FINANCIAL SUMMARY

\$ Millions	2016-17	2017-18	2018-19
Initiative cost requested	0.0	0.0	0.0
Initiative cost recommended	0.0	0.0	0.0
Recommended program base	0.0	0.0	0.0
Offset Recommended (Specify Ministry/Program)	0.0	0.0	0.0
Total Fiscal Impact	0.0	0.0	0.0

IV. KEY COMMENTS AND CONSIDERATIONS

Subject to the approval of the Lieutenant General in Council, Treasury Board may make regulations under the *Trillium Trust Act, 2014* for:

- Designating an asset as a qualifying asset for inclusion in the Trillium Trust;
- Prescribing the amount of designated proceeds of disposition to be credited to the Trillium Trust;
- Prescribing the costs incurred or obligations assumed in connection with the disposition of a qualifying asset; and
- Prescribing non-cash benefits recognized by the Crown in connection with the disposition of the qualifying asset, including prescribing the amount.

This regulation would credit about \$3.2B to the Trillium Trust as a result of:

- a) \$783M in net proceeds from the Initial Public Offering (IPO) of Hydro One Limited common shares in November 2015 and certain related share sales to trusts established by the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP). Designated proceeds of these transactions under the *Trillium Trust Act, 2014* are equal to the gross proceeds (\$1.8B) less the book value of the shares sold (\$1.0B) and prescribed eligible costs related to the disposition of the asset (transaction costs of approximately \$43M).
- b) \$2.4B deferred tax benefit (non-cash benefit) as a result of Hydro One leaving the payments-in-lieu of tax (PILs) regime and entering the corporate tax regime, which was triggered by the company dropping below 90 per cent Provincial ownership.

Item	Amount (\$)
Gross proceeds	1,837,625,000
Book value of shares	(1,011,500,521)
Eligible transaction costs	(42,818,908)
Net revenue gain from sold shares	783,305,571
Deferred tax benefit (non-cash benefit from consolidation into Public Accounts)	2,392,296,614

The balance of the Trillium Trust will be reported in the 2015-16 Public Accounts as at March 31, 2016. This balance is \$1.35B as a result of previous years' sales of General Motors shares. Although, the Hydro One IPO-related net revenue gain will not be reported in the balance of the 2015-16 Trillium Trust, it is planned that there will be narrative in 2015-16 Public Accounts making reference to filing the regulation and the future amounts to be credited to the Trillium Trust (refer to Appendix C: 2015-16 Public Accounts Trillium Trust Fund Hydro One Shares).

Note that about \$108M of the \$116M in related share sales to the PWU and SEP trusts was purchased using loans provided by the Province. Due to the accounting treatment, this amount will not be credited to the Trillium Trust upfront as the total gain (share price less book value) of \$48M is being recorded as deferred revenue in the 2015-16. The gain will be credited to the Trillium Trust over time as the revenue is recognized, which will require a new regulation or regulations to be brought forward in the future.

The broadening of Hydro One ownership is part of the government's \$5.7B multi-year asset optimization initiative that also includes designated assets such as the LCBO head office lands, the OPG head office building, Lakeview lands, and Hydro One Brampton.

By broadening the ownership of Hydro One, the Province expects to generate \$4B in net revenue gains to be dedicated to the Trillium Trust. A secondary share offering was completed in April 2016 and the Province raised approximately \$2B in gross proceeds. A subsequent regulation will be brought forward to designate the net revenue gains from the April 2016 share sales to the Trillium Trust once the transaction and associated costs are fully assessed.

Approval of this regulation would not have a fiscal impact as the submission only relates to the recording and reporting on the net revenue gains from broadening Hydro One ownership. The Trillium Trust will help fund further investments in transit, transportation and other priority infrastructure as part of the Moving Ontario Forward plan.

Risks

If the regulation is not approved on time, it may not be possible to make reference to it in the 2015-16 Public Accounts, which may bring public concerns on the timing of the process (delay) and the government's commitment to credit the Trillium Trust with all net revenue gains from asset optimization.

The Auditor General of Ontario is currently reviewing the accounting related to this transaction. There is risk in approving and/or filing the regulation before the Auditor General of Ontario issues her final opinion letter on the 2015-16 Public Accounts, which is expected to include sign-off on the accounting aspects of the Hydro One share sales. This has been mitigated by the Office of the Auditor General working closely with the Office of the Provincial Controllershship Division, which is reviewing all elements of the Hydro One transactions during the Public Accounts process.

There may also be concerns regarding:

- The deferred tax benefit as it represents a non-cash fiscal impact from the consolidation of Hydro One net income into the Ontario Public Accounts, and that will be reflected in a credit to the Trust, and is not the typical receipt of proceeds from a sale. This risk may be mitigated by previous communication on the Province's commitment to dedicate all net revenue gains from the sale of Hydro One shares to the Trust and that an earlier and relatively similar amount has been included in previous communication materials.
- The decision to not dedicate amounts to the Trillium Trust at this time related to the PWU and SEP share sales acquired through provincial loans is because revenue from these sales is not being recognized in 2015-16 but in future years as the loans are paid down. This concern may be mitigated by explaining that gains will be credited to the Trust over time as revenue is recognized.

Background

The government completed the IPO of Hydro One shares in November 2015. Through this offering, approximately \$1.8B in gross proceeds and \$116M related to additional share sales were raised.

On December 10, 2015, the Ontario government passed the *Budget Measures Act, 2015* which designated the Province's shares in Hydro One and Hydro One Brampton as qualifying assets under the *Trillium Trust Act, 2014*.

Opportunity Cost of Offsets: N/A

Linkages to Government Priorities:

Maximizing the value of provincial assets is part of the government's economic plan to build modern infrastructure.

Commission on Reform of Ontario's Public Services (CROPS): N/A

Name of analyst:	Catalina Manning	Phone number:	416-325-4849
Date:	August 18, 2016	Log number:	
Branch / Division:	Capital Planning Branch/Capital Planning Division		

APPENDIX A: PROPOSED MINUTE

Receive a report on a regulation under the *Trillium Trust Act, 2014*.

In this regard,

- i. Approve, under the authority of the Trillium Trust, a regulation which:
 - a) Credits 100 per cent of the designated proceeds of \$783,305,571 received by the Province from the disposition of Hydro One Limited common shares on or after November 4, 2015 and before November 19, 2015, other than those where the Province provided a loan in respect of the purchase price, to the Trillium Trust, and to prescribe transaction costs of \$42,818,908.
 - b) Credits 100 per cent of the prescribed non-cash benefit of \$2,392,296,614 that is recognized by the Crown in connection with the disposition to the Trillium Trust.

APPENDIX B: HYDRO ONE REGULATION

CONFIDENTIAL
Until filed with the
Registrar of Regulations

REG2016.0019.e
9-PR/JH

ONTARIO REGULATION

made under the

TRILLIUM TRUST ACT, 2014

HYDRO ONE LIMITED - VOTING SECURITIES

Application

1. This Regulation applies with respect to voting securities of Hydro One Limited mentioned in paragraph 1 of subsection 3 (1) of the Act.

Specified dispositions in November 2015

2. (1) This section applies with respect to voting securities that were disposed of on or after November 4, 2015 and before November 19, 2015, other than those for which the Province provided a loan in respect of the purchase price.

(2) For the purposes of paragraph 2 of section 6 of the Act, the non-cash benefit that is recognized by the Crown in connection with the disposition of the securities as disclosed in the Public Accounts for the fiscal year ending March 31, 2016 is prescribed.

(3) For the purposes of section 6 of the Act, the following amounts in connection with the disposition of the securities are to be credited to the Trillium Trust:

1. \$783,305,571, being 100 per cent of the designated proceeds of disposition, as determined under section 4 of the Act.
2. \$2,392,296,614, being 100 per cent of the prescribed non-cash benefit described in subsection 2 (2) of this Regulation.

(4) For the purposes of paragraph 2 of section 4 of the Act, \$42,818,908 is prescribed as the amount of costs incurred by the Crown in connection with the disposition.

Commencement

3. This Regulation comes into force on the day it is filed.

APPENDIX C: 2015-16 PUBLIC ACCOUNTS TRILLIUM TRUST FUND HYDRO ONE SHARES REFERENCE

TRILLIUM TRUST FUND

As at March 31, 2016

For the year ended March 31	2016	2015
Trillium Trust Fund		
Net Proceeds of disposition from General Motors Shares ¹	\$1,350,983,180	\$1,350,983,180
	\$1,350,983,180	\$1,350,983,180

1. Represents the net proceeds of disposition, dedicated to the Trillium Trust Fund, per Ontario Regulation 53/15 under the Trillium Trust Act, for the following:
 - the common shares sold by Canada GEN, on September 10, 2013 on behalf of Ontario (\$249 million)
 - the Series A preferred stock redeemed by the General Motors Company on December 31, 2014
 - the common shares sold in 2014/15 by the Minister of Finance
2. There was no utilization of the Trillium Trust Fund in 2015-16
3. On August 25, 2016 the Province filed a regulation crediting the Trillium Trust with an additional \$3.2B in connection with the disposition of securities associated with broadening Hydro One ownership in 2015-16. As of that date, the balance in the Trillium Trust Fund is as follows:

	August 25, 2016
Trillium Trust Fund	
Amounts related to disposition of General Motors Shares	\$1,350,983,180
Amounts related to disposition of Hydro One Shares	\$3,175,602,185
	\$4,526,585,365

APPENDIX D: FINANCIAL IMPACTS TABLE

Financial Impacts: Changes to Expense and Revenue					Table B1
					Appropriations Basis
		Fiscal Plan Basis			
\$ Millions		2016-17	2017-18	2018-19	2016-17
Initiative cost recommended		0.0000	0.0000	0.0000	
Expense changes:					
Operating item	Oper	0.0000	0.0000	0.0000	0.0000
Capital item	Cap	0.0000	0.0000	0.0000	0.0000
Revenue changes:					
Revenue increase/offset		0.0000	0.0000	0.0000	
Revenue decrease		0.0000	0.0000	0.0000	
Total Fiscal Impact		0.0000	0.0000	0.0000	0.0000

11 - August 23, 2016 - Trillium Trust Regulation - Hydro One Initial Public Offering.pdf



TREASURY BOARD/MANAGEMENT BOARD OF CABINET

TB/MBC Date: August 23, 2016, held in the Treasury Board/Management Board of Cabinet Boardroom, 1st Floor, Frost Building South, at 3:00 pm.

Attendees: Ms. L. Sandals (Chair), Ms. L. Albanese, Mr. B. Mauro, Ms. E. McMahon, and Mr. Y. Baker.

Item Number: 13

Ministry: Finance

Title: Trillium Trust Regulation - Hydro One Initial Public Offering

Type of Item: Regulation

Received a report on a regulation under the Trillium Trust Act, 2014.

In this regard, the Board approved, under the authority of the Trillium Trust Act, 2014, a regulation which:

- i) Credits 100 per cent of the designated proceeds of \$783,305,571 received by the Province from the disposition of Hydro One Limited common shares on or after November 4, 2015 and before November 19, 2015, other than those where the Province provided a loan in respect of the purchase price, to the Trillium Trust, and to prescribe transaction costs of \$42,818,908.
- ii) Credits 100 per cent of the prescribed non-cash benefit of \$2,392,296,614 that is recognized by the Crown in connection with the disposition to the Trillium Trust.

Secretary, Treasury Board and
Management Board of Cabinet

Distribution

Mr. S. Thompson
Mr. H. Zisser

12 - Assessment Note - ENERGY - Hydro one.pdf

TREASURY BOARD / MANAGEMENT BOARD OF CABINET REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	September 13, 2016
Agenda Class:	Discussion (In Camera)
Last reviewed by: TB/MBC (June 15, 2016)	Tracking to: Cabinet (September 21, 2016)

SUBMISSION TITLE: Report Back on Outcomes of Hydro One Secondary Offering, Chiefs of Ontario Negotiations, and Métis Discussions

Information in this note contains confidential and commercially sensitive information and may have an impact on market expectations and / or assessment of share value. Securities laws impose restrictions on the manner in which a prospective issuer and / or selling security holder with a controlling share block communicates with the investing public. Any communication on these matters should be restricted to publicly available information.

I. DECISION BEFORE THE BOARD

- Receive a report back on Hydro One Secondary Offering, Chiefs of Ontario Negotiations, and Métis Discussions. Approval of requested minutes related to each of these initiatives.

II. RECOMMENDATIONS:

- Secondary Share Offering: - Receive report back on results of the Hydro One secondary offering which took place in April 2016. - Direct to analyze and recommend, working with the Ministry of Finance / Ontario Financing Authority and Treasury Board Secretariat, an approach and timing on the sale of remaining shares, down to no less than 40 per cent of Hydro One Ltd. (Hydro One) Common shares. - Chiefs of Ontario Negotiation (COO): - Receive report back on results of negotiations with COO. - Approve minuting to implement loan agreement, share purchase and contribution agreement that include key provisions. - Note changes to voted appropriations to reflect agreement terms, such as, establishing an operating asset for the loans, expenditure increase for a cash contribution to the Purchaser of \$15M per year for three years starting in 2017-18. Also the treatment of the difference between the share sale price and market value of the shares. - Métis Nation of Ontario Discussion: - Approve a negotiating mandate.	Approve

III. FINANCIAL SUMMARY (PENDING FINAL AGREEMENTS)

\$ Millions	2015-16	2016-17	2017-18
Initiative cost requested	0.0	0.0	0.0
Initiative cost recommended	0.0	0.0	0.0

Recommended program base:	0.0	0.0	0.0
Offset Recommended:	0.0	0.0	0.0
Total Fiscal Impact	0.0	0.0	0.0

IV. KEY COMMENTS AND CONSIDERATIONS

The Ministry, having received Board approval of its proposed approach for share sales in 2016-17 and approval of a revised negotiating mandate for negotiations with Chiefs of Ontario (COO, on behalf of 133 First Nations in Ontario), is now reporting on results in the following areas:

- Hydro One Secondary Share Sale Offering (completed in April 2016).
- Chiefs of Ontario Negotiation (July 2016 announced an agreement-in-principle with First Nations).
- Métis Nation of Ontario Discussion (on-going, Ministry now seeking a negotiating mandate).

Hydro One Secondary Share Sale Offering

In March 2016, the Board approved a secondary share sale strategy for 2016-17 with respect to Hydro One. A share offering was made and completed in April 2016. The following table outlines the mandate given and results achieved, showing positive results within the mandate. Appendix C provides more information on the overview covered here including Hydro One share price performance, key results from secondary offering, and fiscal plan estimates.

	Mandate	Result
Offering Size	Sale of ~\$2 billion in shares	Achieved ~1.97B
Floor Market Price	\$23.30	\$24.16 (+3.7%)
Offering Price (Market Price Net of Discount)	-	\$23.65
Net Price (Net of Fees, Transaction Cost, and Discount)	\$21.70	\$23.16 (+6.7%)
Fees / Transaction Costs and Discounts	Fee: 1-3% Discount: 4-5% Combined (Maximum): 7%	Fee: 2% cap (Institutional @ 1%, Retail @ 3%) Discount: 2.1% Combined: 4.1% (Over 40% Lower)

The Ministry indicates the Province remains on track to generate approximately \$9 billion in gross proceeds and other revenue benefits, results to date include:

- \$3.4B towards \$5B target to reduce debt:
 - o ~\$1.0B pre-IPO Hydro One dividend and additional PILs payment
 - o ~\$1.1B (book value amount) from the IPO and related share sales
 - o ~\$1.3B (book value amount) from the secondary offering
- Up to \$3.8B towards \$4B target in net revenue gains that, through the Trillium Trust, will be reinvested in infrastructure:
 - o ~\$0.6B gain raised through the secondary offering (About \$0.1B subject to accounting risk)
 - o ~\$0.8B in net proceeds raised through the IPO and related share sales
 - o ~\$2.4B non-cash deferred tax benefit
- The on track status factors in advice from the Provincial Controller that about \$70M of the gain in the secondary offering related to OPG participation (please see below) may not be recognized in the year of transaction, and about \$50M of the gain related to acquisition of shares by separate Trusts

IV. KEY COMMENTS AND CONSIDERATIONS (CONTINUED ...)

established by the Power Workers Union and The Society of Energy Professionals at the time of the IPO will not be recognized in the year of the transaction, which would lower the amounts shown above.

Ontario Power Generation (OPG) purchased nine million shares in the secondary offering of Hydro One to be used to in connection with its obligation under recent collective agreements to provide Hydro One share awards over 15 years, commencing April 2017 to its employees. Purchasing through the secondary share offering rather than purchasing in the open market lowered the costs and fees to OPG.

The Ministry's submission includes a request to consider options to most effectively continue on its path to 40% ownership. It is proposing to undertake the analysis working with the Ministry of Finance, Ontario Financing Authority, and Treasury Board Secretariat in the following areas (Reporting back to TB/MBC no later than early 2017):

- Size and timing of offerings – Consider various paths forward, including potential to accelerate sales, to meet the Province's fiscal objectives.
- Monetization Mechanism - Consider alternatives to the bought deal structure undertaken for the secondary offering.
- Lead and Syndicate Selection Process – Consider alternatives to the process used for the IPO and secondary offering.
- Hydro One Strategy – Consider implications of Hydro One business decisions. For example, if Hydro One issues shares to finance a future transaction, that could move the Province's ownership closer to or below 40%.
- Government approval process – Potential to streamline approval process in the future to limit distribution of sensitive information.

Chiefs of Ontario Negotiations

TB/MBC approved a revised negotiating mandate on June 15, 2016 related to First Nations ownership of Hydro One. Final terms for the agreement-in-principle were confirmed between Chiefs of Ontario (COO) and the Province on July 11, 2016.

The following table shows favourable final terms of the agreement-in-principle as compared to the negotiating mandate (Appendix D provides more commentary on negotiations and the final terms):

June 15 TB Negotiating Mandate		Final Terms
<i>Key Financial Terms:</i>		
Share Value	• Up to 3% of shares (~17.9M shares) • Up to Market Value of ~\$437M* • Share sale price not below book value (\$16)	• 2.5% of shares (~14.9M shares)** • Market Value of ~\$364M* • Share sale price \$18
Loan	• Up to \$285M • (equivalent to 3% at \$16/share) • Up to 25 year term	• ~\$268M loan plus fees** • (equivalent to 2.5% at \$18/share) • 25 year term
Value - Loan Ratio	• No less than 130%	• 150%
Immediate Value Provided/ Access to Capital	• Market value – loan value = ~\$150M • Cash of up to \$60M	• Market value – loan value = ~\$96M • Cash of \$45M over three years**
<i>Key Non-Financial Terms:</i>		
Release	• Release covers the sale by the Province of 100% of Hydro One shares	• Binding commitment (rather than release) enforceable by the Province from all participating First Nations not to seek damages for or interfere with the sale by the Province of 100% of Hydro One shares
Indemnity	• Indemnity for any claims against pledged shares and (unsecured) against Fund	• Indemnity for any claims against pledged shares and (unsecured) against Fund
Voting rights	• Allowed to vote shares immediately	• Allowed to vote shares immediately

*Assumes share price on June 17, 2016, \$24.50 **Assumes 100% participation

The Ministry is also requesting decisions supporting implementation of the COO agreement.

- Share Purchase and Contribution Agreement: The Minister of Energy will require approval to sign the share purchase and contribution agreement on behalf of the Province
- Loan Agreement: The Minister of Finance, on behalf of the Province, will advance the loans to the Borrower and require approval to sign the loan agreement.
- Ancillary Agreements: Other documents required to facilitate the share purchase and loan agreements.
- Order in Council: Authorizing the loans.

The Provincial Controller has provided advice on the First Nations agreement, including implications for voted appropriations and revenue recognition, and their timing, on a number of components. The Ministry will report back on the implementation plan along with the necessary financial details when the final agreements are complete. Below are key components with financial implications, some are dependent on level of participation from First Nations:

- A loan, up to \$268M based on level of participation, in three tranches to cover the specified price of the shares.
- Shares sold over two years at \$18 per share (above the Province's book value but at a discount from market value. (As minuted by TB/MBC, approval to sell below market value, June 2016).
 - o The sale above book value will result in a deferred gain that will be recognized as the loan is repaid by COO.
 - Treasury Board Secretariat will be proposing to establish a new class of non-cash expense (differential in share values) to allow the government to record and report the financial benefit to a recipient through the appropriation system. This approach will not require changes to the share purchase agreement.
- Three annual grants up to \$15M each (to an Investment Fund) subject to certain participation thresholds being achieved, and are not related to repayment of the loan.
 - o There is a risk the full \$45M could accrue in the first year if 100% participation is achieved from the start (The cash payments would still be annual).

The implementation timeline at the end of Appendix D indicates there are no voted appropriation impacts in 2016-17. Through the 2017-18 planning cycle, implications for voted appropriations, such as setting up the loan Operating Asset and establishing transfer payment(s) could be setup with placeholder amounts of \$1,000 if specific amounts won't be known until later in particular fiscal year (e.g. later in 2017-18). This approach would require, during a given fiscal year, either finding offsets from within the Province's fiscal plan, or through supplementary estimates.

Métis Nation of Ontario Discussion

As part of the January 2016 TB/MBC approval of a negotiating mandate for the sale of up to 3% of Hydro One shares to First Nations, the minute noted any future agreements with Métis Nation of Ontario (MNO) would be at a level proportionately lower than First Nations; and in no case would the combination of First Nations and Métis agreements be more than 4%.

There are differences, as noted by the Ministry, between Métis and First Nations. The Métis population is significantly smaller and dispersed in the province with clusters located in cities and towns (there are no Métis reserves).

The Ministry is seeking approval of a more formal negotiating mandate in the context of the First Nation agreement-in-principle. Negotiations will be with the CEO of the Métis Nation of Ontario Infinity Trust. The MNO mandate is not an identical or pro-rated version of the final offer to First Nations, but has elements from

the COO and union mandates.

Below is a table laying out the MNO mandate compared to the COO Agreement-in-Principle (Appendix E provides more details):

	COO Agreement-in-Principle	Métis Nation of Ontario Mandate
Key Financial Terms		
Share Value	2.5% of shares (14.9M shares) - Market Value of \$364M (based on \$24.50/share*) - Share sale price at \$18	- Up to 0.5% of shares (2.975M shares) - Market Value of about \$72.9M (based on \$24.50/share*) - Share sale price no less than \$18 and not below book value
Loan	2.5% of shares \$268M loan (based on \$18/share) plus permitted expenses 25 years	0.5% of shares \$53.6M loan equivalent to estimated book value of \$18/share up to the market value of 0.5% of shares at the time of the transaction 25 years
Immediate Value Provided/Access to Capital	- Market value – loan value = ~\$96M - Cash of up to \$45M over three years based on participation rate.	- Market Value – loan value = ~\$19.3M in value - No cash contribution
Value – Loan Ratio	150%	At least 150%
Key Non-Financial Terms		
Release	Binding commitment (rather than release) enforceable by the Province from all participating First Nations not to seek damages for or interfere with the sale by the Province of 100% of Hydro One shares	A more expansive release and indemnity relative to the First Nations arrangement given that the Province has not made any commitments to the MNO to discuss grievances separately (but would be prepared to accept commitments comparable to COO agreement-in-principle)
Indemnity	Indemnity for any claims against pledged shares and (unsecured) against Fund and Master LP	
Voting Rights	Allowed to vote shares immediately	Voting rights upon closing

*\$24.50 per share, June 17, 2016 closing

Name of analyst:	James Strang	Phone number:	7-2071
Date:	September 12, 2016	Log number:	
Branch / Division:	General Government, Planning and Resources Branch, PEMD		

APPENDIX A: RECOMMENDED MINUTE

Receive a series of reports on activities related to broadening Hydro One Ownership. Where required, additional decisions supporting next steps in implementation are included.

In this regard,

Future Offerings:

- i. Receive a report-back on results of the secondary offering which took place in April 2016
- ii. Direct the Ministry of Energy, working with the Ministry of Finance/Ontario Financing Authority and Treasury Board Secretariat to undertake analysis on options on the sale of the remaining shares with a report back to Treasury Board/Management Board of Cabinet no later than early 2017 on a recommended approach.

Chiefs of Ontario Agreement-in-Principle:

Approve the following implications of the agreement-in-principle between Chiefs of Ontario (COO) and the Province regarding First Nations participation in broadening of the ownership of Hydro One, subject to Definitive Agreements and with completion of the transaction also being subject to approvals having been obtained by at least 106 individual First Nations and the First Nations representing 80% of the proposed percentage interests in the Master Limited Partnership.

In this regard,

- i. Note the Ministry will undertake activities through the 2017-18 planning cycle supporting implementation potentially in advance of signing the Definitive Agreements, and before approvals in place from individual First Nations.
- ii. Receive a report back on the results of the negotiations with COO
- iii. Note that the Ministry of Finance will include into its future year estimates an operating asset totalling up to \$268,000,000 plus any fees of the Borrower's legal, administrative, and financial advisors not otherwise paid through a transfer payment agreement, up to a negotiated cap, for loans to the entity established by the First Nations for the purpose of borrowing the funds
- iv. Approve the loan agreement to be signed by the Minister of Finance, and the share purchase and contribution agreement to be signed by the Minister of Energy, that include the following key provisions:
 - a. The Province will advance term loans in up to three tranches.
 - b. The loans will be made to the borrowing entity to:
 1. Purchase Hydro One common shares.
 2. Pay for the fees of any legal, administrative, and financial advisors to COO up to a negotiated cap that are not otherwise paid through a transfer payment agreement.
 - c. The borrower will be able to vote any shares it owns upon closing of the transaction.

- d. The loans will mature and become repayable in full 25 years from the initial advance, subject to any standstill period imposed by the Province.
 - e. The interest rate applicable to the interest period (as selected by the borrower) will be the Province's borrowing rate for a term equal to the selected interest period, plus 15 basis points (bps, or 0.15 percentage points).
 - f. Interest will be payable in arrears at the end of each fiscal quarter.
 - g. Interest payments are to be made from quarterly dividends on the shares.
 - h. If the dividends are insufficient to pay the interest due on any interest payment date, the borrower may elect to defer payment of interest to the next interest payment date.
 - i. If the market value of the shares pledged by the borrower is equal to or greater than 1.5 times the outstanding principal and deferred interest on the loans, the borrower may use any dividends in excess of interest payments for its own purposes.
 - j. If the market value of the shares pledged by the borrower is less than 1.5 times the outstanding principal and deferred interest associated with the loans, the borrower must use the excess dividends (i.e. dividends remaining after payment of interest) solely to repay the loans.
 - k. The borrower may prepay the loans without penalty at the end of an interest period on customary notice and in minimum amounts.
 - l. If the borrower sells the pledged shares, the proceeds of the sale must be used to repay the loans.
 - m. If there is a change of control of Hydro One for cash, the borrower must repay the loans in full with any net cash proceeds received.
 - n. The loans will be secured by the pledged shares and by dividends received on the pledged shares. If the market value of the pledged shares is equal to or more than 1.5 times the outstanding principal and deferred interest on the loans, the borrower is entitled to request that the Lender release pledged shares (in minimum amounts to be mutually agreed upon) up to an amount so that the market value of the pledged shares is not less than 1.5 times the outstanding principal and deferred interest on the loans.
 - o. The shares will be sold at \$18 purchase price.
 - p. The shares will be sold under a securities law exemption and, therefore, will not be qualified under a prospectus.
- v. Recommend the financial implications of the Order in Council to authorize the Minister of Finance to enter into the loan agreements with the vehicle to be established by First Nations and to authorize certain officials to enter into other agreements that are necessary and desirable in connection with the loan agreements.
 - vi. Authorize the Minister of Energy to enter into the Share Purchase and Contribution Agreements with the vehicle to be established by First Nations.
 - vii. Note the Ministry of Energy will formally request an annual expenditure increase of up to \$15,000,000 in each of 2017-18, 2018-19, and 2019-20 under vote/item 2902-01 for a cash contribution to the Purchaser. Underspending will be returned to the Treasury Board Contingency Fund.

- viii. Approve an exemption from the mandatory requirements of the Transfer Payment Accountability Directive to provide autonomy to the Purchaser over the use of the cash contribution of \$45,000,000.
- ix. Approve an exemption from the mandatory requirements of the Cash Management Directive for all disbursements related to the Purchaser.
- x. Direct the Ministry to work with Ministry of Finance / Ontario Financing Authority and Treasury Board Secretariat to report back either through Quarterly Reporting or the 2017-18 Program Review, Renewal and Transformation process with estimates of the conferred benefit amounts, methodology used to project future market values, and estimates of other financial implications over the agreement timeline and proposed disclosure.

Métis Nation of Ontario Negotiating Mandate:

- i. Approve a negotiating mandate for the Ministry of Energy, including:
 - a. Sale of up to 0.5 percent of the current outstanding Hydro One shares to Métis Nation of Ontario (MNO) at a purchase price no less than \$18/share, and not below book value as calculated consistent with Hydro One's financial statements.
 - b. Terms and conditions including:
 - 1. Up to a 25 year loan.
 - 2. Interest rate equal to or no less than the Government of Ontario's borrowing rate plus 15 bps spread.
 - 3. Interest payments made only from dividends on the shares and are otherwise deferred.
 - 4. Recourse and security effectively limited to the pledged shares.
 - 5. Value-to-loan ratio of at least 150%; if value-to-loan ratio is less than the required margin, excess dividends must be applied to repay principal, and shares may be released from pledge only to the extent value of pledged shares exceed the required margin amount of outstanding loan (principal and deferred interest).
 - c. The borrower will be able to vote any shares it owns upon closing of the transaction.
 - d. An agreement that does not impede the Province from meeting its objectives to sell additional shares of Hydro One during negotiations and after agreement has been reached and to realize from those other sales, sufficient proceeds to meet fiscal objectives.
- ii. Note:
 - a. The Ministry of Energy will work with MNO in developing a communications protocol in order to enable effective negotiations, including appropriate media blackout.
 - b. Funding for negotiations would be sourced from existing allocations for future share offerings of Hydro One.
- iii. Direct the Ministry of Energy:

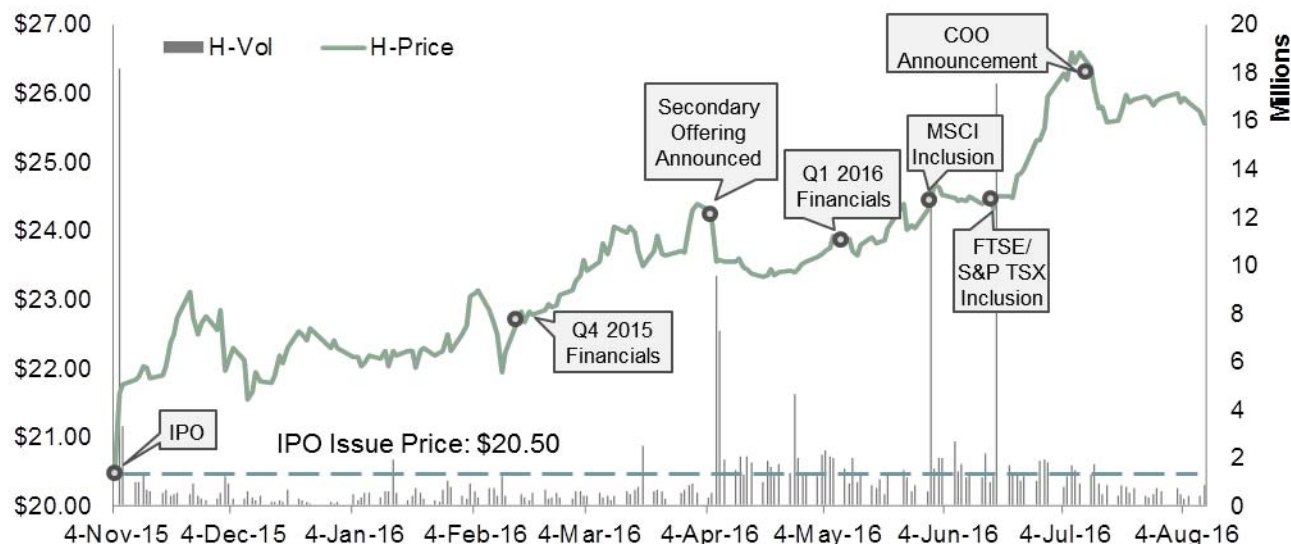
- a. To report back to Treasury Board/Management Board of Cabinet for approval prior to finalization of the term sheet.
- b. And the Ministry of Indigenous Relations and Reconciliation to work with other ministries as appropriate to develop an inventory of both current and planned support for Métis in order to inform negotiations.
- c. To work with the Ministry of Finance and the Ontario Financing Authority on the loan agreements.
- d. To work with Cabinet Office, Premier's Office, Ministry of Indigenous Relations and Reconciliation, Ministry of Finance/ Ontario Financing Authority and Treasury Board Secretariat on a communications plan.

APPENDIX B FINANCIAL IMPACTS

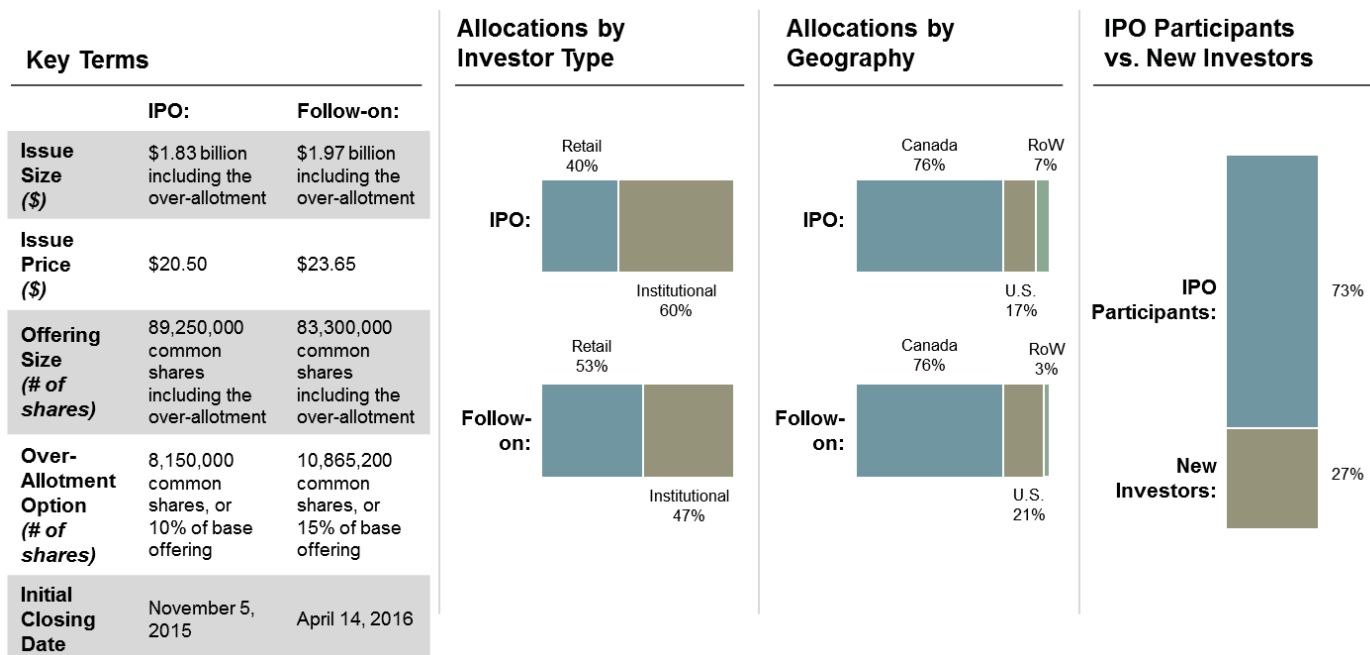
FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE				TABLE B1
	Fiscal Plan Basis			Appropriations Basis
\$ Millions	2015-16	2016-17	2017-18	2015-16
Initiative cost recommended	0.0000	0.0000	0.000	
Expense changes:				
Total Fiscal Impact (draw from c-funds)	0.0000	0.0000	0.0000	0.0000

APPENDIX C: BACKGROUND ON HYDRO ONE SHARE PERFORMANCE AND RESULTS OF SECONDARY SHARE SALES

The following graphic shows that the Hydro One share price continues to perform well. Performance has also benefited from the share's inclusion in key indices – Morgan Stanley Capital International Index (MSCI), S&P/TSX Composite, and the FTSE All-World Indices.



The following graphic provides details for the IPO and the Secondary Share Sale. Total gross proceeds from the share sale in April 2016 were \$1.97 billion.



The table below shows results to date along with fiscal plan estimates for 2017-18 and 2018-19 included in the 2016 Budget.

2016 Budget Assumptions	2015/16 (Actual)	2016/17 (Plan)	2016/17 (Actual To-date)
Gross Price Per Share (\$) <i>(before discounts/transaction costs)</i>	20.50	22.11	24.16
Net Price Per Share (\$) <i>(assuming 6.40% discount / fee / transaction cost)</i>	19.76	20.69	23.16
Percentage Sold (%)	15.9	14 ^{2/3}	14
Proceeds (\$B) <i>(net of discount / fee / transaction cost)</i>	1.90	1.81	1.93
Gain on Sale	0.8	0.49	0.60*
Deferred Tax Benefit (\$B) <i>(To be Updated by Public Accounts)</i>	2.4		

*Includes gain on OPG sale

For 2016-17, actuals to date for Gain on Sale at \$600M are about \$110M higher than the plan estimate.

However, the Ministry acknowledges this \$600M gain in 2016-17 may be adjusted downwards. The Office of the Provincial Controller has advised that for 2016-17, about \$70M in relation to shares acquired by Ontario Power Generation (OPG) may not be recognized as a gain immediately. Additionally, as the sale occurred at the beginning of the 2016-17 (April), forgone Hydro One net income is expected to be higher by at least \$40M, further reducing the overall fiscal impact from the sale of shares.

In 2015-16, gains from the Provincially financed Power Workers' Union (PWU) and The Society of Energy Professionals (Society) transactions will not be recognized immediately, affecting the gain on sale to be recognized for 2015-16 by about \$48M (from about \$830M to about \$780M, subject to finalisation in Public Accounts).

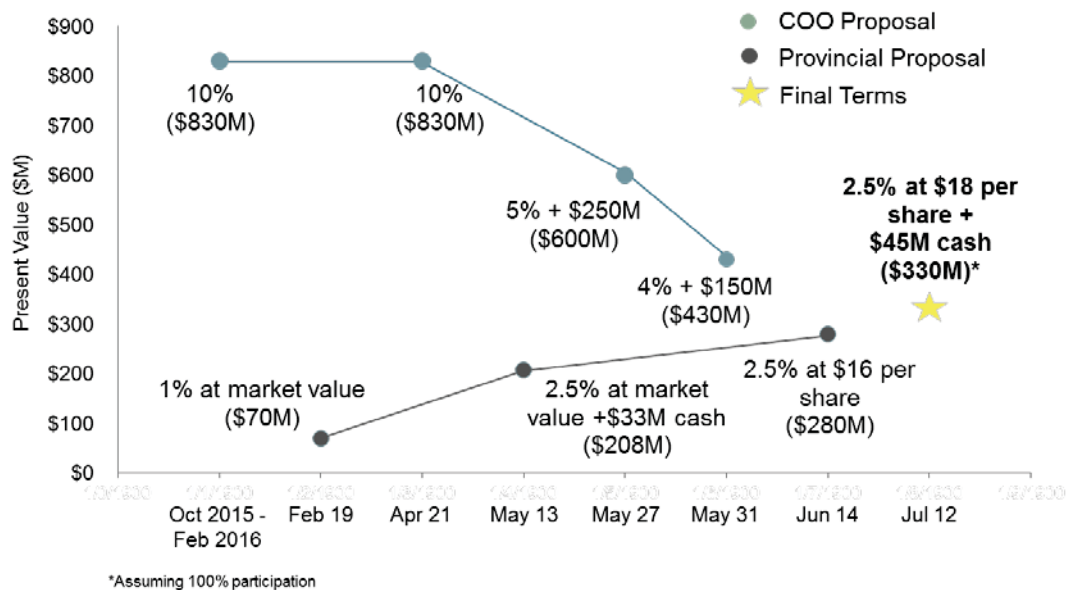
Additionally, the terms and conditions agreed with COO and potentially with MNO affect the projections in the Fiscal Plan and will have to be considered when setting up the minimum target price for future share sales to achieve the fiscal targets.

Estimates for 2017-18 and 2018-19 share sales are in the process of being discussed to take into account market conditions, updates to book value, results of recent transactions, and potential options on the sale of remaining shares (with potential report back to TB/MBC no later than early 2017).

APPENDIX D: BACKGROUND ON THE CHIEFS OF ONTARIO AGREEMENT

The graphic below indicates how both parties compromised to reach an agreement for broadening ownership of Hydro One to include First Nations.

COO and Provincial Proposals



Financial Terms:

- Share price at \$18 per share.
- Loan terms consistent with the union arrangements, except:
 - Term: 25 years (versus 15 years under union arrangements).
 - Repayment: Interest and mandatory principal payments before maturity to be made only to the extent dividends are paid on the shares. Mandatory principal payments before maturity only if the value of the shares falls below an agreed margin of 150% on the outstanding value of the loan (versus 200% under union arrangements).
 - Release of Shares: Shares may be released for use by COO as long as an agreed margin of 150% is maintained (versus 200% under union arrangement).
- Cash contribution of \$45M (\$15M per year assuming 100% First Nations participation, reduced to \$30M and prorated if less than 100% participation).
 - \$15M in year 1 and up to \$15M in each of year 2 and year 3, dependent on participation, which the Ministry of Energy will build into its future budgets.
 - Cash contribution is offset by increasing the price of share sold from \$16 (the floor of the TB/MBC mandate) to \$18.

Present and Nominal Value of Deal:

- Nominal value at the end of year 25 represents about \$1.1B. Present value today of the deal is ~\$330M, assuming discount rate of 5.69% and annual market growth of 4.2% for the first four years and 3.5% thereafter.

Non-financial Terms

Participation Thresholds and Incentives:

- If all 133 First Nations do not approve the transaction within 2 years from the date of the definitive agreements (unless the only First Nation that has not approved by that time is the one that has

been identified to the Province), then the Cash Contribution is stepped down by \$15M and the shares and remaining cash are pro-rated to reflect actual participation.

- COO confidentially identified one First Nation which may not participate in the deal.

- Minimum threshold participation required:

- 80% (106 First Nations) of the 133 First Nations.
- 80% of the proposed percentage interests in the new vehicle (as determined by COO and set out in the definitive agreements).

Release and Indemnification

- Each participating First Nation shall provide a binding certificate enforceable by the Province confirming that the First Nation shall not (i) initiate any court proceedings or take any other action seeking to prevent or interfere with any sales of common shares of Hydro One by the Province (not limited to 60% of Hydro One shares), (ii) seek damages relating to the IPO or any sales of Hydro One shares, or (iii) seek damages relating to the First Nations' fund vehicle.
- Purchaser, the investment fund, and the master limited partnership to provide an indemnity for any losses suffered by the Province as a result of First Nation claims relating to the foregoing, with recourse under the indemnity to the Purchaser's assets, including the pledged shares, and investment fund (the claim against the investment fund is unsecured). Note that the secured portion of any claim is covered by the same security as per the loan agreement.

Voting Rights: Agree to allow Purchaser voting rights on the pledged and released shares.

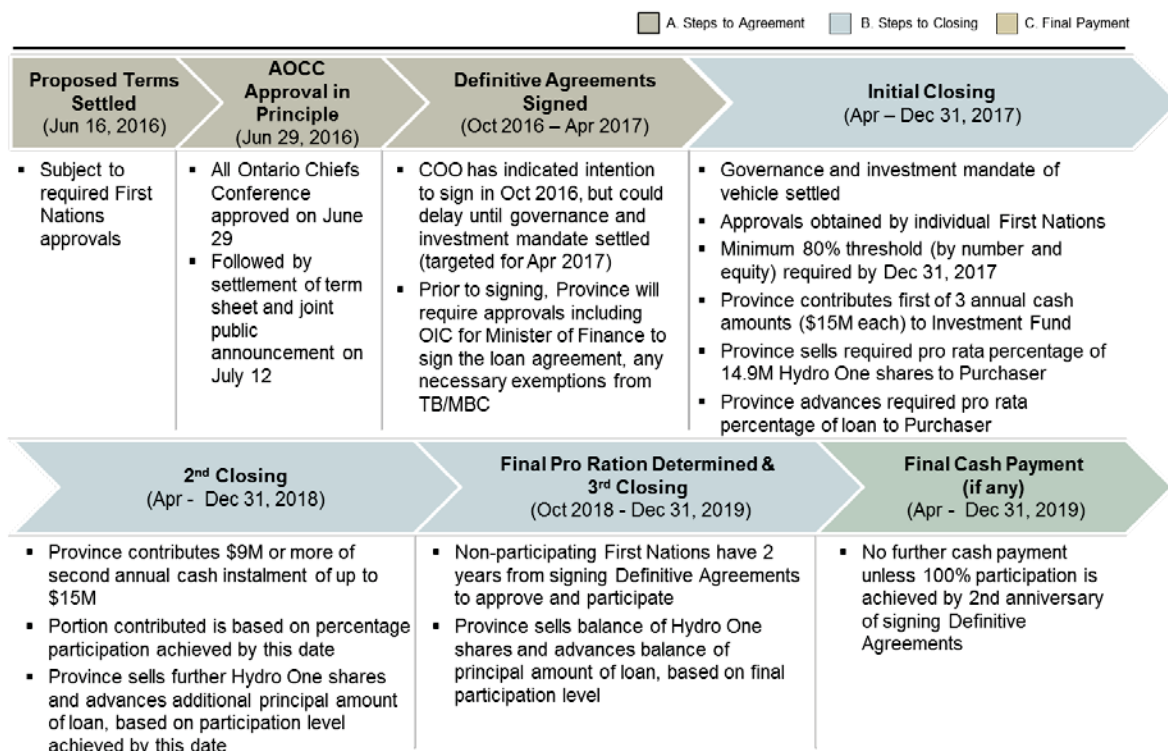
Reps and Warranties on Hydro One: No representations regarding Hydro One (from Hydro One or Province).

Due Diligence: Allow COO to conduct diligence after announcement and before signing definitive agreements, provided advisors and Chiefs Committee on Energy enter into a confidentiality agreement with Hydro One that prevents disclosure beyond that group.

Outside Date: Close by December 2017.

Standstill: No First Nation may dispose of or monetize its interest for 5 years after closing.

Autonomy: Purchaser will have full autonomy over its investments, without any requirements to report back to the Province on how funds are disbursed, however, only First Nations represented by COO will be able to hold interests in the Master Limited Partnership for the duration of the term of the loans.



APPENDIX E: BACKGROUND ON MÉTIS NATION OF ONTARIO DISCUSSIONS

The Ministry indicates the following negotiating mandate with Métis Nation of Ontario (MNO) will provide negotiators with flexibility and remain generally consistent with terms of the Chiefs of Ontario agreement-in-principle:

- **Amount:** up to 2,975,000 shares, which represents 0.5% of the current outstanding common shares outstanding of Hydro One, at a price of no less than \$18 per share.
- **Cash Contribution:** none.
- **Term:** the loans mature and become repayable in full up to 25 years from the initial advance
- **Interest Rate:** the Government of Ontario's borrowing rate for a term equal to the selected interest period, plus 15 basis points.
- **Interest Payments:** are made only from dividends on the shares and are otherwise deferred.
- **Principal Repayments:** Mandatory principal payments before maturity only if the value of shares falls below an agreed margin of at least 150% of the loan amount (including deferred interest).
- **Recourse and Security:** recourse to the shares effectively be limited to the pledged shares, including dividends received on the shares and the shares may be released from the security to the extent that the value-to-loan ratio exceeds at least 150%.
- **Release and Indemnity:** consider a more expansive release and indemnity relative to the First Nations arrangement given that the Province has not made any commitments to the MNO to discuss grievances separately (but would be prepared to accept commitments comparable to COO agreement-in-principle).
- **Voting Rights:** Voting rights upon closing.

Benefits to Métis:	Benefits to the Province:	Métis unique when compared to First Nations:
• Direct economic benefit from equity ownership in Hydro One and long-term value to improve quality of life • Access to a direct non-governmental revenue stream in the form of dividends, which would improve the financial footing of many Métis • As Hydro One shareholders, all Métis represented by the MNO would benefit, regardless of size, geography, wealth and access to energy resources • Become active participants in capital markets • Own an asset that accumulates value and could be used to collateralize the acquisition of lower-cost debt required to finance economic development projects, once the loan is repaid	• Demonstrate Ontario's commitment to Métis economic development and to supporting Métis participation in the energy sector • Help to improve relations and align interests between Métis and Hydro One • Help improve relations with Métis in Ontario • Obtain commitment not to interfere with sales of Hydro One shares	• Métis population in Ontario is significantly smaller than that of First Nations • Economic circumstances on reserves for First Nations are dire • Métis do not have reserves and their population is dispersed in the province with clusters located in cities and towns • An existing government sponsored vehicle exists in the Métis Voyageur Development Fund • Governance structure of the MNO is different from that of First Nations

12 - September 13, 2016 - Report Back on Outcomes of Hydro One Secondary Offering.pdf



TREASURY BOARD/MANAGEMENT BOARD OF CABINET

TB/MBC Date: September 13, 2016, held in the Treasury Board/Management Board of Cabinet Boardroom, 1st Floor, Frost Building South, at 3:00 pm.

Attendees: Ms. L. Sandals (Chair), Mr. C. Sousa, Ms. L. Albanese, Mr. B. Chiarelli, Mr. K. Flynn, Mr. J. Leal, Mr. B. Mauro, Ms. E. McMahon, and Mr. Y. Baker.

Item Number: 06

Ministry: Energy

Title: Report Back on Outcomes of Hydro One Secondary Offering, Chiefs of Ontario Negotiations, and Métis Discussions

Type of Item: General

Received a series of reports on activities related to broadening Hydro One Ownership. Where required, additional decisions supporting next steps in implementation are included.

In this regard, the Board:

Future Offerings:

- i) Received a report on the results of the secondary offering which took place in April 2016.
- ii) Directed the Ministry of Energy (ENERGY), working with the Ministry of Finance/Ontario Financing Authority (MOF/OFA) and Treasury Board Secretariat (TBS) to undertake analysis on options on the sale of the remaining shares with a report back to Treasury Board/Management Board of Cabinet no later than early 2017 on a recommended approach.

Chiefs of Ontario Agreement-in-Principle:

Approved the following implications of the agreement-in-principle between Chiefs of Ontario (COO) and the Province regarding First Nations participation in broadening of the ownership of Hydro One, subject to Definitive Agreements and with completion of the transaction also being subject to approvals having been obtained by at least 106 individual First Nations and the First Nations representing 80 per cent of the proposed percentage interests in the Master Limited Partnership.

In this regard, the Board:

- i) Received a report back on the results of the negotiations with COO.
- ii) Noted that ENERGY will undertake activities through the 2017-18 planning cycle supporting implementation potentially in advance of signing the Definitive Agreements, and before approvals are in place from individual First Nations.
- iii) Noted that the Ministry of Finance (MOF) will include into its future year estimates an operating asset totalling up to \$268,000,000 plus any fees of the Borrower's legal, administrative, and financial advisors not otherwise paid through a transfer payment agreement, up to a negotiated cap, for loans to the entity established by the First Nations for the purpose of borrowing the funds.
- iv) Approved the loan agreement to be signed by the Minister of Finance, and the share purchase and contribution agreement to be signed by the Minister of Energy, that include the following key provisions:
 - a) The Province will advance term loans in up to three tranches.
 - b) The loans will be made to the borrowing entity to:
 - 1) Purchase Hydro One common shares.
 - 2) Pay for the fees of any legal, administrative, and financial advisors to COO up to a negotiated cap that are not otherwise paid through a transfer payment agreement.

September 13, 2016

- c) The borrower will be able to vote on any shares it owns upon closing of the transaction.
- d) The loans will mature and become repayable in a full 25 years from the initial advance, subject to any standstill period imposed by the Province.
- e) The interest rate applicable to the interest period (as selected by the borrower) will be the Province's borrowing rate for a term equal to the selected interest period, plus 15 basis points (bps, or 0.15 percentage points).
- f) Interest will be payable in arrears at the end of each fiscal quarter.
- g) Interest payments are to be made from quarterly dividends on the shares.
- h) If the dividends are insufficient to pay the interest due on any interest payment date, the borrower may elect to defer payment of interest to the next interest payment date.
- i) If the market value of the shares pledged by the borrower is equal to or greater than 1.5 times the outstanding principal and deferred interest on the loans, the borrower may use any dividends in excess of interest payments for its own purposes.
- j) If the market value of the shares pledged by the borrower is less than 1.5 times the outstanding principal and deferred interest associated with the loans, the borrower must use the excess dividends (i.e. dividends remaining after payment of interest) solely to repay the loans.
- k) The borrower may prepay the loans without penalty at the end of an interest period on customary notice and in minimum amounts.
- l) If the borrower sells the pledged shares, the proceeds of the sale must be used to repay the loans.
- m) If there is a change of control of Hydro One for cash, the borrower must repay the loans in full with any net cash proceeds received.

September 13, 2016

- n) The loans will be secured by the pledged shares and by dividends received on the pledged shares. If the market value of the pledged shares is equal to or more than 1.5 times the outstanding principal and deferred interest on the loans, the borrower is entitled to request that the Lender release pledged shares (in minimum amounts to be mutually agreed upon) up to an amount so that the market value of the pledged shares is not less than 1.5 times the outstanding principal and deferred interest on the loans.
- o) The shares will be sold at a purchase price of \$18.
- p) The shares will be sold under a securities law exemption and, therefore, will not be qualified under a prospectus.
- v) Recommended the financial implications of the Order in Council to authorize the Minister of Finance to enter into the loan agreements with the vehicle to be established by First Nations and to authorize certain officials to enter into other agreements that are necessary and desirable in connection with the loan agreements.
- vi) Authorized the Minister of Energy to enter into the Share Purchase and Contribution Agreements with the vehicle to be established by First Nations.
- vii) Noted that ENERGY will formally request an annual expenditure increase of up to \$15,000,000 in each of 2017-18, 2018-19, and 2019-20 for a cash contribution to the Purchaser. Underspensing will be returned to the Treasury Board Contingency Fund.
- viii) Approved an exemption from the mandatory requirements of the Transfer Payment Accountability Directive to provide autonomy to the Purchaser over the use of the cash contribution of \$45,000,000.
- ix) Approved an exemption from the mandatory requirements of the Cash Management Directive for all disbursements related to the Purchaser.
- x) Directed ENERGY to work with MOF/OFA and TBS to report back either through the Quarterly Reporting process or in the 2017-18 Program Review, Renewal and Transformation plan with estimates of the conferred benefit amounts, methodology used to project future market values, and estimates of other financial implications over the agreement timeline and proposed disclosure.

September 13, 2016

Métis Nation of Ontario Negotiating Mandate:

- i) Approved a negotiating mandate for ENERGY, including:
 - a) Sale of up to 0.5 per cent of the current outstanding Hydro One shares to the Métis Nation of Ontario (MNO) at a purchase price no less than \$18 per share, and not below book value as calculated consistent with Hydro One's financial statements.
 - b) Terms and conditions including:
 - 1) Up to a 25 year loan.
 - 2) Interest rate equal to or no less than the Government of Ontario's borrowing rate plus a 15 bps spread.
 - 3) Interest payments made only from dividends on the shares and are otherwise deferred.
 - 4) Recourse and security effectively limited to the pledged shares.
 - 5) Value-to-loan ratio of at least 150 per cent; if value-to-loan ratio is less than the required margin, excess dividends must be applied to repay principal, and shares may be released from the pledge only to the extent the value of the pledged shares exceed the required margin amount of outstanding loan (principal and deferred interest).
 - c) The borrower will be able to vote on any shares it owns upon closing of the transaction.
 - d) An agreement that does not impede the Province from meeting its objectives to sell additional shares of Hydro One during negotiations, and after agreement has been reached, and to realize from those other sales, sufficient proceeds to meet fiscal objectives.
- ii) Noted that:
 - a) ENERGY will work with MNO in developing a communications protocol in order to enable effective negotiations, including an appropriate media blackout.

September 13, 2016

- b) Funding for negotiations would be sourced from existing allocations for future share offerings of Hydro One.

iii) Directed ENERGY:

- a) To report back to TB/MBC for approval prior to finalization of the term sheet.
- b) And the Ministry of Indigenous Relations and Reconciliation (MIRR) to work with other ministries as appropriate to develop an inventory of both current and planned support for Métis in order to inform negotiations.
- c) To work with MOF and the OFA on the loan agreements.
- d) To work with the Office of the Premier, Cabinet Office, MIRR, MOF/OFA and TBS on a communications plan.

Secretary, Treasury Board and
Management Board of Cabinet

Distribution

Mr. S. Imbrogno
Mr. S. Thompson
Ms. H. Angus
Ms. D. Richardson
Mr. R. Burns
Mr. H. Zisser
Ms. M. Fraser
Ms. P. Reid

13 - February 14, 2017 - Hydro One Secondary Share Sale Strategy.pdf



TREASURY BOARD/MANAGEMENT BOARD OF CABINET

TB/MBC Date: February 14, 2017, held in the Treasury Board/Management Board of Cabinet Boardroom, at 1:00 pm.

Attendees: Ms. L. Sandals (Chair), Mr. B. Chiarelli, Ms. E. McMahon, and Mr. Y. Naqvi.

Item Number: 07

Ministry: Energy

Title: Hydro One Secondary Share Sale Strategy

Type of Item: Financial Transaction

Approved a secondary share sale strategy for 2017-18 for the Ministry of Finance and the Ministry of Energy.

In this regard, the Board:

- i) Received a report back on a recommended approach to the sale of remaining Hydro One shares.
- ii) Approved:
 - a) A secondary share sale strategy for the Ministries of Energy and Finance, including:
 - 1) Sale(s) of up to 25%, subject to the advice of the Expert Investment Advisory Committee of the Province's interest in Hydro One voting securities, through a bought / overnight marketed transaction, less up to 3% which has been allocated for First Nation and Métis transactions.
 - 2) Flexibility on the number of and timing of offering(s) depending on market conditions and with the objective of maximizing the return to Ontario.
 - 3) The secondary offering shares will also be listed on the Toronto Stock Exchange.

February 14, 2017

- 4) The price of the offering will be approved by the Ministry of Energy working together with Ministry of Finance, Ontario Financing Authority and the Expert Investment Advisory Committee in consultation with the active bookrunners and underwriters.
- 5) The combined fee and discount will be no more than 7%, comprised of a 1-3% fee and 3-5% discount.
- b) An exemption from the open competitive requirements of the OPS Procurement Directive to allow for a procurement to acquire active book runners for the secondary share sale(s), and in this regard:
 - 1) Approved an exemption from the mandatory requirements of the OPS Procurement Directive in respect of the procurement documents for this procurement.
 - 2) Approved the reimbursement of expenses for active book runners and other costs associated with the transaction.
- iii) Authorized the Minister of Energy to sign the prospectus supplement, underwriting agreement, lock up agreement, and other ancillary agreements necessary to complete secondary offerings in 2017-18.
- iv) Directed the Ministry of Energy:
 - a) To provide necessary information to the Ministry of Finance (Ontario Financing Authority), and Treasury Board Secretariat to develop regulations under the Trillium Trust Act, 2014, associated with any shares sold.
 - b) To work with Treasury Board Secretariat to refine its 2017-18 funding requirements for transaction costs related to the 2017-18 secondary share sale strategy.
 - c) And the Ministry of Finance to work with the Office of the Premier, Cabinet Office, and Treasury Board Secretariat on a communications plan.
- v) Approved the creation of a new transfer payment line in the Ministry of Energy entitled "Strategic Asset Management Indigenous Engagement" in (Vote/Item 2906-1), and a reallocation of \$1,000 from Services in the same Vote/Item, to facilitate future engagement with First Nations and Métis groups.

February 14, 2017

ADMINISTRATIVE DATA

Authorization	Vote	Item	Amount	Standard / Sub-Account
Expenditure Increase	2906	1	\$1,000	Transfer Payments/Strategic Asset Management Indigenous Engagement
Expenditure Decrease	2906	1	\$1,000	Services

Secretary, Treasury Board and
Management Board of Cabinet

Distribution

Mr. S. Imbrogno
Mr. S. Thompson
Mr. R. Burns
Mr. H. Zisser

14 - Assessment Note - MOF - Ontario Electricity Financial Corporation Post Year-End Transactions - TBMBC.pdf

TREASURY BOARD / MANAGEMENT BOARD OF CABINET REQUEST ASSESSMENT NOTE



Ministry:	Finance
Meeting Date:	May 9, 2017
Agenda Class:	Consensus (In-Camera)
Last reviewed by: N/A	Tracking to: Cabinet, May 17, 2017

SUBMISSION TITLE:

Ontario Electricity Financial Corporation Post Year-End Transactions

I. DECISION BEFORE THE BOARD

- The Ministry of Finance is requesting fiscally neutral statutory appropriation increases to reflect the financial benefit and corporate income tax provision owed to the Ontario Electricity Financial Corporation (OEFC) for the 2016-17 year.

II. RECOMMENDATIONS:

• Receive a report back from the Ministry of Finance on statutory appropriations for OEFC Financial Benefit and Hydro One Provincial Corporate Tax Provision.	<i>Receive</i>
• Approve an increase in statutory appropriation of \$411.2M in 2016-17 for OEFC Financial Benefit under the <i>Electricity Act</i> , 1998.	<i>Approve</i>
• Approve an increase in statutory appropriation of \$24.8M in 2016-17 for the Hydro One Provincial Corporate Tax Provision under the <i>Electricity Act</i> , 1998.	<i>Approve</i>
• Note that the increases in statutory appropriation will be fiscally neutral upon consolidation.	<i>Note</i>

III. FINANCIAL SUMMARY

\$ Millions	2016-17	2017-18	2018-19
Initiative cost requested	436.0	0.0	0.0
Initiative cost recommended	436.0	0.0	0.0
Recommended program base	436.0	0.0	0.0
Offset Recommended – Increase in Consolidated Revenue	(436.0)	0.0	0.0
Total Fiscal Impact	0.0	0.0	0.0

IV. KEY COMMENTS AND CONSIDERATIONS

The Ministry of Finance (MOF) is seeking approval for two post year-end transactions in 2016-17 related to the Ontario Electricity Financial Corporation (OEFC) including:

- The financial benefit of \$411.2M owed to OEFC as a result of the Hydro One secondary share offering (see *Appendix C* for details on the components of the calculation); and
- The Corporate Income Tax (CIT) provision of \$24.8M owed to OEFC.

Both payments are required under amendments made to the *Electricity Act, 1998* in the 2015 Budget to support the sale of Hydro One share offerings (see *Appendix D* for the relevant excerpts from the *Electricity Act*).

Payment 1: Financial Benefit from the Sale of Hydro One Shares

In April 2016, through the secondary share offering, the Province sold 14 per cent of Hydro One's common shares at a price of \$23.65 per share generating gross proceeds of approximately \$2B. The financial benefit to be allocated to OEFC regarding the 2016-17 Hydro One share sales would be \$411,152,733 (See *Appendix C* for calculation details).

The payment to OEFC would be made by granting a remission of debt owed by OEFC (a non-cash payment). This reflects Section 50.3 of the *Electricity Act*, which allows for the Minister of Finance to make the payments to OEFC in cash, or by set off, through the issuance of securities or debt obligations, debt remission, or in another form as determined by the Minister.

The Ontario Financing Authority is aware that there will be a requirement for the Minister to select debt obligations owed by OEFC to the Province for remission.

Payment 2: Provincial Corporate Income Tax Provision

Under the amendments made to the *Electricity Act, 1998* in the 2015 Budget, the Minister of Finance has a statutory requirement to pay OEFC in each fiscal year an amount equal to tax payable under the *Taxation Act, 2007* (i.e., the provincial corporate income tax (CIT)) by Hydro One Inc. and its subsidiaries for the taxation year ending in each fiscal year, to continue to help service and pay down the electricity sector stranded debt.

Hydro One's taxation year is from January 1 to December 31, which differs from the Province's fiscal year from April 1 to March 31. The CIT for Hydro One and its subsidiaries for 2016-17 (from January 1 to December 31, 2016) is \$24.8M, provided by Hydro One and is unaudited.

Fiscal Impact

Both these transactions are fiscally neutral for the Province upon consolidation of OEFC in the Public Accounts of Ontario as these payments to OEFC would be recorded as an expense for the Ministry and as revenue by OEFC. OEFC is an agency of MOF, and is fully consolidated into Public Accounts.

Relation to Trillium Trust

The calculation and payment of the transactions are separate and distinct from the Province's commitment to dedicating the net revenue gains from broadening Hydro One ownership to the Trillium Trust. While both calculations include components related to the sale of Hydro One, the two calculations are separately determined and follow different legislative guidelines.

The Ministry indicates that by providing a non-cash benefit under Section 50.3 of the *Electricity Act*, this form of payment allows for net cash proceeds from the sale to be dedicated to the Trillium Trust while ensuring that a financial benefit can be provided to OEFC. The Ministry

indicates that this approach provides support that the Province is not “double counting” the proceeds from selling Hydro One shares and also supports the government’s commitment to Trillium Trust (See *Appendix E* for details on the Trillium Trust calculations).

Risks

The Office of the Auditor General (OAG) would likely have interest in these determinations, given that the OAG review transactions related to Hydro One share sales, especially more now because of the recent reforms in the electricity sector. In addition, the OAG audits both the MOF’s and OEFC’s financial statements.

The Office of the Provincial Controller (OPCD), Ontario Financing Authority (OFA), and MOF have worked together to address concerns around the timing of the benefit, and its relation to the Hydro One file. All parties are supportive of this transaction being brought to TB/MBC at this time, separate from other post year-end transactions, in order to ensure that the amount can be included in the Ministry’s and OEFC’s audited financial statements with enough time to allow for audit review and consideration.

Proceeding at this time also proactively mitigates stakeholders concerns regarding why OEFC has not yet received a benefit associated with the secondary share offering that occurred in April 2016.

The Ministry indicates that the financial benefit may be seen as relatively low compared to the gain on sale and net cash proceeds amount to be dedicated to the Trillium Trust. There may also be a risk that stakeholders may view the financial benefit to OEFC and the net proceeds credited to the Trillium Trust as double counting.

The Ministry indicates that these risks would be mitigated through a communication plan which would focus on the various upfront benefits to OEFC from the broadening of ownership of Hydro One and the fact that the government has effectively been dedicating the net gains from the Province’s ownership of Hydro One to OEFC over time, for many years, through the Electricity Sector Dedicated Income.

Communication materials would also note that the financial benefit to OEFC resulting from the secondary offering is significantly higher than the financial benefit resulting from the Initial Public Offering, driven primarily by the higher share price achieved by the Province in the secondary offering.

Proposed Timeline

Both transactions would be implemented as a post year-end adjustment, with the payment amount to appear in 2016-17 Public Accounts and OEFC’s financial statements.

As flagged under Risks (above), MOF indicates that deferring the submission to a later date, such as after Public Accounts are signed off on by the Auditor General, would create sequencing and timing challenge.

Minister's determination is required for the purposes of including the amounts in the OEFC financial statements and would need to be reviewed by OEFC's Audit Committee/Board and the Office of the Auditor General prior to being published in the Public Accounts.

Name of analyst:	Sohaeb Raashid	Phone number:	416-327-2067
Date:	May 5, 2017	Log number:	
Branch / Division:	GGPR, PEMD		

APPENDIX A: PROPOSED MINUTE

Receive a report from the Ministry of Finance on statutory appropriations for Ontario Electricity Financial Corporation (OEFC) Financial Benefit and the Hydro One Inc. Provincial Corporate Tax Provision for 2016-17.

In this regard, the Board:

- i) Approve an increase of \$411,152,733 in statutory appropriation for “Ontario Electricity Financial Corporation Financial Benefit – Asset Optimization, the Electricity Act, 1998”, under the Economic, Fiscal and Financial Policy Program (Vote/Item 1203-S), in 2016-17;
- ii) Approve an increase of \$24,800,000 in statutory appropriation for “Hydro One Inc., Provincial Corporate Tax Provision, the Electricity Act, 1998”, under the Economic, Fiscal and Financial Policy Program (Vote/Item 1203-S), in 2016-17.
- iii) Note that the increases in statutory appropriation will be fiscally neutral upon consolidation.

APPENDIX B: FINANCIAL IMPACTS

Financial Impacts: Changes to Expense and Revenue				Table B1 Appropriations Basis
		Fiscal Plan Basis		
\$ Millions		2016-17	2017-18	2018-19
Initiative cost recommended		436.0	0.0	0.0
Expense changes:				
Statutory Appropriation	Oper	436.0	0.0	0.0
Revenue changes:				
Revenue increase (Consolidation)		436.0	0.0	0.0
Revenue decrease		0.0	0.0	0.0
Total Fiscal Impact		0.0	0.0	0.0

APPENDIX C: ONTARIO ELECTRICITY FINANCING CORPORATION BENEFIT CALCULATION

The following table provides the calculation of the benefit to the Ontario Electricity Financial Corporation.

Proposed payment pursuant to subsection 50.3(2) of the <i>Electricity Act, 1998</i>	\$
Total proceeds paid to the Crown in respect of the 2016 disposition of 83,300,000 common shares of Hydro One Limited (the “subject securities”)	\$1,970,045,000
Less: purchase price of the subject securities associated with the original acquisition of common shares of Ontario Hydro Services Company Inc. (subsequently converted into common shares of Hydro One Limited)	\$481,040,000
Less: purchase price of the subject securities associated with the 2015 acquisition of common shares in Hydro One Limited	\$364,014,000
Less: Electricity Sector Dedicated Income amounts that have been allocated by the Crown to the Ontario Electricity Financial Corporation as of March 31, 2016, which are attributable to the subject securities	\$673,320,304
Less: costs incurred by the Crown in disposing of the subject securities	\$40,517,963
Payment to Ontario Electricity Financial Corporation	\$411,152,733

APPENDIX D: EXTRACT OF THE ELECTRICITY ACT, 1998

Financial Benefit from the sale of Hydro One Initial Public Offering (IPO)

Proceeds of disposition

50.3 (1) This section applies if an amount is payable into the Consolidated Revenue Fund in respect of,

- (a) the disposition of any securities or debt obligations of, or other interest in, Hydro One Inc. or any of its subsidiaries, a corporation established under section 50, a corporation or other entity established under section 50.1 or an arrangement made under section 50.1; or
- (b) capital for any shares of Hydro One Inc. 2015, c. 20, Sched. 9, s. 7.

Payment to Financial Corporation

(2) The Minister of Finance shall pay to the Financial Corporation an amount equal to the proceeds payable to the Crown in respect of the disposition of securities, debt obligations or other interest described in clause (1) (a),

- (a) less any amount that the Minister considers advisable in connection with the acquisition of the securities, debt obligations or interest, including the amount of the purchase price, any obligations assumed and any other costs incurred by the Crown and any amounts which have been allocated by the Crown to the Financial Corporation in respect of the securities; and
- (b) less the amount of any costs incurred by the Crown in disposing of the securities, debt obligation or interest. 2015, c. 20, Sched. 9, s. 7.

Same

(3) The Minister of Finance shall pay to the Financial Corporation an amount equal to the amount payable to the Crown in respect of capital for any shares of Hydro One Inc. less any amount that the Minister considers advisable in connection with the acquisition of the shares, including the amount of the purchase price, any obligations assumed and any other costs incurred by the Crown. 2015, c. 20, Sched. 9, s. 7.

Payment methods

(4) The amounts payable to the Financial Corporation under subsections (2) and (3) are payable out of the Consolidated Revenue Fund and the Minister of Finance shall make the payments in cash, by set off, through the issuance of securities or debt obligations or in another form as determined by the Minister. 2015, c. 20, Sched. 9, s. 7.

Same

(5) The Minister's authority under subsection (4) to make a payment through the issuance of securities or debt obligations includes the authority to determine their terms and conditions. 2015, c. 20, Sched. 9, s. 7.

Same

(6) For greater certainty, the Minister's authority under subsection (4) includes making a payment by granting a remission of all or part of a debt owed by the Financial Corporation to Her Majesty in right of Ontario, and any remission so granted shall be reported to the Legislature in the Public Accounts. 2015, c. 20, Sched. 9, s. 7.

Provincial Corporate Income Tax Payable

Payment to Financial Corporation

91.2 (1) In each fiscal year of the Province, the Minister of Finance shall pay to the Financial Corporation from the Consolidated Revenue Fund an amount equal to the amount of tax payable under the *Taxation Act, 2007* by Hydro One Inc. or a subsidiary of Hydro One Inc. for the taxation year that ends in the fiscal year. 2015, c. 38, Sched. 3, s. 4.

Exception

(2) Subsection (1) does not apply in respect of tax payable by a prescribed subsidiary of Hydro One Inc. for a prescribed taxation year. 2015, c. 38, Sched. 3, s. 4.

Application of s. 50.2.1

(3) Section 50.2.1 does not apply to this section. 2015, c. 38, Sched. 3, s. 4.

Regulations

(4) The Minister of Finance may make regulations,

- (a) prescribing subsidiaries of Hydro One Inc. for the purposes of subsection (2);
- (b) prescribing taxation years for the purposes of subsection (2). 2015, c. 38, Sched. 3, s. 4.

Repeal

(5) This section is repealed on the day on which Part V is repealed under section 84.1. 2015, c. 38, Sched. 3, s. 4.

APPENDIX E: TRILLIUM TRUST & PAYMENT TO OEFC CALCULATIONS

- ▶ In March 2017, the government credited the Trillium Trust with \$538M from the April 2016 secondary offering of Hydro One shares.
- ▶ The Province is now moving forward to provide OEFC with a financial benefit as required under section 50.3 of the Electricity Act and which will be recognized in OEFC's financial statements in fiscal 2016-17.
- ▶ The calculation and payment of this financial benefit to OEFC is separate and distinct from the Province's commitment to dedicating the net revenue gains from the Hydro One secondary offering to the Trillium Trust.
- ▶ While both calculations include, as components, amounts related to sale of Hydro One shares, the two calculations are separately determined and the calculations follow different legislative guidelines.

Transaction Summary

■ Deductions
■ Net Payment

Trillium Trust		OEFC	
Total Proceeds \$1.97B	Trans Costs	Total Proceeds \$1.97B	Trans Costs
	H1 Book Value @ Date of Sale \$1,321M		Original H1 Book Value \$481M
			Capital Contribution \$364M
			ESDI \$673M
	Deferred Gain \$70M		
	Net Proceeds to Trillium Trust \$538M		Payable to OEFC \$411M*

* Note: Subject to TB approval.

14 - May 9, 2017 - Ontario Electricity Financial Corporation Financial Benefit and Corporate Income Tax Provision.pdf



TREASURY BOARD/MANAGEMENT BOARD OF CABINET

TB/MBC Date: May 9, 2017, held in the Council Chamber, Room 275, Legislative Building, at 3:15 pm.

Attendees: Ms. L. Sandals (Chair), Mr. C. Sousa, Mr. B. Chiarelli, Mr. K. Flynn, Ms. E. McMahon and Mr. Y. Naqvi.

Item Number: 10

Ministry: Finance

Title: Ontario Electricity Financial Corporation Financial Benefit and Corporate Income Tax Provision

Type of Item: General

Received a report from the Ministry of Finance on statutory appropriations for Ontario Electricity Financial Corporation (OEFC) Financial Benefit and the Hydro One Inc. Provincial Corporate Tax Provision for 2016-17.

In this regard, the Board:

- i) Approved an increase of \$411,152,700 in statutory appropriation for “Ontario Electricity Financial Corporation Financial Benefit – Asset Optimization, the Electricity Act, 1998”, under the Economic, Fiscal and Financial Policy Program (Vote/Item 1203-S), in 2016-17.
- ii) Approved an increase of \$24,800,000 in statutory appropriation for “Hydro One Inc., Provincial Corporate Tax Provision, the Electricity Act, 1998”, under the Economic, Fiscal and Financial Policy Program (Vote/Item 1203-S), in 2016-17.
- iii) Noted that the increases in statutory appropriation will be fiscally neutral upon consolidation.

May 9, 2017

ADMINISTRATIVE DATA

Authorization	Vote	Item	Amount	Standard / Sub-Account
2016-17:				
Expenditure Increase	1203	S	\$411,152,700	Ontario Electricity Financial Corporation Financial Benefit - Asset Optimization
			\$24,800,000	Hydro One Inc., Provincial Corporate Tax Provision, the Electricity Act, 1998

Secretary, Treasury Board and
Management Board of Cabinet

Distribution

Mr. S. Thompson
Mr. H. Zisser

15 - April 10, 2018 - Report Back on Metis Nation of Ontario Negotiations.pdf



TREASURY BOARD/MANAGEMENT BOARD OF CABINET

TB/MBC Date: April 10, 2018, held in the TB/MBC Boardroom, 1st Floor, Frost Building South, at 3:00 pm.

Attendees: Ms. E. McMahon (Chair), Mr. C. Sousa, Ms. L. Albanese, Mr. B. Chiarelli, Mr. C. Ballard, Mr. K. Flynn, Mr. J. Leal, Mr. Y. Naqvi and Mr. P. Milczyn.

Item Number: 07

Ministry: Energy

Title: Report Back on Metis Nation of Ontario Negotiations

Type of Item: General

Received a report back on the results of the negotiations with Métis Nation of Ontario (MNO) related to broadening ownership of Hydro One, prior to finalization of key terms to be incorporated into definitive agreements.

In this regard, the Board:

- i) Approved an exemption from the mandatory requirements of the Transfer Payment Accountability Directive to provide autonomy to MNO over the use of a cash contribution of \$27,500,000 to be provided by the Province to MNO.
- ii) Noted the Ministry will disburse the cash contribution once conditions in the Contribution Agreement are met. Conditions include, but may not be limited to:
 - a) MNO obtains a unanimous resolution from the Provisional Council of the Métis Nation of Ontario Board (other than the youth member), or the approval by the members of the MNO at the Annual General Assembly of the investment vehicle, Contribution Agreement, and the release and indemnification.

April 10, 2018

- b) Establish an appropriate investment vehicle to support the economic and long-term wealth creation for the benefit of MNO citizens.
- iii) Directed the Ministry to work with Cabinet Office, the Office of the Premier, Ministry of Indigenous Relations and Reconciliation, Ministry of Finance and Treasury Board Secretariat on a communications plan.

Secretary, Treasury Board and
Management Board of Cabinet

Distribution

Mr. S. Imbrogno
Ms. D. Richardson
Mr. R. Burns
Ms. P. Reid

15 - Assessment Note - ENERGY_Report on MØtis Nation of Ontario.pdf



REVISED TAB 1
TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	April 10, 2018
Agenda Class:	Discussion (In Camera)
Last reviewed by: TB/MBC (September 2016)	Tracking to: Cabinet (April 11, 2018)

SUBMISSION TITLE: Report on Métis Nation of Ontario (MNO) Negotiations regarding Broadening the Ownership of Hydro One

I. DECISION BEFORE THE BOARD

Receive a report on Métis Nation of Ontario (MNO) negotiations regarding broadening the ownership of Hydro One, and approve tentative implementation plan, that is to be refined for negotiation outcomes.

II. RECOMMENDATIONS

Receive a report on the results of the negotiations with MNO, prior to finalization of key terms to be incorporated into definitive agreements.	Receive
Approve exemption from the mandatory requirements Transfer Payment Accountability Directive, to provide autonomy to MNO over the use of a cash contribution of \$27.5M to be provided by the Province to MNO	Approve

III. FINANCIAL SUMMARY

\$ Millions	2018-19	2019-20	2020-21
Initiative cost requested	27.5	0.0	0.0
Initiative cost recommended	27.5	0.0	0.0
Offset recommended (Strategic Asset Management Allocation in Energy for this transaction)	(27.5)	0.0	0.0
Total Fiscal Impact	0.0	0.0	0.0

IV. KEY COMMENTS AND CONSIDERATIONS

In November 2015, Métis Nation of Ontario (MNO) expressed an interest in dialogue with the Province in relation to the offering. TB/MBC approved an MNO negotiating mandate for the Ministry in September 2016.

The Ministry is returning to TB/MBC, prior to finalization of key terms to be incorporated into definitive agreements with MNO, to seek approval to accept MNO's request of a cash contribution of \$27,500,000.

Negotiations

Formal negotiations between the Province and MNO began in October 2016, with both sides outlining what they hoped to achieve through a deal (Appendix D provides more details).

- MNO sought direct economic benefit to improve quality of life for MNO citizens and immediate access to capital to advance MNO economic development priorities.
- The Province sought to demonstrate the Province's commitment to MNO's economic development and to supporting MNO citizens' participation in the

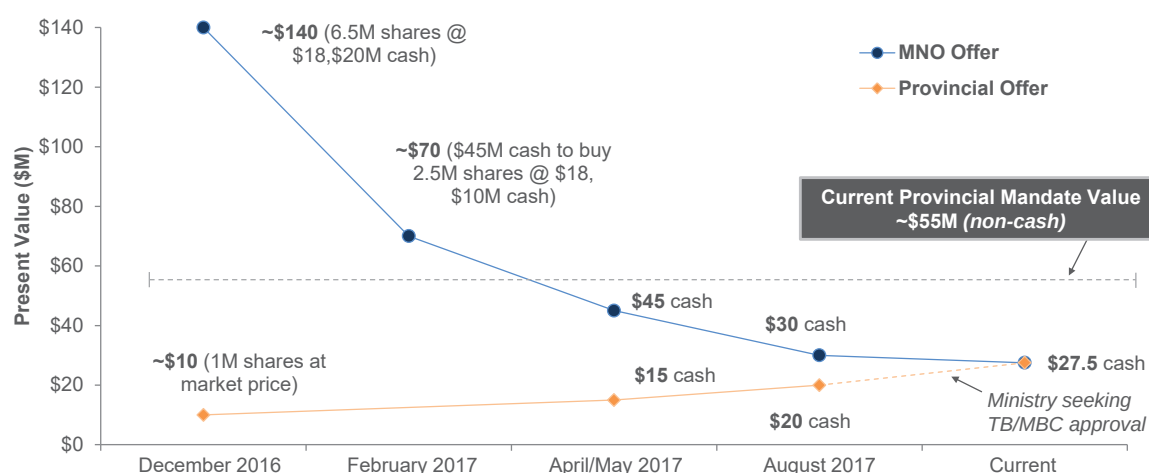
energy sector on a basis similar to First Nations (i.e. COO), and to obtain commitment not to interfere with the Province's initiative to broaden the ownership of Hydro One, including previous share sales.

Initial discussions included a loan to support the purchase of Hydro One shares, negotiations moved away from that concept and towards an all-cash deal to reflect MNO's priority objective for immediate access to capital and a customized solution. In June 2017, the Provincial negotiating team received flexibility to provide up to \$25M in cash, subject to final TB/MBC approval.

On November 17, 2017, MNO sent a letter to the Province with a proposal for \$27.5M cash, exclusive of negotiation costs, subject to a commitment from the Province to establish an energy table for discussing energy policy and grievances.

The Ministry of Energy is supportive of the development of an energy table, however, this will not be part of the Contribution Agreement.

Timeline of Negotiations with MNO



The Ministry believes it is prudent to seek approval of MNO's offer and is now seeking TB/MBC approval prior to finalizing the definitive agreements.

- The offer is well within the value of the Ministry's TB/MBC mandate and significantly below any of the offers put forward by MNO over the course of negotiations (see chart above and comparison table on next page).
- By accepting MNO's latest offer, the Province can build goodwill on what has been a challenging negotiation process.
- The Province has already sold all of the shares that it intended to sell; there is less value to the MNO commitment not to interfere with government's initiative to broaden ownership of Hydro One.

	COO Agreement-in-Principle	MNO Mandate from TB/MBC	Latest MNO Offer
<i>Key Financial Terms:</i>			
Share Value	2.5% of total common shares (~15M shares)	Up to 0.5% of total common shares (~3M shares)	
Price	\$18 per share	No less than \$18 per share	
Loan	25 year term	Up to 25 year term	
Value - Loan Ratio	150%	At least 150%	
Cash	\$45M (originally over 3 years, changed to one-time on close)	None	\$27.5M
Present Value	~\$330M (value of loan + cash)	Up to ~\$55M (value of loan)	\$27.5M (cash)
<i>Key Non-Financial Term:</i>			
Release and Indemnity	• Binding commitment (rather than release) enforceable by the Province	• Binding commitment (rather than release) enforceable by the Province	• A release and indemnity satisfactory to the Province

Contribution Agreement

Key aspects of the proposed contribution agreement, to be signed by the Minister of Energy and the MNO Secretariat, include (Appendix E provides more details on key terms):

- Cash Contribution: As agreed upon by the Province and MNO, the Province shall withhold \$27.5M.
 - Upon MNO satisfying the condition precedents linked to the cash contribution, the Province will release the payment to MNO's investment vehicle. The Province would require that the cash contribution be used to support economic development and wealth creation for MNO citizens.
 - The Transfer Payment Accountability Directive exemption is for full oversight and reporting TPAD requirements to give MNO the autonomy to invest the cash contribution according to their investment vehicle's objectives, provided that the investment vehicle's objectives are to support economic development and wealth creation for MNO citizens. MNO intends to consult with its members with respect to the new investment vehicles at the AGA. The requirements relate to TPAD Section 8.0 requirements under Part II: Agreements and Part III: Oversight.
- Investment Vehicle: MNO intends to create a new investment vehicle to hold and invest/re-invest the contribution.
- Release and Indemnity: A release and indemnity will be provided to the Province upon closing.
 - MNO would deliver to Ontario a release of any claims that the MNO and/or any MNO member, both present and future, might otherwise be able to assert against the Crown arising out of an alleged duty to consult in respect of the initial public offering of Hydro One shares in 2015 and any future Hydro One share offerings.
- Signing/Funding Date: Subject to TB/MBC approval (current request before the Board), the Ministry anticipates signing the Contribution Agreement with MNO by the end of April. Funds would be transferred upon closing of the transaction once the condition precedents in the Contribution Agreement have been satisfied.
- Closing Date: The transaction will close and the cash contribution will be released to MNO once the condition precedents in the Contribution Agreement have been satisfied. The Province expects to flow funds to MNO in late August or September 2018.

- Select Closing Conditions (in favour of the Province):
 - The Province can refuse to close if MNO does not deliver the required release(s) by the closing date, or if there is a pending or threatened claim to enjoin the transaction.
 - Approval of the Contribution Agreement, releases, investment vehicle and the transaction as a whole at the AGA **or by the PCMNO Board (excluding the youth member).**
- Transparency: MNO will be required to provide a report and independently audited financial statements to MNO citizens regarding the investment and the assets of the investment fund on a website, following the conclusion of the relevant fiscal year.
 - The Province does not intend to have any long term oversight of the cash contribution, except that the Province will have the option to, on behalf of MNO citizens only, following the request of MNO citizens, enforce the obligations on MNO and the investment vehicle to comply with the Contribution Agreement.

Financial Implications

Through the 2018-19 PRRT process, the Ministry has an allocation for \$35M for 2018-19 within its Strategic Asset Management vote to support this agreement with MNO. The funding will cover the following expenses:

- The cash contribution to MNO.
- Potential capacity funding for MNO in the event that MNO seeks additional funding to support closing of the transaction or to assist with setting up its internal governance framework.
- Potential external legal fees for the Province.

TBS staff note that expensing \$27.5M to make the cash only contribution, in addition to any associated expenses with the transaction has a fiscal implication, however the Ministry already has sufficient appropriations for the expense in 2018-19; the transaction is not an incremental fiscal impact pressure for the province.

TBS staff also notes the Ministry's recommended approach foregoes providing a loan to MNO and the associated need to establish a loan operating asset of about \$55M (and foregoes cash management/administrative implications), as well as foregoing appropriation requirements for a likely conferred benefit expense, offset by revenue, since MNO would most likely purchase shares at less than market value (Purchasing shares at not less than \$18 per shares in the negotiating mandate).

The Province is also retaining up to/about three million Hydro One shares (negotiating mandate), allowing the Province to retain net income from Hydro One to the Province as a shareholder since shares not sold, as well as, assist to maintain an ample buffer above the legislative minimum requirement of 40% level of Provincial ownership in case of any potential Hydro One share dilutions.

Name of analyst:	James Strang	Phone number:	416-327-2071
Date:	April 10, 2018	Log number:	
Branch / Division:	Education, Resources and Economic Development / OEMD		

APPENDIX A: PROPOSED MINUTE

Receive a report back on the results of the negotiations with Métis Nation of Ontario (MNO) related to broadening ownership of Hydro One, prior to finalization of key terms to be incorporated into definitive agreements.

In this regard,

- i) Approve an exemption from the mandatory requirements of the Transfer Payment Accountability Directive to provide autonomy to MNO over the use of a cash contribution of \$27,500,000 to be provided by the Province to MNO.
- ii) Note the Ministry will disburse the cash contribution once conditions in the Contribution Agreement are met. Conditions include, but may not be limited to:
 - a) MNO obtains a unanimous resolution from the Provisional Council of the Métis Nation of Ontario Board (other than the youth member), **or** the approval by the members of the MNO at the Annual General Assembly of the investment vehicle, Contribution Agreement, and the release and indemnification
 - b) Establish an appropriate investment vehicle to support the economic and long-term wealth creation for the benefit of MNO citizens.**
- iii) Direct the Ministry to work with Cabinet Office, Premier's Office, Ministry of Indigenous Relations and Reconciliation, Ministry of Finance and Treasury Board Secretariat on a communications plan.

APPENDIX B: FINANCIAL TABLES

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE				TABLE B1
				<i>Appropriations Basis</i>
<i>Fiscal Plan Basis</i>				
\$ Millions	2018-19	2019-20	2020-211	2018-19
Initiative cost recommended	27.5	0.0	0.0	
<i>Expense changes:</i>				
Operating Expense	27.5	0.0	0.0	27.5
Offset	0.0	0.0	0.0	0.0
<i>Operating Expense – Appropriations set aside for this pending transaction</i>	(27.5)	0.0	0.0	(27.5)
Total Fiscal Impact	0.0	0.0	0.0	0.0

APPENDIX C: PREVIOUS TB/MBC

As part of the January 2016 TB/MBC approval of a negotiating mandate for the sale of up to 3% of Hydro One shares to First Nations, the minute noted any future agreements with Métis Nation of Ontario (MNO) would be at a level proportionately lower than First Nations; and in no case would the combination of First Nations and Métis agreements be more than 4%.

September 13, 2016 Minute:

Métis Nation of Ontario Negotiating Mandate:

- i. Approve a negotiating mandate for the Ministry of Energy, including:
 - a. Sale of up to 0.5 percent of the current outstanding Hydro One shares to Métis Nation of Ontario (MNO) at a purchase price no less than \$18/share, and not below book value as calculated consistent with Hydro One's financial statements.
 - b. Terms and conditions including:
 1. Up to a 25 year loan.
 2. Interest rate equal to or no less than the Government of Ontario's borrowing rate plus 15 bps spread.
 3. Interest payments made only from dividends on the shares and are otherwise deferred.
 4. Recourse and security effectively limited to the pledged shares.
 5. Value-to-loan ratio of at least 150%; if value-to-loan ratio is less than the required margin, excess dividends must be applied to repay principal, and shares may be released from pledge only to the extent value of pledged shares exceed the required margin amount of outstanding loan (principal and deferred interest).
 - c. The borrower will be able to vote any shares it owns upon closing of the transaction.
 - d. An agreement that does not impede the Province from meeting its objectives to sell additional shares of Hydro One during negotiations and after agreement has been reached and to realize from those other sales, sufficient proceeds to meet fiscal objectives.
- ii. Note:
 - a. The Ministry of Energy will work with MNO in developing a communications protocol in order to enable effective negotiations, including appropriate media blackout.
 - b. Funding for negotiations would be sourced from existing allocations for future share offerings of Hydro One.
- iii. Direct the Ministry of Energy:
 - a. To report back to Treasury Board/Management Board of Cabinet for approval prior to finalization of the term sheet.
 - b. And the Ministry of Indigenous Relations and Reconciliation to work with other ministries as appropriate to develop an inventory of both current and planned support for Métis in order to inform negotiations.
 - c. To work with the Ministry of Finance and the Ontario Financing Authority on the loan agreements.
 - d. To work with Cabinet Office, Premier's Office, Ministry of Indigenous Relations and Reconciliation, Ministry of Finance/ Ontario Financing Authority and Treasury Board Secretariat on a communications plan.

APPENDIX D: NEGOTIATIONS UPDATE

The Ministry has provided the following overview of the negotiations with MNO.

Prior to the Initial Public Offering (IPO) of Hydro One in 2015, MNO had reached out to the Province expressing an interest in discussing the broadening of ownership of Hydro One.

The Province had entered into similar discussions with the Chiefs of Ontario (COO).

MNO was initially unresponsive to the Province's official offer to commence discussions but eventually responded in June 2016.

The Ministry received a negotiating mandate from TB/MBC in September 2016, valued at ~\$55M on a present value basis, which included:

- 0.5% of Hydro One shares (~3M shares) at greater than \$18 per share.
- The shares would be financed with a Provincial loan.
- The mandate did not include a provision for a cash contribution.

This value of the negotiating mandate was set relatively less than what was provided to COO to reflect key differences between the Métis and First Nations, including:

- The Métis population in Ontario is significantly smaller than that of First Nations.
- Métis do not have reserves and their population is dispersed in the Province.
- Unlike COO, MNO did not provide assurances to the Province that it would not challenge the completion of Hydro One's IPO.

To support the MNO negotiations, the Minister of Energy committed to discussions relating to the broadening of ownership of Hydro One and offered capacity funding for MNO to engage legal and financial advisors to support the process.

- To date, MNO has requested and received \$599,500 in capacity funding.

Progression of Discussions

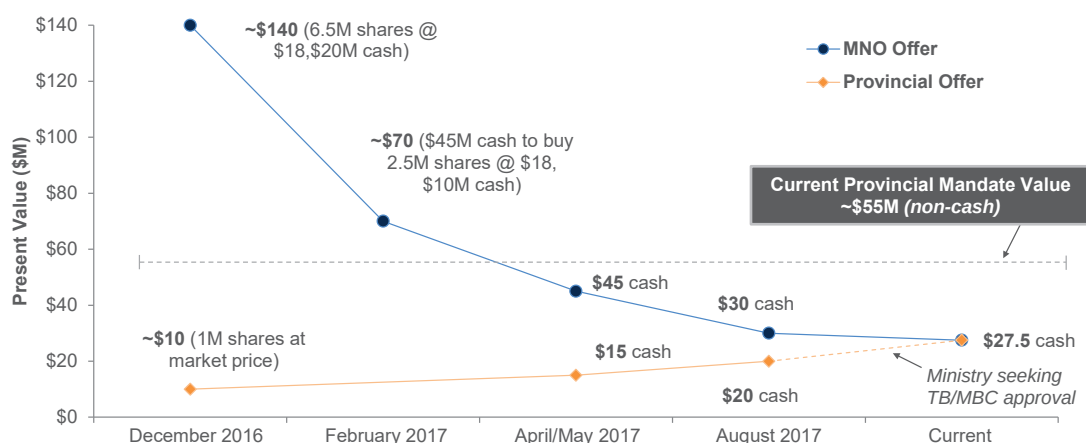
Formal negotiations between the Province and MNO began in October 2016, with both sides outlining what they hoped to achieve through a deal:

- MNO's Goals:
 - Direct economic benefit to improve quality of life for MNO Citizens.
 - Access to a direct non-governmental revenue stream in the form of return on investments, which could improve the financial footing of MNO Citizens.
 - Immediate access to capital could fund MNO economic development priorities.
- Province's Goals:
 - Demonstrate the Province's commitment to MNO's economic development and to supporting Ontario Metis citizens' participation in the energy sector on a basis similar to First Nations (i.e. COO)
 - Obtain commitment not to interfere with the Province's initiative to broaden the ownership of Hydro One, including previous share sales.

Although initial offers by both sides included a loan to support the purchase of Hydro One shares, negotiations moved away from that concept and towards an all-cash deal to reflect MNO's priority objective for immediate access to capital and a customized solution.

In June 2017, the Provincial negotiating team received flexibility to provide up to \$25,000,000 in cash, subject to final TB/MBC approval.

Timeline of Negotiations with MNO



On November 17, 2017, MNO sent a letter to the Province with a proposal for \$27,500,000 cash, exclusive of negotiation costs, subject to a commitment from the Province to establish an energy table for discussing energy policy and grievances.

The Ministry of Energy is supportive of the development of an energy table, however, this will not be part of the Contribution Agreement.

Approval Requested:

The Ministry believes it is prudent to seek approval of MNO's offer and is now seeking TB/MBC approval prior to finalizing the definitive agreements.

- The offer is well within the value of the Ministry's TB/MBC mandate and significantly below any of the offers put forward by MNO over the course of negotiations.
- By accepting MNO's latest offer, the Province can build goodwill on what has been a challenging negotiation process.
- The Province has already sold all of the shares that it intended to sell; there is less value to the MNO commitment not to interfere with government's initiative to broaden ownership of Hydro One.

Comparison of the COO Agreement-in-Principle and MNO Negotiations

	COO Agreement-in-Principle	MNO Mandate from TB/MBC	Latest MNO Offer
Key Financial Terms:			
Share Value	2.5% of total common shares (~15M shares)	Up to 0.5% of total common shares (~3M shares)	
Price	\$18 per share	No less than \$18 per share	
Loan	25 year term	Up to 25 year term	
Value - Loan Ratio	150%	At least 150%	
Cash	\$45M (originally over 3 years, changed to one-time on close)	None	\$27.5M
Present Value	~\$330M (value of loan + cash)	Up to ~\$55M (value of loan)	\$27.5M (cash)
Key Non-Financial Term:			
Release and Indemnity	• Binding commitment (rather than release) enforceable by the Province	• Binding commitment (rather than release) enforceable by the Province	• A release and indemnity satisfactory to the Province

APPENDIX E: KEY TERMS OF THE CONTRIBUTION AGREEMENT

The Ministry indicates the Contribution Agreement, to be signed by the Minister of Energy and the MNO Secretariat, will include the following agreed upon key terms:

- Cash Contribution: As agreed upon by the Province and MNO, the Province shall withhold \$27,500,000. Upon MNO satisfying the condition precedents linked to the cash contribution, the Province will release the payment to MNO's investment vehicle.
 - The Transfer Payment Accountability Directive exemption is for full oversight and reporting TPAD requirements to give MNO the autonomy to invest the cash contribution according to their investment vehicle's objectives, provided that the investment vehicle's objectives are to support economic development and wealth creation for MNO citizens. MNO intends to consult with its members with respect to the new investment vehicles at the AGA. The requirements relate to TPAD Section 8.0 requirements under Part II: Agreements and Part III: Oversight.
- Investment Vehicle: MNO intends to create a new investment vehicle to hold and invest/re-invest the contribution.
 - The Province would like MNO to consult with its members with respect to the new investment vehicle at its August 2018 Annual General Assembly (AGA).
 - The Contribution Agreement would require AGA approval or approval by the PCMNO Board (excluding the youth member) of the investment vehicle as a condition precedent to close the transaction.
 - The Province would require that the cash contribution be used to support economic development and wealth creation for MNO citizens.
- Release and Indemnity: A release and indemnity will be provided to the Province upon closing.
 - It is the Ministry's objective that the release be binding on the MNO, the investment vehicle, and all present and future MNO members and restrict the MNO, the investment vehicle, and all present and future MNO members from seeking damages in relation to the broadening of ownership of Hydro One.
 - The Crown Law Office - Civil (CLOC) has advised that there is an unavoidable degree of legal risk associated with the effectiveness of the proposed release. It is always possible that members of MNO communities, or other Metis communities, could seek to challenge the adequacy of the Crown's consultation with respect to the broadening of ownership of Hydro One. CLOC is preparing a legal opinion that will consider strategies to mitigate these legal risks to the extent possible.
 - The indemnity will be binding and enforceable on the MNO and the investment vehicle.
 - A condition precedent to funding the contribution is that MNO obtains a unanimous resolution from the PCMNO Board (other than the youth member) or the approval by the members of the MNO at the AGA of the Contribution Agreement and the release and indemnification
- Signing/Funding Date: Subject to TB/MBC approval (current request before the Board), the Ministry anticipates signing the Contribution Agreement with MNO by the end of April. Funds would be transferred upon closing of the transaction once the condition precedents in the Contribution Agreement have been satisfied.
- Closing Date: The transaction will close and the cash contribution will be released to MNO once the condition precedents in the Contribution Agreement have been satisfied.
- Select Closing Conditions (in favour of the Province):
 - The Province can refuse to close if MNO does not deliver the required release(s) by the closing date, or if there is a pending or threatened claim to enjoin the transaction.
 - Approval of the Contribution Agreement, releases, investment vehicle and the transaction as a whole at the AGA or by the PCMNO Board (excluding the youth member).

- Transparency: MNO will be required to provide a report and independently audited financial statements to MNO citizens regarding the investment and the assets of the investment fund on a website, following the conclusion of the relevant fiscal year.
 - The Province does not intend to have any long term oversight of the cash contribution, except that the Province will have the option to, on behalf of MNO citizens only, following the request of MNO citizens, enforce the obligations on MNO and the investment vehicle to comply with the Contribution Agreement.

16 - April 15, 2015 - Hydro One Initial Public Offering and Merger of Hydro One Brampton.pdf



TREASURY BOARD/MANAGEMENT BOARD OF CABINET

TB/MBC Date: April 15, 2015, held in the Corporate Response Boardroom, 2nd Floor, Macdonald Block at 2:30 pm.

Attendees: Ms. D. Matthews (Chair), Mr. C. Sousa, Mr. B. Chiarelli, Mr. K. Flynn, Ms. M. Hunter, Mr. B. Mauro, Ms. M. Meilleur, Mr. Y. Naqvi, Mr. D. Oraziotti, Ms. L. Sandals, Ms. L. Albanese, and Mr. Y. Baker.

Item Number: 01

Ministry: Energy

Title: Hydro One Initial Public Offering and Merger of Hydro One Brampton

Type of Item: General

Approved the intention to proceed with an Initial Public Offering (IPO) process for Hydro One Inc. (Hydro One), and the intended merger of Hydro One Brampton with local distribution companies.

In this regard, the Board:

Initial Public Offering Process

- i) Directed the Ministry of Energy (ENE) to work with the Cabinet Office, Ministry of Finance (MOF), the Ontario Financing Authority, Treasury Board Secretariat (TBS), and Hydro One on the development of an IPO process for Hydro One.
- ii) Approved that the Minister of Energy direct Hydro One to proceed with an IPO of Hydro One including all of its subsidiaries at the time of the IPO, consisting of approximately 15 per cent of the Province's interest in Hydro One, during the 2015-16 fiscal year.
- iii) Approved the following specific elements to be included as part of the proposed IPO process and that these elements may be included in any of the constating documents of Hydro One including revised Articles of Incorporation and/or by-laws, a Governance Agreement to be executed between the Minister of Energy on behalf of the Crown, proposed legislation, and an underwriting agreement that:

- a) There will be an issuance of common shares only.
 - b) At least 25-30 per cent of the total shares in the IPO will be targeted to retail investors, with the remaining shares to be allocated to institutional investors.
 - c) The Province may sell subsequent tranches of shares that would, once complete, reduce the Province's ownership position of Hydro One to not less than 40 per cent of the number of Hydro One's common shares outstanding on the date of the closing of the IPO.
 - d) With the exception of the Province, no single person, corporation, or group of persons acting jointly or in concert may own more than 10 per cent of any class or series of Hydro One's voting shares.
 - e) The Province would be restricted from reducing its ownership position in Hydro One to less than 40 per cent of the number of Hydro One's common shares outstanding on the day of the closing of the IPO.
- iv) Noted that:
- a) The Province would make a payment to the Ontario Electricity Financial Corporation (OEFC) which may be satisfied by issuance of debt, remission of debt or another form as determined by the Minister of Finance, equivalent to the net IPO proceeds, less certain deductions prescribed under the Electricity Act, to reduce the OEFC's stranded debt.
 - b) Hydro One would pay departure tax to the OEFC.
 - c) The Province would provide to Hydro One a financial benefit, such as a capital contribution, up to the amount of departure tax paid to the OEFC by Hydro One.

Governance

- i) Approved the development of a Governance Agreement that would include the following key elements, some of which may alternatively or supplementally be included in the proposed legislation or in Hydro One's constating documents:

- a) That Hydro One would be prohibited from doing any of the following:
 - 1) Selling, leasing, divesting or otherwise disposing of all or substantially all of the business, property or assets related to the transmission system of Hydro One regulated by the Ontario Energy Board (OEB).
 - 2) Selling leasing, divesting or otherwise disposing of all or substantially all of the business property or assets related to the distribution system of Hydro One regulated by the OEB.
 - 3) Continuing under the laws of a jurisdiction other than the Province.
- b) That if the Province's ownership is reduced to 10 per cent or less, the Province shall be restricted to acquiring shares in excess of 10 per cent in the same manner as other shareholders, the Governance Agreement would no longer apply, but all other statutory restrictions would remain in place.
- c) That Hydro One would be required to:
 - 1) Maintain its principal executive head office in the Province.
 - 2) Ensure that substantially all of its executives with strategic decision-making or management authority reside in the Province.
 - 3) Subject to meeting ongoing listing requirements, maintain a listing of its common shares on the Toronto Stock Exchange.
 - 4) Maintain the location of its transmission and distribution grid control functions for Ontario operations, in the Province.
 - 5) Set the initial number of directors on Hydro One's Board of Directors.
 - 6) Follow Ontario Securities Commission requirements, including publicly disclosing the :
 - Total compensation levels of the Chief Executive Officer (CEO), Chief Financial Officer (CFO) and the three other highest paid executives of the corporation each year.
 - Annual remuneration for each member of the Board of Directors.

- 7) Establish an Office of the Ombudsman to act as a liaison with customers and report to the Hydro One Board of Directors on matters raised with the Ombudsman by or on behalf of customers of Hydro One including with regard to services provided to customers of Hydro One and ensure that this Office is functional prior to end of the six month transition from the requirements of the Ombudsman Act.
- d) That ongoing obligations of both Hydro One and the Province would include:
- 1) That, after the appointment of the initial Board of Directors, the Province would be entitled to nominate directors equal to its percentage equity interest, to a maximum of 40 per cent, with the balance to be nominated by a nomination and governance committee of the Board.
 - 2) That the Province and nomination and governance committee of the Board would each have the right to reject nominees in writing, if either determines that nominees do not meet qualifications as set out in the governance agreement.
 - 3) That the Province would be required to vote in favour of the directors nominated by the nomination and governance committee unless it votes to remove all, but not less than all, of the members of the Board, with the exception, at the Province's discretion, of the Chair.
 - 4) That no government employee or persons employed by the Province within a three year period from the date of their proposed election/appointment would be eligible for election to the Hydro One Board of Directors.
 - 5) That no directors, officers or employees of the following organizations or their affiliates would be eligible for election to the Hydro One Board of Directors:
 - The Ontario Financing Authority.
 - The Independent Electricity System Operator.
 - Ontario Power Generation Inc.

- The Electrical Safety Authority.
 - The Ontario Electricity Financial Corporation.
 - Ontario Infrastructure and Lands Corporation.
 - The Ontario Energy Board.
 - Hydro One (with the exception of the CEO and any current directors the Province wishes to remain on the Board of Directors post-IPO).
- 6) That all of the Province's remaining rights as shareholder would be preserved.
- ii) Recommended legislative amendments and regulatory amendments as follows:
- a) Amendments to the Electricity Act, 1998, in order to:
- 1) Remove a prohibition that precludes Hydro One Inc. from owning or operating transmission and distribution systems outside of the Province.
 - 2) Require Hydro One to establish an Office of the Ombudsman to act as a liaison with customers and report to the Hydro One Board of Directors on matters raised with the Ombudsman by or on behalf of customers of Hydro One.
 - 3) Require Hydro One to maintain its principal executive head office in the Province.
 - 4) Ensure that substantially all of the executives of Hydro One with strategic decision-making and management authority reside in the Province.
 - 5) Prohibit Hydro One from selling, leasing, divesting or otherwise disposing of all or substantially all of the business property or assets related to the:

- Transmission system of Hydro One regulated by the OEB.
 - Distribution system of Hydro One regulated by the OEB.
- 6) With the exception of the Province, limit any single person, corporation, or group of person acting jointly or in concert, from owning more than 10 per cent of any class or series of voting shares of the company.
 - 7) Restrict the Province from reducing its ownership position in Hydro One to less than 40 per cent of the number of Hydro One's common shares it immediately held prior to the IPO.
 - 8) Enable the Hydro One Board of Directors, despite the limitations in sections 23 and 24 of the Business Corporation Act (Ontario), to authorize the issuance of shares of Hydro One to employees of Hydro One or any of its subsidiaries, or for their benefit or on their behalf, for no consideration or for such consideration as the Board of Directors may approve and enable Hydro One to add to the appropriate stated capital account for the shares issued, the amounts received by Hydro One for those shares.
 - 9) Restrict the Province to acquiring shares in the same manner as other shareholders if the Province's ownership is reduced to 10 per cent or less of the common shares.
 - 10) Recommend an amendment to section 50.3 of the Electricity Act, 1998 so that the Province will be required to pay to the OEFC a financial benefit equivalent to the adjusted net proceeds and the payment may be satisfied by payment of cash, granting a remission of OEFC debt, issuing securities or debt obligations to OEFC, set off or another form as determined by the Minister of Finance. Recommended that the amendment also specify that the Province's costs to be deducted include the Province's allocations for Hydro One income made to OEFC.

- 11) Amend the transfer tax and payments-in-lieu of tax (PILs) rules as follows, effective for a three year period beginning on January 1, 2016 and ending December 31, 2018, with these rules to remain in effect for any utility with a related Merger, Acquisition, Amalgamation and Divestiture application before the OEB before January 1, 2019, and a written agreement completed before January 1, 2019 provided the agreement is not materially changed thereafter:
- Reduce the transfer tax rate from 33 per cent to 22 per cent.
 - Reduce the transfer tax rate from 33 per cent to zero per cent for municipal electric utilities with less than 30,000 customers.
 - Exempt capital gains arising under the PILs departure tax rules.
- b) Amendments to the Management Board of Cabinet Act to remove Hydro One and its subsidiaries from being considered part of the “public service” under the Management Board of Cabinet Act so that the Act, including policies and directives made under it, could no longer apply to Hydro One and its subsidiaries.
- c) Amendments to the Lobbyist Registration Act, 1998 to remove the reference to Hydro One and its subsidiaries from the definition of “public office holder” in subsection 1(1) of the Lobbyists Registration Act; and remove three unproclaimed references to Hydro One and its subsidiaries from subsections 4(4), 5(3) and 6(3) of the Act.
- d) Amendments to the Public Sector Salary Disclosure Act, 1996 to remove Hydro One and its employees from salary disclosure requirements in respect of salaries and benefits paid after December 31, 2014.
- e) Amendments to the Financial Administration Act to remove Hydro One and its subsidiaries from oversight of the Act. However, retain the right to request information from Hydro One and the administrator of any pension plan sponsored by it for the sole purpose of preparing the consolidated financial statements of the Province (annual and quarterly). Hydro One and the pension plan administrator are not required to provide any information that relates to a period for which Hydro One has not yet disclosed to the public its audited or unaudited financial statements.

- f) Amendments to the Auditor General Act to exclude Hydro One and its subsidiaries from the purview of the Auditor General and provide the Auditor General with 6 months to complete any open special audits or special assignments commenced before Royal Assent. Create a new right of the Auditor General to access information from Hydro One and its auditors that is necessary and relevant to enable the Auditor General to prepare his or her report, for inclusion in the Public Accounts, on the consolidated financial statements of the Province. However, Hydro One and its auditors are not required to provide information for a period for which Hydro One has not yet disclosed to the public its audited or unaudited financial statements.
- g) Amendments to the Ombudsman Act to exclude Hydro One and its subsidiaries from the purview of the Ombudsman, with provision for transitional matters.
 - 1) For transition purposes, the Ombudsman may continue to exercise his or her powers for six months after Royal Assent with respect to investigations started prior to Royal Assent, but is prohibited from starting any new investigation of Hydro One and its subsidiaries.
 - 2) An investigation of Hydro One and its subsidiaries taking place during the six month transition period may be reported on after that period.
- h) Amendments to the Freedom of Information and Protection of Privacy Act (FIPPA) to exclude Hydro One and its subsidiaries from that Act.
 - 1) As of the date of Royal Assent, provide that no new access to information requests be made to Hydro One and its subsidiaries, but allow for the completion of existing requests and any related appeals.
 - 2) Provide the Information and Privacy Commissioner with six months to complete all outstanding appeals and privacy investigations after the date of Royal Assent.
 - 3) Amend the schedule of institutions in Ontario Regulation 460 under FIPPA to remove Hydro One and its subsidiaries.
- i) Amendments to the Municipal Freedom of Information and Protection of Privacy Act (MFIPPA) to exclude Hydro One Inc. and its subsidiaries from that Act.

April 15, 2015

- 1) As of the MFIPPA date of Royal Assent, provide that no new access to information requests be made to Hydro One and its subsidiaries, but allow for the completion of existing requests and any related appeals.
 - 2) Provide the Information and Privacy Commissioner with six months to complete all outstanding appeals and privacy investigations after the date of Royal Assent.
 - 3) Amend Ontario Regulation 372/91 under MFIPPA to clarify that MFIPPA does not apply to any Hydro One subsidiaries.
- j) Amendments to the Public Sector Expenses Review Act to exclude Hydro One and its subsidiaries from being considered “public entities” under the Public Sector Expenses Review Act, but provide for a six month transition period during which the Integrity Commissioner can continue to exercise her powers in respect of expense claims made before April 1, 2015 and Hydro One and its expense officers continue to have duties in respect of those expenses.
- k) Amendments to the Broader Public Sector Executive Compensation Act, 2014 to exclude Hydro One from application of the Act.
- l) Amendments to the Broader Public Sector Accountability Act, 2010 in order to:
- 1) Create an exception in section 3 so that Hydro One and its subsidiaries could not be prescribed by regulation to be “designated broader public sector organizations” or “publicly funded organizations” for the purposes of the Act; and remove the reference to Hydro One and its subsidiaries in section 4 of the Act so that they would no longer be prohibited from paying lobbyists to lobby government and create an exception so that they could not be prescribed for the purpose of that prohibition by regulation from the time of the IPO.

- 2) Create an exception in section 7.5 to end the compensation restraint measures applicable to Hydro One and its subsidiaries, designated executives and designated office holders and amend section 7.13 to ensure that certain limits on restructuring do not apply to Hydro One and its subsidiaries, create an exception to exclude Hydro One and its subsidiaries from the requirement to conduct compensation studies if required by a Management Board of Cabinet Directive.
- m) Amendments to the Financial Accountability Officer Act, 2013 to exclude Hydro One and its subsidiaries from obligation to provide information to the Financial Accountability Officer, but include a transition period of six months with respect to research commenced before Royal Assent.
- iii) Approved exempting Hydro One from any Treasury Board/Management Board of Cabinet (TB/MBC) directives that currently apply to Hydro One.
- iv) Noted that the Minister of Energy would issue to Hydro One, one or more unanimous shareholder declarations and/or resolutions, to assume decision-making from the Board of Directors for all decisions, direction, and instructions related to the IPO of Hydro One, and the divestment and merger of Hydro One Brampton.
- v) Noted that prior to the IPO for Hydro One:
 - a) That the Minister of Energy will appoint a new:
 - 1) Chair to the Board of Directors of Hydro One.
 - 2) Board of Directors for Hydro One, based on the recommendation of the new Chair.
 - b) That the Board of Directors of Hydro One will then be authorized to make a determination as to whether to appoint new or additional senior management of Hydro One including but not limited to the CEO, CFO, and Chief Regulatory Officer.

IPO Procurements

- i) Approved an exemption from the open competitive requirements of the Ontario Public Service (OPS) Procurement Directive to allow Hydro One to use an invitational competitive process for a procurement of over \$100,000 to acquire active book runner(s) for the IPO, and in this regard:
 - a) Noted that an evaluation process including the involvement of representatives from the ENE, Ontario Infrastructure and Lands Corporation, MOF (Ontario Financing Authority), and Hydro One will be used.
 - b) Approved a rate of remuneration for active book runners at an estimated three per cent of proceeds for retail investors and estimated at 1 per cent for institutional investors, with a total procurement value estimated at \$50,000,000 over nine months.
- ii) Approved that Hydro One use a non-competitive procurement process requiring an exemption to the open competitive requirements of the OPS Procurement Directive and from the use of the mandatory Vendor of Record (VOR) arrangement to acquire an executive recruitment firm to identify candidates for the Hydro One Board of Directors, CEO of Hydro One and if necessary, the Board of Directors for the Hydro One Brampton combined entity, in the estimated amount of \$1,700,000 over four months.

In this regard, approved an exemption from the Advance Contract Award Notification Process for this procurement.

- iii) Approved that Hydro One use a non-competitive procurement process requiring an exemption to the open competitive requirements of the OPS Procurement Directive and from the use of the mandatory VOR arrangement to modify terms of an existing executive recruitment firm engagement to identify candidates for Hydro One CFO, in the estimated amount of \$350,000 over four months.

In this regard, approved an exemption from the Advance Contract Award Notification Process for this procurement.

April 15, 2015

- iv) Approved exemptions from the open competitive requirements of the OPS Procurement Directive:
 - a) To allow Hydro One to use an invitational competitive process for a procurement of over \$100,000 and from the use of the mandatory VOR arrangement to acquire an executive recruitment firm to identify candidates for Hydro One senior management positions, in the estimated amount of \$200,000 over four months.
 - b) And from the use of the mandatory Management Consulting Services Vendor of Record for a non-competitive consulting contract by the Ministry for consulting services at an estimated value of \$100,000 over 12 months to provide strategic financial advice and to ensure the transparency of the IPO process.
- v) Approved a liability framework for the consultant to be acquired to provide strategic financial advice and to ensure the transparency of the IPO process that would protect them from any liability they may face as a result of their work.
- vi) Noted that:
 - a) Following approval of the liability framework, ENE would be required to seek approval of the liability agreement for the advisor as per section 28 of the Financial Administration Act.
 - b) Any procurement costs incurred during the 2015-16 fiscal year that are related to the IPO would be offset from the proceeds resulting from the proposed IPO.

Hydro One Brampton

- i) Approved that the Minister of Energy, consistent with previously approved direction, direct Hydro One to immediately enter into exclusive negotiations to combine its wholly-owned subsidiary Hydro One Brampton with one or more urban local distribution companies in exchange for shares of the combined entity or cash.

Ensuring Regulatory Oversight

- i) Recommended the development of a legislative and regulatory package to further strengthen the powers and processes of the OEB, including adding consumer education to the OEB's objects, for introduction during the 2015-16 fiscal year.

In this regard, directed the Ministry to:

- a) Amend its Memorandum of Understanding to reflect the changes.
- b) Report back to TB/MBC for approval of the rate of remuneration for a consumer advocate appointed by Order in Council once this rate is known.

Other Issues

- i) Directed ENE to:
 - a) Continue to work with the Office of the Premier, Cabinet Office, MOF, and TBS on a communications plan.
 - b) Report back to TB/MBC:
 - 1) With the proposed Governance Agreement, prior to implementation.
 - 2) In the summer of 2015 with a detailed IPO implementation plan, including financial details.
 - 3) With details on the final Brampton transaction results.
 - 4) For approval prior to selling any additional shares of Hydro One, after the IPO.
- ii) Directed MOF (Ontario Financing Authority), working with ENE to report back to TB/MBC:
 - a) For approval of supplementary estimates and/or details on the proposed capital contribution, cash transaction or remission to the departure tax, and any related transactions, prior to implementation.

April 15, 2015

- b) With details on the financial benefit to be provided to the OEFC as a result of the IPO, and any related transactions, prior to implementation.
- iii) Noted that MOF and ENE will report back with proposed regulations to designate Hydro One shares as qualifying assets under the Trillium Trust Act.

Secretary, Treasury Board and
Management Board of Cabinet

Distribution

Mr. S. Imbrogno
Mr. S. Thompson
Mr. G. Orencsak
Mr. S. Davidson
Mr. R. Burns
Mr. H. Zisser
Ms. M. Fraser

17 - April 15, 2015 - Common Share Investment in Hydro One Inc.pdf



TREASURY BOARD/MANAGEMENT BOARD OF CABINET

TB/MBC Date: April 15, 2015, held in the Ontario Room, 2nd Floor, Macdonald Block at 12:00 noon.

Attendees: Ms. D. Matthews (Chair), Mr. C. Sousa, Mr. B. Chiarelli.

Item Number: 01

Ministry: Finance, Cabinet Office and Energy

Title: Common Share Investment in Hydro One Inc.

Type of Item: General

Approved the document entitled "Summary of Term for Loan to Facilitate a Common Share Investment in Hydro One Inc.", as recommended by the Premier's Advisory Council on Government Assets.

In this regard, the Board:

- i) Authorized the Minister of Finance to sign the document on behalf of Her Majesty in Right of Ontario.
- ii) Directed the Ministry of Finance, Cabinet Office, and the Ministry of Energy to report back to Treasury Board/Management Board of Cabinet (TB/MBC) on the details of the final loan agreement outlined in the document along with any further documents requiring approval by TB/MBC and/or Cabinet.

Secretary, Treasury Board and
Management Board of Cabinet

Distribution

Mr. S. Thompson
Mr. S. Davidson
Mr. S. Imbrogno
Mr. H. Zisser
Ms. T. Lang
Mr. R. Burns

2 - Assessment Note - ENERGY - Tentative Collective Agreements with the Energy Sector.pdf

TREASURY BOARD / MANAGEMENT BOARD OF CABINET REQUEST ASSESSMENT NOTE



Ministry:	Energy
Meeting Date:	May 26, 2015
Agenda Class:	Discussion (In Camera)
Last reviewed by: TB/MBC (January 2015)	Tracking to: Cabinet (June 3, 2015)

SUBMISSION TITLE: Electricity Sector Engagement with Unions – Reportback

I. DECISION BEFORE THE BOARD

- Approve proposed terms of negotiated tentative collective agreements between Ontario Power Generation and Hydro One with the Power Workers' Union (PWU).

II. RECOMMENDATIONS:

Approve that the Ministry of Energy request for Ontario Power Generation and Hydro One to ratify negotiated tentative agreements with the PWU.	<i>Approve</i>

III. FINANCIAL SUMMARY – NOT APPLICABLE

\$ Millions	2014-15	2015-16	2016-17
Initiative cost requested	0	0	0
Initiative cost recommended	0	0	0
Recommended program base – Both are consolidated agencies	-	-	-
Offset Recommended (Specify Ministry/Program)	0	0	0
Total Fiscal Impact	0	0	0

IV. KEY COMMENTS AND CONSIDERATIONS

Following a 2015 TB/MBC item which established a bargaining mandate for agencies in negotiations within the Energy sector, the Ministry is returning to the Board requesting approval of tentative agreements between Ontario Power Generation, Hydro One and the Power Workers' Union, prior to ratification. Agreements are similar for both Hydro One and OPG, with differences in increases to employee pension contributions, and in terms of payments relating to the proposed Hydro One Initial Public Offering (IPO). Each is for a three year term commencing April 1, 2015 to March 31, 2018.

The bargaining mandate included three key provisions:

- Net zero total labour compensation cost increases for the term of collective agreements.
 - The Ministry indicates the tentative agreement reaches a net zero agreement where PWU members are receiving a fair number of benefits that includes stock awards and grants while the agencies receive significant savings that includes more equal cost sharing of pension contributions and savings from enabling more purchased service

IV. KEY COMMENTS AND CONSIDERATIONS (CONTINUED ...)

agreements (i.e., using lower cost temporary contract workers) and past service liabilities:

	Wage Increase Costs	Offsetting Benefits	Net Effect
Hydro One	Approximately \$43M	Purchase Service Agreements (outsourcing flexibility), more than \$43M	Small positive benefit to Hydro One
OPG	Approximately \$50M	Purchase Service Agreements (outsourcing flexibility), more than \$55M	\$5M benefit to OPG

- 2) Where relevant, enable restructuring activities recommended by the Premier's Advisory Council on Government Assets, and approved by government.
 - The Ministry indicates with both companies' employees participating in Hydro One Share grants/awards, there may be less friction from unions that would go against the Hydro One IPO.
- 3) Pension contributions move toward Leech recommendations on both equal cost sharing and benefits modulation on an agreed timeline.

	Benefit to Employees	Benefit to Employers	Net Effect
Hydro One	Lump sum cash payments (as a percentage of salary): • 2015: 1% • 2016: 2% Share Awards (as a percentage of salary): • 2017 to 2028: 2.70% of salary in 2015	Increased employee contributions (as a percentage of salary): • 2015: 1% • 2016: 2% • 2017 + ongoing: 2.70% In addition, benefits are reduced (described below), and pension liabilities decrease as a result of lower than anticipated salary increases	From 2015 to 2028 / 2031 both Hydro One / OPG and employees are held whole (net zero) with regard to pension contributions. What would have been paid out as employer pension contributions are instead paid to employees in the form of cash or shares of Hydro One.
OPG	Lump sum cash payments (as a percentage of salary): • 2015: 1% • 2016: 2% Share Grants (as a percentage of salary): • 2017 to 2031: 2.75% of salary in 2015	Increased employee contributions (as a percentage of salary): • 2015: 1% • 2016: 2% • 2017 + ongoing: 2.75% In addition, benefits are reduced (described below), and pension liabilities decrease as a result of lower than anticipated salary increases	Beyond 2028 / 2031 share awards / grants cease, but the increased employee pension contributions continue, leaving the companies (and ratepayers) with significant long term savings.

- Hydro One – Based on the contribution increases alone, the contribution split will be 60% employer / 40% employee by year three of the agreement. The benefit changes that become effective after 10 years will take this to 55%/45%
- OPG – The contribution ratio reaches 66%/34% by year three of the agreement. The benefit changes that become effective after 10 years will take this to 64%/36%
- Highlights of key changes include:
 - Increases in employee pension contributions by an additional 2.75% for OPG and 2.70% for Hydro One of their respective 2015 salaries will bring the companies closer towards equal cost sharing. New employees pay higher pension contributions with no set off.

- Factor 85 and best 5 years (it was 3 years), implemented out 10 years, no cost of living
- Significant pension benefit savings (long term – 10 years out). Past Service liability savings of \$75M at OPG and \$35M at Hydro One due to 1% wage increase versus historical 3%.
- Employees who were not part of the two corporations as of April 1, 2015 would not be eligible for share awards but would have to pay increased employee contributions toward their pensions immediately. This provides ongoing significant benefits to both corporations.
- The Premier's Council on Government Assets states in their report that the tentative agreements "offer a basis over time for meeting the concerns that Mr. Leech raised in his report and for closing the gap between the current situation and the more sustainable and affordable long-term answers required by the OEB."

Premier's Advisory Council on Government Assets

The Province intends to sell, over time, a majority interest in Hydro One through share sales to the public. The partial sale of the Province's interest in Hydro One would be by way of an IPO. The Hydro One IPO is expected to proceed in 2015-16. This would have a significant impact on a large number of Hydro One employees as affected staff could be transferred from a government-owned entity to a privately-owned entity along with their pension funds and their collective agreements.

Next Steps

While collective agreements expired on March 31, 2015, they continue to apply until a new collective agreement has been put into place. Hydro One and OPG are seeking government approval of negotiated tentative agreements prior to finalizing them. The PWU will seek ratification from its membership (May 2015 for OPG employees, July 2015 for Hydro One employees).

Components of the proposed agreement depend on the issuance of Hydro One shares, which is expected in 2015-16; to account for potential timing delays, the tentative agreement proposes that the following apply if the Hydro One IPO has not occurred by December 31, 2015:

- 1 year agreement,
- 1% increase in wages
- 1% increase in pension contributions
- 1% cash lump sum payment
- Other terms as amended and agreed between the local bargaining committee.

Name of analyst:	James Strang	Phone number:	7-2071
Date:	May 21, 2015	Log number:	
Branch / Division:	General Government, Planning and Resources Branch, PEM, TBS		

APPENDIX A: PROPOSED MINUTE

Approve that the Ministry of Energy request for Ontario Power Generation and Hydro One to ratify negotiated tentative agreements with the Power Workers Union.

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE – NOT APPLICABLE				TABLE B1 Appropriations Basis
		Fiscal Plan Basis		
\$ Millions		2013-14	2014-15	2015-16
Initiative cost recommended		0.0000	0.0000	0.0000
Expense changes:				
Operating item	Oper	0.0000	0.0000	0.0000
Total Fiscal Impact (draw from c-funds)		0.0000	0.0000	0.0000

APPENDIX C: EXPIRING COLLECTIVE AGREEMENTS

The following table shows when current collective agreements expire. The Ministry will return to TB/MBC with tentative agreements reached with the Society of Energy Professionals.

	PWU	Society
OPG	March 31, 2015	December 31, 2015
Hydro One	March 31, 2015	March 31, 2016
IESO	March 31, 2017	April 30, 2015

Employer (Bargaining Unit Description)	Union	Number of Employees	Current Effective	Current Expiry
HYDRO ONE INC (MAINTENANCE, ELECTRICIAN, ADMIN, TECHNICAL)	CUPE (PWU)	5,000	01-Apr-13	31-Mar-15
HYDRO ONE INC (PROFESSIONAL, SUPERVISORS)	ENERGY PROF SOCIETY	1,527	01-Apr-13	31-Mar-16
INDEPENDENT ELECTRICITY SYSTEM OPERATOR (ENGINEERS – IESO/OPA merger Jan. 1/15)	ENERGY PROF SOCIETY	595	01-Jan-13	30-Apr-15
INDEPENDENT ELECTRICITY SYSTEM OPERATOR (POWER WORKERS – IESO/OPA merger Jan.1/15)	CUPE (PWU)	81	01-Apr-14	31-Mar-17
ONTARIO POWER GENERATION INC (NUCLEAR/ NON-NUCLEAR)	ENERGY PROF SOCIETY	3,453	01-Jan-13	31-Dec-15
ONTARIO POWER GENERATION INC (NUCLEAR/ NON-NUCLEAR)	CUPE (PWU)	6,600	01-Apr-12	31-Mar-15

OF EMPLOYERS = 3
 # OF AGREEMENTS = 6
 # OF EMPLOYEES COVERED = 17,256

APPENDIX D: BARGAINING MANDATE (JANUARY 2015 TB/MBC)

Approve the Ministry of Energy's proposed bargaining mandates for electricity sector bargaining that include the following parameters:

- i. Multiple year agreements (2-4 years).
- ii. Net zero total labour compensation cost increases over the term of collective agreements.
- iii. Where relevant, enable restructuring activities recommended by the Premier's Advisory Council on Government Assets, and approved by government.
- iv. Pension contributions to achieve equal cost sharing between employer and employee contributions on an agreed timeline.
- v. Increases in pension contributions should not be considered as offsets towards achieving net zero total labour compensation costs.

Note additional bargaining considerations to include:

- i. Reductions in, for example, benefit costs.
- ii. Other elements in bargaining, in addition to meeting the parameters above, that could be considered as concessions to reach an agreement.

Direct the Ministry to:

- i. Report back to Treasury Board Sub-Committee on Public Sector Bargaining and Compensation on progress of electricity sector bargaining, and also outline the Ministry's efforts to work with the entities on contingency planning in the event of any labour disruption and demonstrate that plans are well understood.
- ii. Return to Treasury Board/Management Board of Cabinet (TB/MBC) to seek approval of tentative collective agreements, prior to final ratification by the board of each entity.
- iii. Work with Cabinet Office and Premier's Office to develop communications strategy for the upcoming round of collective bargaining.
- iv. Report back to TB/MBC if the bargaining mandates cannot be met and/or a strike/lockout becomes probable.

APPENDIX E: DETAILS OF TENTATIVE COLLECTIVE AGREEMENTS FOR OPG AND HYDRO ONE WITH THE POWER WORKERS' UNION

Ontario Power Generation:

- 3 year term commencing April 1, 2015 to March 31, 2018
- Wage increase of 1% on April 1 of each year during the term of the agreement
- Increase in employee pension contributions of 2.75% and employer contributions to not be less than employee contributions up to March 31, 2025, offset by:
 - One-time cash payments to avoid increases in base salary:
 - 1% of salary on April 1, 2015
 - 2% of salary on April 1, 2016
 - Share grants to avoid increases in base salary:
 - Share awards will be made on April 1 of each year starting on April 1, 2017 and continuing up to and including April 1, 2031. (Up to a maximum of 15 annual share grants).
 - Number of shares awarded to each individual each year calculated as 2.75% of salary as of April 1, 2015, divided by initial share price.
 - Value of share awards will be the number of shares awarded and multiplied with the market price of shares trading at the time.
 - Employees will have the option to take 50% of the award value in cash to use towards paying taxes as the award is considered a taxable event (As per current tax rules, employees may direct the payment of shares into an RRSP up to their contribution limits).
- In the event that Hydro One's IPO does not occur by December 31, 2015, the terms of the tentative agreement will not apply and the following provisions will take effect. However, depending on the status and timing of the proposed IPO, there may be flexibility to continue with the terms set out above:
 - 1 year collective agreement
 - 1% wage increase
 - 1% increase in pension contributions
 - 1% cash lump sum payment

Hydro One:

- 3 year term commencing April 1, 2015 to March 31, 2018
- Wage increase of 1% on April 1 of each year during the agreement term
- Increase in employee pension contributions of 2.70% and employer contributions to not be less than employee contributions up to March 31, 2025
 - One-time cash payments to avoid increases in base salary:
 - 1% of salary on April 1, 2015
 - 2% of salary on April 1, 2016
 - Share grants to avoid increases in base salary:
 - Share grants will be made on April 1 of each year from April 1, 2017 up to and including April 1, 2028 (Up to a maximum of 12 annual share grants)
 - Grants will be 2.7% of salary as of April 1, 2015, provided in form of Hydro One shares, based on initial share price.
 - To be eligible, Hydro One employee must still be an active employee and have less than 35 years of pensionable service.

- Example – if an employee has a salary on April 1, 2015 of \$90,000, and the initial share price is \$20.00, 121.5 shares ($2.70\% \times \$90,000 / \$20.00$) will be granted to the employee each year up to a maximum of 12 grants. At the end of the 12 years, the employee will have 1,458 shares
- In the event that Hydro One's IPO does not occur by December 31, 2015, the terms of the tentative agreement will not apply and the following provisions will take effect. However, as with OPG, there may be flexibility to continue with the terms set out above depending on the status and timing of the proposed Hydro One IPO:
 - 1 year collective agreement
 - 1% wage increase
 - 1% increase in pension contributions
 - 1% cash lump sum payment

Share Awards (The Ministry has provided further information):

- The share awards/grants are designed to temporarily offset future pension contribution increases (e.g. up to 12 years of pension awards vs. permanent employee pension contribution increases).
- In addition, the cost associated with share awards/grants will depend on the number of eligible employees in each year of the grant. As employees retire or leave OPG/Hydro One for other employment, these employees will not be eligible for the awards. This provision reduces future costs to the company, but also makes impacts difficult to forecast.
- For Hydro One, the issuance of shares from treasury is slightly dilutive (it would reduce the ownership stake of all shareholders, including the province, by a small amount). The effect on the province should be limited as it would represent a relatively small number of shares and would be distributed across all shareholders. Aside from this impact, there is no direct cost to the province.
- OPG must purchase shares on the open market. Therefore there is a cost directly associated with these purchases. Given the trade-off between shares and pension contributions, OPG will seek to recover any costs associated with share purchases from ratepayers. If OEB allows for this recovery, impacts to the province should be mitigated.
- Issuing grants will increase the total number of shares outstanding (new shares will be issued) which will reduce the government's percentage holdings in Hydro One stock. However, the cost is likely to be limited as the number of shares issued to PWU members will be relatively small compared to the market capitalization of Hydro One.
- In addition, the dilution factor may be material if and when the government reduces its ownership to 40% and must maintain that percentage. At this point, the government may need to consider alternatives (issue slightly fewer shares, re-invest dividends etc.).
- Any further quantitative analysis would require input and assessment from OPG and Hydro One.

Pension Contributions:

Increases in employee pension contributions by an additional 2.75% for OPG and 2.70% for Hydro One of their respective salaries will bring the companies closer towards equal cost sharing.

- OPG's member contribution rate is currently 5% to 7% and will eventually rise to 7.7% to 9.7% (the increase will occur over three years).

- Hydro One's member contribution rate is currently 6.25% to 8.25% and will eventually rise to 9% to 11% over three years.
- Retirement factor increases to 85 while pension earnings will be based on 5 years of highest earning years. This will be implemented over a period of 10 years.
- The Ministry indicates these changes move pension contributions levels toward levels set out in the Leech report, and will significantly reduce costs to ratepayers in the long run.
 - Hydro One – Based on the contribution increases alone, the contribution split will be 60% employer / 40% employee by year three of the agreement. The benefit changes that become effective after 10 years will take this to 55%/45%
 - For OPG – The contribution ratio reaches 66%/34% by year three of the agreement. The benefit changes that become effective after 10 years will take this to 64%/36%

The terms and conditions specific to pension plans are aimed to be locked in for the long-run. There could be significant benefit savings over the next 10 years and even more benefits in the longer term.

Year-over-year PWU Growth in Wages by Entity

Year	OPG	Hydro One
2001	3.00	3.00
2002	2.00	3.00
2003	3.00	3.00
2004	2.50	3.00
2005	2.50	3.50
2006	3.00	3.50
2007	3.00	3.00
2008	3.00	3.00
2009	3.00	3.00
2010	3.00	3.00
2011	3.00	3.00
2012	2.75	3.00
2013	2.75	2.50
2014	2.75	2.50
Tentative Collective Agreements:		
2015	1.00%	1.00%
2016	1.00%	1.00%
2017	1.00%	1.00%

APPENDIX E: CONSIDERATIONS AND BENEFITS WITH TENTATIVE COLLECTIVE AGREEMENTS

The Ministry flagged the following considerations and benefits.

Considerations:

- **No model for shared governance risk:** The tentative agreement did not contain any provisions related to shared governance risk as recommended in the Leech Report such as funding management policy.
- **A tenuous link between OPG employee incentive and Hydro One shares:** awarding OPG employees with Hydro One stock will not align their interest to their company's objectives. This compensation structure does not have any connection to OPG's strategic objectives.
- **Lump sum payment and share grant:** Lump sum payments and share grants are in addition to the 1% wage increases PWU members will receive.
- **Share grants/awards may be implied costs to the province:** By awarding shares to employees of Hydro One and OPG for the next 12 years, the additional shares will dilute the province's holdings in the company implying some foregone benefit to the province.
- **Share grants/awards adds a level of risk to the province:** Employees at both companies will be entitled to a fixed number of shares for the next 12 years based on their current salary and the initial price of Hydro One's stock. This was agreed on for tax purposes and to alleviate the risk of uncertainty on how much stock awards would be granted or awarded. Given that stock prices tend to be very volatile, it is difficult to ascertain the value of the grants or awards and thus the cost to the province.

Benefits:

- **Significantly lower wage increase compared to historical increases:** a 1% wage increase for the next three years is unprecedented compared to previous collective agreements provides significant savings for ratepayers.
- **Moves closer to equal cost sharing in pension contributions:** While current Hydro One employees will be required under the tentative agreement to increase their pension contributions by 2.7%, contributions for new employees would be higher, and would not be offset. This treatment, combined with Hydro One projections that a significant portion of its workforce will retire in the coming years and require replacement, would magnify the impact of the proposed tentative agreement provisions in the long-run, and could effectively bring employer and employee pension contributions closer to parity.
- **Secures a long term agreement:** The three year agreement (April 1, 2015 to March 31, 2018) locks in a commitment of the union for lower labor incurred by the province over the long-term and is also consistent with previous collective agreements in the electricity sector. In addition, it saves resources from going into a round of collective bargaining had the agreement been for a shorter term.

- **Alleviates labour risks at Darlington:** As both Darlington are expected proceed with refurbishment in 2016, locking in an agreement for the next three years will reduce the risk of labour action that could negatively impact the refurbishment project which in turn may impact energy supply to the province. Provides incentives for Council recommendations to proceed: With both companies' employees participating in Hydro One Share grants and awards, there may be less friction from unions that would go against the IPO of the company.
- **Provides labour flexibility for Pickering:** The availability of more PSAs will allow OPG more flexibility in hiring contractors rather than full time employees to work on the Pickering shutdown. The former is a cheaper source of labour than retaining company staff.

2 - May 26, 2015 - Tentative Collective Agreements with the Energy Sector.pdf



TREASURY BOARD/MANAGEMENT BOARD OF CABINET

TB/MBC Date: May 26, 2015, held in the Council Chamber, Room 275,
Legislative Building, at 3:00 pm.

Attendees: Ms. D. Matthews (Chair), Mr. C. Sousa, Mr. B. Chiarelli, Ms. M.
Hunter, Mr. B. Mauro, Ms. M. Meilleur, Mr. D. Oraziotti, Mr. Y.
Naqvi, Ms. L. Sandals, Ms. L. Albanese.

Item Number: 07

Ministry: Energy

Title: Tentative Collective Agreements with the Energy Sector

Type of Item: General

Approved the Ministry of Energy's request for Ontario Power Generation and Hydro One to ratify negotiated tentative agreements with the Power Workers Union.

Secretary, Treasury Board and
Management Board of Cabinet

Distribution

Mr. S. Imbrogno
Mr. R. Burns

3 - Assessment Note - Energy - Electricity Sector Engagement with Unions - Report Back.pdf

**TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE**



Ministry:	Energy
Meeting Date:	August 10, 2015
Agenda Class:	Discussion (In Camera)
Last reviewed by: TB/MBC (May 2015)	Tracking to: Cabinet (August 10, 2015)

SUBMISSION TITLE: Electricity Sector Engagement with Unions – Second Reportback

I. DECISION BEFORE THE BOARD

- Approve proposed terms of negotiated tentative collective agreement between Hydro One and the Society of Energy Professionals (Society).

II. RECOMMENDATIONS:

• Approve that the Ministry of Energy request Hydro One to finalize the negotiated tentative agreement with the Society.	<i>Approve</i>

III. FINANCIAL SUMMARY – NOT APPLICABLE

\$ Millions	2014-15	2015-16	2016-17
Initiative cost requested	0	0	0
Initiative cost recommended	0	0	0
Recommended program base – Both are consolidated agencies	-	-	-
Offset Recommended (Specify Ministry/Program)	0	0	0
Total Fiscal Impact	0	0	0

IV. KEY COMMENTS AND CONSIDERATIONS

Following a 2015 TB/MBC item which established a bargaining mandate for agencies in negotiations within the Energy sector, the Ministry is returning to the Board requesting approval of the latest tentative agreement which is between Hydro One and the Society of Energy Professionals prior to ratification (Appendix E provides details of the agreement). The agreement is for a three year term commencing April 1, 2016 to March 31, 2019.

The Ministry indicates the tentative agreement is similar to the one reached between Power Workers Union (PWU) and Hydro One with differences in increases in pension contributions and wages. Appendix G (last page) compares the Society tentative agreement with the one reached with PWU.

The bargaining mandate included three key provisions:

- 1) Net zero total labour compensation cost increases for the term of collective agreements.
 - The Ministry indicates the tentative agreement reached between Hydro One and the Society largely satisfy the negotiating mandate provided to electricity entities, including the provision that resulting agreements be net zero. The agreement finds

IV. KEY COMMENTS AND CONSIDERATIONS (CONTINUED ...)

offsets for a 0.5% annual wage increase by increased usage of work contracts and reduction in regular headcount. In addition, Hydro One believes it will save \$30M in past service pension liabilities. Over the long-run after the share grants are expired, savings of 1.5% of payroll may be achieved.

- 2) Where relevant, enable restructuring activities recommended by the Premier's Advisory Council on Government Assets, and approved by government.
 - The Ministry indicates with Society members participating in Hydro One Share grants/awards, there may be less friction from the union regarding the Hydro One IPO.
- 3) Pension contributions move toward Leech recommendations on both equal cost sharing and benefits modulation on an agreed timeline.

Note: Based on a previously arbitrated settlement, Hydro One employees represented by Society have different pension plans based on their hire date being either pre or post November 17, 2005.

	Benefit to Employees	Benefit to Employers	Net Effect
Hydro One	Lump sum cash payments <i>(as a percentage of salary):</i> • 2016: 1% • 2017: 2% Share Awards <i>(as a percentage of salary):</i> • 2018 to 2029: 2.00% of salary in 2015.	Increased employee contributions <i>(as a percentage of salary):</i> (Pre-2005 Employees) • Eventual increase to 2.00% by the end of the collective agreement term. (Post-2005 Employees) • Eventual increase to 2.25% by the end of the collective agreement term. In addition, benefits are reduced (described below), and pension liabilities decrease as a result of lower than anticipated salary increases.	From 2016 to 2029 Hydro One employees are held whole (net zero) with regard to pension contributions. What would have been paid out as employer pension contributions are instead paid to employees in the form of cash or shares of Hydro One. Beyond 2029 share awards / grants cease, but the increased employee pension contributions continue, leaving the companies (and ratepayers) with significant long term savings.

- Employer/Employee pension contribution ratio would improve:
 - For Pre-2005 employees: from 69/31 to 61/39
 - For Post-2005 employees: from 61/39 to 50/50
- Future Service Benefit:
 - For Pre-2005 employees: Adjust number of years for final average earnings to 5 years from 3 years effective March 31, 2025
 - For Post-2005 employees: Effective January 1, 2018, a bridge benefit would be added equal 0.625% up to the average year's maximum pensionable earnings for each year of service from January 1, 2018 onward.
- Employees who joined the organisation after September 1, 2015 will not be eligible for share grants but can participate in the Employee Share Ownership Plan (ESOP). Participants can contribute between 1% and 4% of their base salary towards Hydro One shares. Hydro One will make a matching contribution of 25% of each participant's total

contribution to ESOP (between 0.25% and 1% of participant's salary) as long as the shares are held for two years.

Premier's Advisory Council on Government Assets

The Province intends to sell, over time, a majority interest in Hydro One through share sales to the public. The partial sale of the Province's interest in Hydro One would be by way of an IPO. The Hydro One IPO is expected to proceed in 2015-16. This would have a significant impact on a large number of Hydro One employees as affected staff could be transferred from a government-owned entity to a privately-owned entity along with their pension funds and their collective agreements.

Next Steps

The current collective agreement expires on March 31, 2016. The tentative agreement, if ratified, will commence April 1, 2016. Hydro One is seeking government approval of the negotiated tentative agreement prior to finalizing it and obtaining Hydro One Board approval (targeting mid-August 2015). The Society will seek ratification from its membership at the end of August 2015.

Components of the proposed agreement depend on the issuance of Hydro One shares, which is expected in 2015-16. Unlike Hydro One/PWU agreement which included separate default terms if the IPO does not occur by March 31, 2016, the tentative agreement with the Society contains no contingency plan, the Society and Hydro One will have to negotiate a new agreement if the March 31, 2016 deadline is missed.

Name of analyst:	James Strang	Phone number:	7-2071
Date:	August 7, 2015	Log number:	
Branch / Division:	General Government, Planning and Resources Branch, PEM, TBS		

APPENDIX A: PROPOSED MINUTE

Approve that the Ministry of Energy request for Hydro One to ratify negotiated tentative agreement with the Society of Energy Professionals.

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE – NOT APPLICABLE				TABLE B1
				<i>Appropriations Basis</i>
		<i>Fiscal Plan Basis</i>		
\$ Millions		2013-14	2014-15	2015-16
Initiative cost recommended		0.0000	0.0000	0.0000
<i>Expense changes:</i>				
Operating item	Oper	0.0000	0.0000	0.0000
Total Fiscal Impact (draw from c-funds)		0.0000	0.0000	0.0000

APPENDIX C: EXPIRING COLLECTIVE AGREEMENTS

The following table shows when current collective agreements expire.

	PWU	Society
OPG	March 31, 2015	December 31, 2015
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OF EMPLOYERS = 3
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 # OF EMPLOYEES COVERED =17,256

APPENDIX D: BARGAINING MANDATE (JANUARY 2015 TB/MBC)

Approve the Ministry of Energy's proposed bargaining mandates for electricity sector bargaining that include the following parameters:

- i. Multiple year agreements (2-4 years).
- ii. Net zero total labour compensation cost increases over the term of collective agreements.
- iii. Where relevant, enable restructuring activities recommended by the Premier's Advisory Council on Government Assets, and approved by government.
- iv. Pension contributions to achieve equal cost sharing between employer and employee contributions on an agreed timeline.
- v. Increases in pension contributions should not be considered as offsets towards achieving net zero total labour compensation costs.

Note additional bargaining considerations to include:

- i. Reductions in, for example, benefit costs.
- ii. Other elements in bargaining, in addition to meeting the parameters above, that could be considered as concessions to reach an agreement.

Direct the Ministry to:

- i. Report back to Treasury Board Sub-Committee on Public Sector Bargaining and Compensation on progress of electricity sector bargaining, and also outline the Ministry's efforts to work with the entities on contingency planning in the event of any labour disruption and demonstrate that plans are well understood.
- ii. Return to Treasury Board/Management Board of Cabinet (TB/MBC) to seek approval of tentative collective agreements, prior to final ratification by the board of each entity.
- iii. Work with Cabinet Office and Premier's Office to develop communications strategy for the upcoming round of collective bargaining.
- iv. Report back to TB/MBC if the bargaining mandates cannot be met and/or a strike/lockout becomes probable.

APPENDIX E: DETAILS OF TENTATIVE COLLECTIVE AGREEMENT BETWEEN HYDRO ONE AND THE SOCIETY OF ENERGY PROFESSIONALS

- 3 year term commencing April 1, 2016 to March 31, 2019
- Incremental wage increases of:
 - i. 0.5% on April 1, 2016
 - ii. 0.5% on April 1, 2017
 - iii. 0.5% on April 1, 2018
- Increase in employee pension contributions for existing members, who joined before November 17, 2005 (Pre-2005 employees), of the plan as per the following:
 - i. April 1, 2016 – 0.50% Below YMPE/0.50% above YMPE (Year's Maximum Pensionable Earnings)
 - ii. April 1, 2017 – 0.75% Below YMPE/0.75% above YMPE
 - iii. April 1, 2018 – 1.00% below YMPE/1.50% above YMPE
 - iv. Eventual Increase will be 2.25% of total salaries.
- Increase in employee pension contributions for new members of the plan joining on or after November 17, 2005 (Post-2005 Employees):
 - i. April 1, 2016 – 0.50% Below YMPE/0.50% above YMPE
 - ii. April 1, 2017 – 0.75% Below YMPE/0.75% above YMPE
 - iii. April 1, 2018 – 0.50% below YMPE/1.00% above YMPE
 - iv. Eventual increase will be 2.00% of total salaries.
- One time cash payments to avoid increases in base salary:
 - i. 1.00% of salary on April 1, 2016
 - ii. 2.00% of salary on April 1, 2017
- Share grants to avoid increases in base salary:
 - i. Share grants will be made on April 1 of each year from April 1, 2018 up to and including April 1, 2029
 - ii. Grants will be 2.00% of salary as of September 1, 2015 provided in the form of Hydro One shares based on the initial share price.
 - iii. To be eligible, Hydro One employees must still be an active employee and have less than 35 years of pensionable service.
 - iv. Example – If an employee has a salary on September 1, 2015 of \$100,000 and the initial share price is \$20.00, 100 shares ($2\% \times \$100,000 / \$20.00$) will be granted to the employee each year up to a maximum of 12 grants. At the end of the 12 years, the employees will have 1,200 shares.
- For existing employees who joined before November 17, 2005, pension benefits earned for future service beginning March 31, 2025 would be based on a high 5 year average instead of a high 3 year average
- For members joining after November 17, 2005, a bridge benefit would be added equal to 0.625% up to the average YMPE (Yearly Maximum Pensionable Earnings) for each year of service from January 1, 2018 onward while the member is earning a benefit under the basic formula (For clarity, there would be no 35/30 multiplier applied to the 0.625%). An Employee Share Ownership Plan (ESOP) for new hires and existing employees not eligible for share grants or whose share grants have expired will be introduced effective September 1, 2015 whereby participants can contribute between 1% and 4% of their

base salary towards Hydro One shares with Hydro One making a matching contribution of 25% of each participant's total contribution to ESOP (between 0.25% and 1% of participant's salary). Participants must have been employed by Hydro One for two years before receiving the company's contribution to the ESOP.

- In the event that Hydro One's IPO does not occur by March 31, 2016, the terms of the tentative agreement is rendered null and void and the parties will negotiate a renewal collective agreement for the agreement that expires March 31, 2016.

Year-over-year Society Compensation Growth by Entity

Year	OPG (%)	Hydro One (%)
2001	3.00	3.00
2002	2.50	2.00
2003	2.00	3.00
2004	3.00	3.00
2005	3.00	4.00
2006	3.00	3.00
2007	3.00	3.00
2008	3.00	3.00
2009	3.00	3.00
2010	3.00	3.00
2011	3.00	2.50
2012	3.00	2.50
2013	0.75	2.00
2014	1.75	2.25
2015	1.75	2.25
<i>Tentative Collective Agreement</i>		
2016	<i>pending</i>	0.5
2017	<i>pending</i>	0.5
2018	<i>pending</i>	0.5

Source: OEB Filings

APPENDIX F: CONSIDERATIONS AND BENEFITS WITH TENTATIVE COLLECTIVE AGREEMENT

The Ministry flagged the following considerations and benefits.

Considerations:

- **No model for shared governance risk:** The tentative agreement did not contain any provisions related to shared governance risk as recommended in the Leech Report such as funding management policy.
- **Continued disparity between pre- and Post- 2005 employees:** Society-represented employees at Hydro One hired before November 2005 will continue to contribute less to their pensions compared to post-2005 employees. However this category of employee is expected to retire over the next decade, eventually phasing out the legacy pension fund which will be replaced by the new pension fund terms agreed for post-2005 employees and new hires.
- **No contingency plan in case IPO does not occur:** The terms of the tentative agreement will become null and void if the Hydro One IPO does not occur on or before March 31, 2016. Unlike the recent agreement reached by Hydro One and PWU where separate default terms were set in case the IPO does not occur, Society and Hydro One will have to negotiate a new agreement. However, since the current collective agreement expires on March 31, 2016, there is time to negotiate a new agreement if the tentative agreement is not approved.
- **Share grants/awards may be implied costs to the province:** By awarding shares to employees of Hydro One for the next 12 years, the additional shares will dilute the province's holdings in the company implying some cost to the province.
- **Share grants/awards adds a level of risk to the province:** Employees at Hydro One will be entitled to a fixed number of shares for the next 12 years based on their current salary and the initial price of Hydro One's stock. This was agreed on for tax purposes and to alleviate the risk of uncertainty on how much stock awards would be granted or awarded. Given that stock prices tend to be very volatile, it is difficult to ascertain the value of the grants or awards and thus the cost to the province.

Benefits:

- **Significantly lower wage increase compared to historical increases:** a 0.5% wage increase for the next three years is unprecedented compared to previous collective agreements and thus provides significant savings for ratepayers. Furthermore, the percentage increase is lower compared to that of PWU's recent collective agreement that was ratified in July 2015.
- **Moves closer to equal cost sharing in pension contributions: Secures a long term agreement:** The three year agreement (April 1, 2016 to March 31, 2019) locks in a commitment of the union for lower labor costs incurred by the province over the long-term and is also consistent with previous collective agreements in the electricity sector. In

addition, it saves resources from going into a round of collective bargaining had the agreement been for a shorter term.

Improved Flexibility: In addition to limited wage increases, this agreement affords the company greater flexibility to utilize outsourcing (contracting out) in order to meet its needs cost-effectively and allows for greater responsiveness to changes in demand for labour.

- **Provides incentives for Council recommendations to proceed:** With Society and PWU represented employees participating in Hydro One Share grants and awards, there may be less friction from unions that would go against the IPO of the company.

APPENDIX G: COMPARISON OF SOCIETY AND PWU AGREEMENTS

Key Terms	Society Tentative Agreement		Agreement with PWU ratified on July 6, 2015
	Pre-2005 Employees	Post-2005 Employees	
Term of Agreement	3 years	3 years	3 years
Wage Increase	0.5% annually during term	0.5% annually during term	1% Annually during term
Pension Contribution Increase	2.25% increase	2.00% Increase	2.70% for all members
Eventual Employer to Employee Contribution Ratio (After Collective Agreement Term)	61/39	50/50	60/40
Lump Sum payments	1% and 2% of salary in each of year 1 and year 2 of the term respectively	1% and 2% of salary in each of year 1 and year 2 of the term respectively	1% and 2% of salary in each of year 1 and year 2 of the term respectively
Share Grants	12 annual fixed share grants for Hydro One stock equivalent of 2.0% of current salary based on the initial share price.	12 annual fixed share grants for Hydro One stock equivalent of 2.0% of current salary based on the initial share price.	12 annual fixed share grants for Hydro One stock equivalent of 2.7% of current salary based on the initial share price.
Future Service Benefit	Adjust number of years for final average earnings to 5 years from 3 years effective March 31, 2025	Effective January 1, 2018, a bridge benefit would be added equal 0.625% up to the average YMPE for each year of service from January 1, 2018 onward	Existing and New Members: Adjust number of years for final average earnings to 5 years from 3 years effective March 31, 2025

3 - August 10, 2015 - Electricity Sector Engagement With Unions - Report Back.pdf



TREASURY BOARD/MANAGEMENT BOARD OF CABINET

TB/MBC Date: August 10, 2015, held in the Chair's Boardroom, 1st Floor, Frost Building South, at 1:00 pm.

Attendees: Ms. D. Matthews (Chair), Mr. C. Sousa, Mr. B. Chiarelli, Ms. M. Hunter, Ms. M. Meilleur, Ms. L. Albanese and Mr. Y. Baker.

Item Number: 01

Ministry: Energy

Title: Electricity Sector Engagement With Unions - Report Back

Type of Item: General

Approved that the Ministry request Hydro One to ratify the negotiated tentative agreement with the Society of Energy Professionals.

Secretary, Treasury Board and
Management Board of Cabinet

Distribution

Mr. S. Imbrogno
Mr. R. Burns

4 - Assessment Note - ENERGY - 1 of 2 - Hydro One Initial Public Offering Implementation Plan.pdf

**TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE**



Ministry:	Energy
Meeting Date:	August 25, 2015
Agenda Class:	Major Issue (In Camera)
Last reviewed by: TB/MBC, April 15, 2015	Tracking to: Cabinet, August 25, 2015

Based on a DRAFT Submission

SUBMISSION TITLE:	Hydro One Initial Public Offering Implementation Plan

I. DECISION BEFORE THE BOARD

- Approval of the implementation plan for the Hydro One Initial Public Offering (IPO).

II. RECOMMENDATIONS:

Approve that the IPO for Hydro One will include approximately 15 per cent of the Province's Interest in Hydro One voting securities and will take place in fall 2015.	<i>Approve</i>
Direct the Ministry of Energy to work with MAA, MAG and CO to engage First Nations communities on the IPO and to assess potential provincial options.	<i>Direct</i>
Approve a Supplementary Estimates in the amount of [\$XX].	<i>Approve</i>
Recommend an Order in Council to authorize the incorporation of Hydro One Limited under the <i>Business Corporations Act</i>.	<i>Recommend</i>
Approve the Governance Agreement between the Province and Hydro One Limited.	<i>Approve</i>
Approve a Registration Rights Agreement between the Province and Hydro One Limited.	<i>Approve</i>
Approve the Minister of Energy to sign the prospectus, underwriting agreement, lock up agreement and other ancillary documents necessary to complete the IPO	<i>Approve</i>
Approve an administrative framework for managing the Province's investment in Hydro One Limited post-IPO.	<i>Approve</i>
Approve final Loan, Share Purchase Agreements and ancillary documents between the Province and one or more trusts for the benefit of the Power Worker's Union, and between the Province and one or more trusts for the benefit of the Society of Energy Professionals (TBC).	<i>Approve</i>
Recommend Orders in Council to authorize the Minister of Finance to enter into the loan agreements.	<i>Recommend</i>
Approve an exemption from the mandatory requirements of the OPS Procurement Directive to acquire active book runners and the underwriting syndicate for the IPO.	<i>Approve</i>

Approve an allowable exception to the OPS Procurement Directive, to acquire consulting services valued at \$1,000,000 or more to support the IPO process, where there are matters of a confidential or privileged nature.	<i>Recommend</i>
Approve an exemption from the use of the Central Common Service procurement process for the acquisition of legal and financial services to support the IPO process.	<i>Recommend</i>
Recommend an Order in Council to authorize the incorporation of Brampton Distribution Holdco Inc. under the <i>Business Corporations Act</i>.	<i>Recommend</i>
Recommend an Order in Council to expand the objects of the Ontario Electricity Financial Corporation (OEFC).	<i>Recommend</i>
Direct the Ministry of Energy to report back on the status of engagement with First Nations prior to tabling a formal proposal in any negotiations.	<i>Direct</i>
Direct the Ministry of Energy, working with the Ministry of Finance and Cabinet Office, to report back with the results of the IPO.	<i>Direct</i>
Direct the Ministry of Energy to report back with details on the final Brampton Transaction Results.	<i>Direct</i>

III. FINANCIAL SUMMARY

\$ Millions	2015-16	2016-17	2017-18
Initiative cost requested	0.0	0.0	0.0
Initiative cost recommended	0.0	0.0	0.0
Offset Recommended	0.0	0.0	0.0
Total Fiscal Impact	0.0	0.0	0.0

IV. KEY COMMENTS AND CONSIDERATIONS

In April 2015, TB/MBC approved the intention to proceed with an Initial Public Offering (IPO) for Hydro One and for the Minister of Energy to direct Hydro One to immediately enter into exclusive negotiations to combine Hydro One Brampton with one or more urban local distribution companies.

TB/MBC also approved a number of key parameters/elements of the IPO (e.g. the percentage of shares to be sold, the development of a Governance Agreement based on key principles, legislative and regulatory amendments to support Hydro One, procurements to support the IPO process, and the development of a loan agreement to facilitate the purchase of Hydro One shares **by the Power Workers' Union**), and directed the Ministry of Energy to work with the Ministry of Finance and report back with several items, including:

- an IPO implementation plan, including financial details,
- the Governance Agreement,
- details of a proposed capital contribution to Hydro One,
- details of the financial benefit to be provided to the Ontario Electricity Financial Corporation (OEFC),
- details on the final Brampton transaction, and

- the agreements with the unions.

In May 2015, the Ministry of Energy received TB/MBC approval of both Ontario Power Generation's (OPG) and Hydro One's collective agreements with the Power Workers Union (PWU), and in August 2015 the Ministry received TB/MBC approval of Hydro One's collective agreements with the Society of Energy Professionals (SEP).

IPO Overview

To receive optimal value through an IPO, Hydro One Inc. has undergone a number of leadership changes in recent months to provide investors with comfort that it has in place an effective, experienced and "public company ready" Board, Chair and senior management

- April 16, 2015: David Denison was appointed the Chair of Hydro One
- June 23, 2015: Michael Vels was hired as the new Chief Financial Officer
- July 17, 2015: The Province appointed a new Board of Directors of Hydro One

In addition, the company is currently in the process of conducting a search for a new CEO, and there is an expectation that the Chair will make an announcement in this regard in late August.

A successful IPO process will be supported by a number of external parties including:

- Bookrunners: These banks will carry out most of the work relating to the IPO including conducting due diligence, participating in the preparation of the prospectus, organizing the marketing meetings, and assembling/managing the underwriting syndicate.
- Underwriters: The underwriters will purchase shares and resell them to investors through their networks of brokers and dealers (all bookrunners are also underwriters).
- Broker/Dealers: They will facilitate purchase by individual investors and provide investment advice.

Aspects of the IPO process **are** also being overseen by Denis Desautels who has been engaged by the Ministry of Energy to provide advice regarding the fairness and transparency of the transaction, including the bookrunner and underwriting syndicate selection. He is also advising on the process to establish a dedicated Ombudsperson's office for Hydro One.

Together, these parties will proceed with an IPO that would include approximately 15 per cent of the Province's interest in Hydro One, according to the following approximate timeline (see below for additional detail on individual components):

- August 25 – TB/MBC and Cabinet approval of the IPO implementation plan, including the creation of the holding companies Hydro One Limited and Brampton Distribution Holdco Inc.
- August 31 – Hydro One Limited is created and Hydro One Brampton is transferred from Hydro One Inc. to the new Brampton Distribution Holdco Inc., through a dividend in-kind.
- Late August/Early September – Minister of Finance enters into loan agreements, and the Minister of Energy enters into share and purchase agreements, with trusts representing the PWU and SEP (TBC).
- September **9** – Hydro One Limited files its preliminary prospectus with the Ontario Securities Commission (OSC) and other Canadian securities commissions as selling shareholder and, if required by the OSC, as a promoter.

- o The preliminary prospectus, which is a public document, will include disclosure of the Governance Agreement, Registration Rights Agreement, departure tax determination and the Province's capital contribution to Hydro One Limited, the loan and share purchase agreements with the PWU and SEP (TBC), and the Hydro One Limited business plan.
 - o The Minister of Energy will sign the prospectus certifying the disclosure on behalf of the Province in his role as selling shareholder. Hydro One will also sign the prospectus.
- September 14 (earliest date) –Supplementary Estimates are tabled in the Legislative Assembly.
- September (TBD) – Province's shares in Hydro One Inc. exchanged for shares in Hydro One Limited.
- September/October – OSC reviews and comments on the preliminary prospectus.
 - o Hydro One has an opportunity to respond to any initial comments and submit an amended and/or restated preliminary prospectus.
- September/October/November – The underwriters prepare a summary of the preliminary prospectus and a "roadshow" presentation (also filed with the OSC), which are used to market the IPO in a series of meetings (called "roadshows") with financial analysts, brokers, and potential institutional investors.
- November – The underwriters solicit expressions of interest during the marketing roadshows and develop a list of interested investors, including the price they would be willing to pay and the number of shares they would be willing to purchase.
- November – Based on the results of the marketing, the bookrunners, underwriters, the Ministry of Energy, Ministry of Finance and Cabinet Office determine the price of the offering.
- November – The Ministry of Energy approves the final Governance Agreement and Registration Rights Agreement with Hydro One Limited.
- November– The final prospectus and underwriting agreement (which sets forth the terms and conditions of the offering, including the underwriters' compensation (a percentage of proceeds plus expenses), the offering price, and the number of shares to be offered) are signed.
 - o The final prospectus is delivered to prospective purchasers, who then have two days to withdraw their offers.
 - o The IPO is closed and the securities are listed on the stock exchange.
 - o The underwriters may recommend the use of a "PREP" or "post-receipt pricing" prospectus: this procedure allows companies to file a final prospectus that omits the deal size and other pricing information that would be receipted by the OSC, and once pricing is determined a "supplemented prospectus," is filed and provided to purchasers.
- Immediately prior to closing:
 - o The Ministry of Energy implements terms set out in the Share Purchase Agreements with the PWU and SEP (TBC).
 - o Hydro One pays a departure tax to the Province (i.e. the OEFC) and the Province provides a capital contribution of an equivalent amount to Hydro One.
 - An IPO transaction of greater than 10 per cent will cause Hydro One to leave the payments-in-lieu of tax (PILs) regime and into the normal corporate tax regime, resulting in Hydro One being subject to a departure tax payable to the OEFC.

- The payment would result in a large expense and associated reduction to Hydro One's equity that is not recoverable from ratepayers. As a result, to keep Hydro One whole and support its value in the IPO, the Province, consistent with the April TB/MBC approvals, would inject cash into Hydro One through a capital contribution for up to the amount of the departure tax. The two transactions are fiscally neutral.
- As part of this process Hydro One is expected provide to the Province a one-time incremental dividend to be in the range of [\$500 to \$1,000 million].
 - A cash dividend payment is not a revenue item for the Province; therefore, there is no direct fiscal impact from a dividend payment. However, a dividend payment would reduce the Province's borrowing needs, and lower the Province's interest on debt expense.

First Nations Engagement

The Chiefs of Ontario (COO) wrote to Minister Chiarelli on July 13, 2015 advising that First Nations recognize the partial sale of Hydro One as a "significant opportunity...to move past historic grievances and to...share resources and the benefits of the lands."

- The Chiefs of Ontario stated an expectation to own 10 percent of Hydro One and to work with the Minister and the Ministry to ensure that ownership of shares is transferred outside of the IPO.

The COO letter was followed by a letter on July 16, 2015 from the Nishnawbe Aski Nation (NAN) who wrote that the privatization of Hydro One "activates" the Crown's duty to consult and accommodate Aboriginal and Treaty rights.

- NAN requested the establishment of a NAN Energy Table with Ontario on energy and policy development affecting the Treaty 9 and Treaty 5 territory

To support a successful IPO, the Ministry of Energy is proposing to work with the Ministry of Aboriginal Affairs, Ministry of the Attorney General and Cabinet Office to engage First Nations communities in a discussion on a range of issues related to the IPO in order to assess potential provincial options.

- The ministries will be directed to report back to TB/MBC prior to tabling a formal proposal with any of the parties.

Supplementary Estimates

Approval of Supplementary Estimates in the amount of [\$XX] is being sought for the following transactions:

- Creation of a new operating asset line and an expenditure increase in the Ministry of Finance in the amount of [\$XX] to provide loans to the PWU and SEP (TBC) to enable them to purchase Hydro One shares at the IPO price (see below for additional detail).
- Creation of a new operating expense item, transfer payment, and an expenditure increase in [the Ministry of Energy in the amount of \$XX] representing the amount of the capital contribution the Province will provide to Hydro One (equivalent to the amount of

departure tax paid by Hydro One). The two transactions are fiscally neutral.

- An expenditure increase in the Ministry of Energy in the amount of \$53,000,000 to ensure a sufficient appropriation to pay the procurement and other IPO and Brampton Distribution Holdco Inc. related costs, which will be recovered through the IPO proceeds (see below for additional detail).

Once TB/MBC has approved the Supplementary Estimates, they should be tabled in the Legislative Assembly at the earliest opportunity. Supplementary Estimates can only be tabled if the Legislature is sitting (currently scheduled to resume on September 14, 2015).

- The members of the Standing Committee on Estimates have not yet selected the ministries whose estimates will be reviewed by the Committee. The members of the Committee have the right to expect that they will be informed of all the government's spending plans before they decide which ministry's estimates they wish to select for review
- The Auditor General includes a description of the process by which the Province obtains legal spending authority for each fiscal year in her annual report and comments if she believes that the Supplementary Estimates have been unreasonably delayed.
- Any perception that the Province has not fully disclosed its spending plans to the Legislative Assembly could create communications issues or lead to a point of privilege being raised in the Legislature.

Creation of Hydro One Limited

The Ministry of Energy is seeking approval for the creation of Hydro One Limited under the Business Corporations Act (Ontario). Legislative authority to do this is provided in the Electricity Act.

The purpose of the new Hydro One Limited is primarily to acquire, hold, dispose of and otherwise deal with the securities of Hydro One Inc. The creation of Hydro One Limited would result in the following change in corporate structure:



This structure is used by comparable public utility companies (e.g., Fortis, Emera, Canadian Utilities, etc.) to increase value as well as to fund growth opportunities, and would allow Hydro One Limited to:

- separate the financing of its non-regulated businesses to mitigate negative factors in the credit evaluation of the currently regulated Hydro One Inc., and
- take on additional debt (increase leverage) in order to lower the overall cost of capital,

increase the return on equity for common shareholders, and increase the overall value of the company.

The creation of Hydro One Limited would also support the financing of growth opportunities while preserving the credit quality of the existing regulated businesses

To complete the creation of the new Hydro One Limited, the Ministry of Energy will exchange the preferred shares the Ministry currently holds in Hydro One Inc. (book value \$323M) for an issuance of common shares in Hydro One Inc. of an equivalent value. The Ministry of Energy will then exchange its common shares in Hydro One Inc. (approximately \$7.9B currently, not including the \$323M described above, for a total of about \$8.2B) for an issuance of common and preferred shares in Hydro One Limited of an equivalent value. Hydro One Limited will then sell shares to underwriters for distribution to the public.

Administrative Framework

Post-IPO, the Province's relationship with Hydro One will change in three main ways:

- The Province will deal with Hydro One as an investor not as manager
 - The Province will not engage with Hydro One as a manager. Though the Province will be the most significant shareholder, it will be one shareholder among many
- The Province's fiscal/financial relationship with Hydro One will change.
- The Province will seek to maximize its return on investment and will need to organise itself to enable administration of its rights and obligations as a shareholder, including the management of confidential information.

The Province's ongoing relationship with Hydro One Limited will be laid out in two primary documents:

- Governance Agreement: oversees the Province's ongoing relationship with Hydro One from a governance perspective. Consistent with TB/MBC direction, it includes the following key components:
 - Hydro One will adopt governance standards consistent with best practices in Canada for leading public companies having regard to Hydro One's ownership structure and the Governance Agreement.
 - The Ontario Energy Board will continue to regulate Hydro One and the Province will retain the ability to enact or enforce laws that affect Hydro One. Hydro One will also continue to contribute to system planning pursuant to its regulatory obligations.
 - With respect to its ownership interest in Hydro One, the Province will state its intention to achieve its policy objectives through regulation. However, the Province will preserve its right to vote its shares in its sole interest and sole discretion, except as expressly provided for in the agreement.
 - The Minister of Energy, or any other person delegated by the Minister, is the Provincial Representative to fulfil any obligation or exercise any right of the Province under the Governance Agreement. Any action taken by the Provincial Representative binds the Province.
 - The Board will consist of 10 to 15 members and will be comprised of:
 - The CEO;

- Up to 40 per cent of the number of directors (or its pro-rata share, whichever is less, but subject to a minimum cure period) nominated by the Province; and
- Remaining directors will be nominated by the Nominating and Governance Committee established by the Hydro One Limited Board.
- o Each Director nominee must be an individual of high quality and integrity who has:
 - Significant experience and expertise in business or that is applicable to business;
 - Served in a senior executive or leadership position;
 - Broad exposure to and understanding of the Canadian or international business community;
 - Skills for directing the management of a company,
 - Motivation and availability; and
 - Met the requirements of applicable securities and other Laws and any exchange on which Voting Securities are listed and Hydro One Limited's governance policies.
- o The Province and the Board's Nominating and Governance Committee may reject a Board nominee only if they determine, acting reasonably, that the nominee does not meet the qualifications.
 - The initial directors at the time of the IPO are not subject to this process unless their circumstances materially change.
- o Other than the CEO, each Director nominee shall be independent of Hydro One Limited and the Province.
- o The majority of the Board must at all times be resident Canadians.
- o The Province would have the right to requisition a shareholders' meeting to consider the removal of the Board at which time the Province may vote for the removal of all, but not less than all of the Board (other than the CEO and, at the Province's sole discretion, the Chair).
- o The Province will have the pre-emptive right to acquire up to 45 per cent of a Hydro One Limited offering of shares or securities that are convertible into shares subject to compliance with securities laws and TSX requirements:
 - Hydro One Limited would be required to provide notice of a proposed distribution to the Province not later than 30 days prior to the date Hydro One Limited enters into an agreement to issue shares.
 - The Province would have 10 business days after receiving the notice to determine if it wishes to exercise its pre-emptive right.
- o The Province will be permitted to acquire (subject to securities laws) additional Hydro One Limited common shares from other shareholders so long as its ownership interest after the acquisition does not exceed 45 per cent.
- o Hydro One Limited and the Province will enter into a confidentiality agreement with respect to confidential information provided to the Province to which the Province would agree:
 - To use confidential information provided to it in its capacity as a shareholder only to exercise its rights under the Governance Agreement and Registration Rights Agreement (as described below) or for the purpose of evaluating, overseeing and determining how to deal with its investment in Hydro One Limited and exercising its rights as a shareholder, in

- accordance with the Governance Agreement and Registration Rights Agreement and applicable law;
 - To use confidential information provided to the Minister of Finance or the President of the Treasury Board under the *Financial Administration Act*; only for preparing the Province's consolidated financial statements;
 - To establish sufficient procedures to protect against insider trading; and
 - Not to disclose confidential information about Hydro One Limited, or its subsidiaries, except as required by law and to provide Hydro One Limited with prior notice of such disclosures where permitted by law.
 - o Hydro One Limited and the Province will agree to cooperate in good faith to amend the Governance Agreement if there are changes in circumstances in the future that impact the original purpose and intention of the parties in entering into the agreement.
 - o The appointment of the CEO and Chair requires annual confirmation of at least two-thirds of the directors of the Board at the meeting.
 - o Changes to initial governance standards, including the mandate for the Hydro One Ombudsman and the skills matrix for nominees, will require approval of at least two-thirds of the directors of the Board at the meeting.
 - o Any disputes will be determined by binding, confidential arbitration.
- A Registration Rights Agreement, which lays out the roles and responsibilities of the Province and Hydro One Limited specifically as they relate to future share sales. It includes the following key components:
 - o The terms within the agreement will continue as long as the Province is a "control person" of Hydro One Limited.
 - o The Province can require Hydro One Limited to, use commercially reasonable efforts to facilitate an offering of the Province's shares, under a prospectus in Canada or as a private sale in Canada or other jurisdictions
 - Hydro One Limited is obliged, at the Province's request, to file a prospectus no more than four times in a 12 month period, and Hydro One Limited may defer a request for up to 60 days for confidentiality or bona fide reasons
 - The Province shall enter into an underwriting agreement and lock up agreement on "customary market terms"
 - o The Province also has the right to "piggy back" on a Hydro One Limited offering:
 - Hydro One Limited must provide notice of a proposed distribution to the Province not later than 30 days prior to the date Hydro One Limited enters into an agreement to issue shares.
 - The Province has 10 business days after receiving the piggy back notice to determine if it wishes to participate in the proposed distribution.
 - If the Province chooses to piggy back on a Hydro One Limited distribution, the underwriters may limit the number of shares that are included in the distribution, and proportionately allocated to the Province and Hydro One Limited, if, in their reasonable judgment, market conditions require such limitations in order to maximize the value of the offering.
 - o The Province is responsible for the associated costs with a distribution of shares under a demand registration
 - The Province is responsible for these costs even if the Province withdraws its request for a demand registration or in circumstances where a

distribution does not otherwise occur pursuant to a prospectus prepared at the Province's request

- The Province and Hydro One Limited share costs in proportion to the gross proceeds for a piggy back registration

In addition to the above noted agreements, the Minister of Energy will need to enter into a number of additional agreements to support the IPO, including, but not limited to:

- Underwriting Agreement: The underwriting agreement outlines the terms on which the underwriters agree to purchase and distribute the shares of Hydro One Limited, including the offering price and number of shares to be sold (the base offering, plus an "over-allotment option" allowing the underwriters to purchase additional shares for market support).
- Lock Up Agreement: To maintain an orderly market post-closing of the IPO, Hydro One (as issuer) and the Province (as selling shareholder) enter into an agreement not to sell any additional shares for 180 days after the IPO closes without the underwriters' approval.

Overseeing the Province's Investment in Hydro One Limited

Following the IPO, the Province will need to manage its interest in Hydro One Limited as an investor. In order to effectively carry out these roles and responsibilities, the Ministry of Energy indicates that it will require dedicated resources and expertise to support the Province as shareholder in these decisions, and proposes an approach whereby delegation of authority combined with a standing mandate to undertake buy and sell transactions can facilitate quick action:

- The Minister of Energy, as shareholder, will represent the Province as an investor in Hydro One Limited.
- The Ministry of Energy will monitor Hydro One to ensure legislative and governance agreements requirements are met (head office, holdings, etc.).
- The Ministry will meet with members of the Hydro One Limited nominating committee to identify and confirm nominees for the Board of Directors annually and as needed.
- The Ministry of Energy would acquire the services of a financial advisor, on an ongoing basis to monitor market conditions to inform buy/sell decisions.
- The Ministry of Energy would acquire the services of external legal expertise on an as-needed basis.
- Treasury Board Secretariat and the Ministry of Finance will work with the Ministry of Energy and be responsible for setting sales targets to support the fiscal plan
- The Ministry of Finance will ensure close coordination with fiscal priorities.
- Treasury Board Secretariat will ensure appropriate government approvals are taken into account.
- The Ministry of Energy will report to TB/MBC on an annual basis to receive broad policy approval to purchase and sell shares during the subsequent fiscal year, and report back to TB/MBC following each transaction that takes place.
- The Minister of Energy would approve individual transactions

The resourcing details of this proposed administrative framework (FTEs for the Ministry and cost of external services) are not known at this time.

Loan and Share Purchase Agreements

In April 2015, TB/MBC approved the development of a loan agreement to enable the Hydro One unions (the PWU and the SEP [TBC]) to purchase shares in Hydro One Limited. The Ministries of Energy and Finance have negotiated the terms of the Loan Agreements and Share Purchase Agreements (and ancillary agreements) to enable the transactions ("the Agreements"). In each case, the Agreements would be entered into by the Province (the Minister of Finance for the Loan Agreements, and the Minister of Energy for the Share Purchase Agreements) and two Ontario trusts, the sole trustee of which is an Ontario corporation wholly-owned by each union and the sole beneficiary of which is that union.

The Agreements are broadly similar, but include a few specific differences reflective of the particular needs of each union, such as the following:

- The PWU loan will be for up to \$75,000,000 to the PWU Trust, and the Trust can use the loan to pay fees for financial advisors to a maximum amount of \$3,000,000.
- The SEP loan will be for up to \$[XX] to the SEP Trust, and the Trust can use the loan to pay fees for financial advisors to a maximum amount of [XX].

The proposed Agreements also include the following key terms:

- The loans will be used to:
 - o purchase Hydro One Limited common shares at the IPO price; and
 - o pay for the fees of any financial advisors to the unions to the maximum amounts noted above.
- The borrower will agree not to vote any shares they own in any matter for so long as the loan remains outstanding.
- The loan matures and becomes repayable in full 15 years from the initial advance.
- The interest rate applicable to the interest period (as selected by the borrower) will be the Province's borrowing rate for a term equal to the selected interest period, plus 15 basis points (bps, or 0.15 percentage points).
 - o Interest will be payable in arrears at the end of each fiscal quarter.
- Interest payments are to be made from quarterly dividends on the shares
 - o If the dividends are insufficient to pay the interest due on any interest payment date, the borrower may elect to defer payment of interest to the next interest payment date.
 - o If the market value of the shares pledged by the borrower is greater than 2x the outstanding principal and interest on the loan, the borrower may use any dividends in excess of interest payments for its own purposes.
 - o If the market value of the shares pledged by the borrower is less than 2x the outstanding principal and interest on the loan, the borrower must use the excess dividends (i.e. dividends remaining after interest payments) to repay the loan.
- The borrower may prepay the loan without penalty at any time.
 - o If the borrower sells the pledged shares, the proceeds of the sale must be used to repay the loan.
 - o If there is a change of control of Hydro One Limited, the borrower must repay the loan in full.
- The loan will be secured by the pledged shares and by dividends received on the

pledged shares. If the market value of the pledged shares is more than 2x the outstanding principal and interest on the loan, the borrower is entitled to request that the lender release pledged shares up to an amount so that the market value of the pledged shares is not less than 2x the outstanding principal and interest on the loan.

- In addition, the PWU and the SEP will each set up a separate trust to purchase up to [\$10M and \$5M, respectively] shares with funds provided by each union.
- The shares bought with funds provided by unions will not be disposed of by the unions until at least one year after the date of the IPO.
- All shares will be sold at the IPO purchase price and will not be transferred until the date of the IPO.
- The borrowers and their respective union will not be permitted to buy any additional Hydro One Limited common shares in the IPO.

A side letter by the relevant union and the Minister of energy will require that the proceeds from the shares be used for training, employee benefits or other matters determined by the union to be for the benefit of its members.

While the unions will become shareholders in Hydro One Limited, their ownership stake is expected to represent only about 1% of the total company.

Procurements

Consistent with the April TB/MBC approval, the fees paid to the bookrunners and the rest of the underwriting syndicate will be a percentage of sales to investors (3 per cent for retail investors 1 per cent for institutional investors). The total payment to bookrunners and the accompanying underwriting syndicate is expected to be approximately 1.8 per cent of the transaction value (about \$35M-\$45M, with \$50M as a ceiling), which the Council indicates is considerably lower than the industry average of 4-5per cent (\$100M). The Ministry has also noted that it will pay the expenses of the bookrunners. These will include [legal fees, costs related to the marketing effort and road shows]. All of the items will be outlined in the underwriting agreement.

- In April it was expected that Hydro One would be responsible for the procurement of these advisors, however it now appears the Ministry of Energy will also be required to sign the agreements with the underwriting partners, and therefore a new procurement approval is being requested to enable the Ministry to participate.

The Ministry has indicated that there will be other procurements that will need to be undertaken as part of the IPO process, including, but not limited to the following:

- New Investment Dealer: The Ministry will need to procure the services of an investment dealer to establish up an investment account that will hold the Province's shares in Hydro One Limited. The account will be used to hold and transfer shares in the first IPO, and can also be used for the management of shares in future offerings.

The Ministry has indicated that it will need to act quickly to procure the various services required for the IPO and that it may not follow the mandatory components of the OPS Procurement Directive, such as criteria around the procurement process. As a result, it is requesting an exemption from the mandatory requirements of the OPS Procurement Directive and exemption from the use of the Central Common Service for the acquisition of legal and

financial services to undertake the remaining procurements required for the IPO.

The Ministry indicates that it will endeavour to abide by the principles of the Directive (value for money, vendor access, transparency and fairness, and responsible management) and that Denis Desautels will oversee this as part of his work to ensure the transparency of the IPO process.

This request has not been reviewed by the Supply Chain Leadership Council.

While the procurement costs (and those of Hydro One Limited) will be offset from the IPO proceeds, the Ministry of Energy will require an appropriation to record the expected payment to the underwriting syndicate (i.e. up to \$50M), as well as for its other advisors (e.g. Mr. Desautels, legal counsel, etc.), and other related payments (e.g. listing fees, OSC fees, rating agency fees, etc.). The Ministry estimates that the total expenses will not exceed [XXX].

Hydro One Brampton

As approved in April 2015 and announced in the 2015 Ontario Budget, the Province is moving forward with the sale of Hydro One Brampton to a merged entity of three other large utilities – PowerStream, Enersource and Horizon.

- This transaction is still in progress and is not expected to close prior to the IPO.

As part of the Hydro One Brampton transaction the Ministry of Energy is seeking approval for the creation of Brampton Distribution Holdco Inc. under the Business Corporations Act (Ontario). Legislative authority to do this is provided in the Electricity Act, 1998 (Ontario). Prior to its merger with three other utilities, Hydro One Brampton will be transferred from Hydro One to a new holding company wholly owned by the Province through a dividend in-kind prior to the IPO, by way of a Shareholder Declaration from the Minister of Energy, acting as sole shareholder. The Shareholder Declaration will direct Hydro One to pay the dividend by transferring Hydro One Brampton to Brampton Distribution Holdco Inc. Hydro One Brampton will continue to operate as a going concern while owned by the Province.

In addition, the Ministry of Finance is seeking approval of an Order in Council to expand the objects of the OEFC to include providing financial assistance to a distributor owned or controlled, directly or indirectly, by the Province, so that the OEFC would be in a position to provide financial support to Brampton Distribution Holdco Inc. if necessary, as a contingency measure.

The Ministry of Energy and Brampton Distribution Holdco Inc. will enter into a Memorandum of Agreement with respect to the governance, mandate, reporting requirements, performance expectations and communications.

In April 2015, TB/MBC approved exempting Hydro One from any Treasury Board/Management Board of Cabinet directives that currently applied to it. To ensure clarity, the Ministry is requesting for that approval be applied to Brampton Distribution Holdco Inc.

Risks

Securities laws restrict the communications that can be made by a seller/issuer of shares while it is preparing for, and during, an IPO. Generally, this “quiet period” is aimed at preventing the seller/issuer from engaging in communication aimed at promoting the shares to be offered to the public in the IPO

- As the Province has publicly announced that it intends to move forward with the Hydro One IPO, the Province has entered the quiet period with respect to the transaction. As such, the Province should not engage in any communication that promotes Hydro One’s shares.
- Given its public mandate, there is scope in spite of these rules for the Province to discuss policy rationales supporting the IPO and the potential benefits the IPO brings to the Province provided it does so only where necessary to support that mandate and on a limited basis.

There are a number of risks to the proposed approach, including financial and governance risks.

If First Nation communities, or other interested parties, launched a legal challenge it could impact the timing of the IPO

There are financial risks with respect to the actual proceeds of the IPO from the market. The market valuation will not be known until close to the date of the IPO and may contribute to generating different results for the Province in 2015-16 than initially anticipated.

- The Ministries have not provided a detailed financial update as part of this submission. but will be directed to report back following the IPO on the financial results of the IPO].

There is a regulatory risk that the OEB, in the context of rate filing, could see the cash dividend provided to the Province by Hydro One Limited as an extraction of value from Hydro One Limited that should be shared with rate payers. In such a case, Hydro One Limited could argue that this is a tax-driven outcome that did not result in a direct fiscal impact.

There are long term financial risks with respect to the repayment of the loans to the PWU and the SEP. Loans are to be paid from dividends received, and dividends are subject to fluctuation as market conditions change.

There are risks that the proposed governance structure for the ongoing management of the investment in Hydro One and the capital market may be complex.

There are risks with respect to the proposed exemption from the OPS Procurement Directive. These include financial risks (costs of future procurements are not known), risks of public and vendor perceptions of fairness and transparency of the procurement processes.

Name of analyst:	Mark Lyons	Phone number:	416-327-2184
Date:	August 20, 2015	Log number:	
Branch / Division:	GGPR/PEMD		

APPENDIX A: PROPOSED MINUTE

Receive a report back on the Hydro One Initial Public Offering (IPO) implementation plan.

In this regard,
IPO Overview

- i. Approve that, consistent with and further to the April 15, 2015 TB/MBC direction, the IPO for Hydro One will include the following key components:
 - a. the IPO will include approximately 15 per cent of the Province's common share Interest in Hydro One;
 - b. there will be an offering of common shares by the Province only;
 - c. at least 25-30 per cent of the total shares in the IPO will be made available to retail investors, with the remaining shares to be allocated to institutional investors;
 - d. the IPO will take place on the Toronto Stock Exchange.
 - e. the preliminary prospectus is expected to be filed with the Ontario Securities Commission by September 15, 2015.
 - f. the price of the offering will be approved by the Ministry of Energy working together with the Ministry of Finance (Ontario Financing Authority) and Cabinet Office, and in consultation with the active bookrunners and underwriters.
 - g. the IPO is expected to be completed by December 21, 2015.
 - h. the Province will provide to Hydro One Limited a capital contribution of \$XX, which is to be equivalent to the amount of departure tax paid to the Ontario Electricity Financial Corporation by Hydro One.
 - i. procurement costs incurred during the 2015-16 fiscal year that are related to the IPO will be offset from the proceeds resulting from the IPO.
- ii. Direct the Ministry of Energy to work with the Ministry of Aboriginal Affairs, Ministry of the Attorney General and Cabinet Office to support the IPO by engaging with First Nations communities in a discussion on a range of issues to assess potential provincial options.
- iii. Receive a report back on the proposed capital contribution in relation to Hydro One's departure tax obligation.
- iv. Note that Hydro One will make a one-time dividend payment to the Province in the range of \$500,000,000 to \$1,000,000,000 as it adjusts its capital structure to become a publicly traded company. A dividend payment is not expected to have a direct fiscal impact for the Province.

Supplementary Estimates

- i. Approve supplementary estimates in the amount of \$XX as follows:

Ministry of Finance

- a. Approve the creation of an Operating asset (1203-XX) entitled "Loans and Investments" in the Ministry of Finance's Economic, Fiscal and Financial Policy Program.

- b. Approve an expenditure increase of [\$\$\$] in Loans and Investments in the Economic Fiscal and Financial Policy Program (Vote/Item 1203-XX) for loans to the Power Workers Union and Society of Energy Professionals.

Ministry of Energy

- a. Approve the creation of a new Operating Expense item entitled "XX" in the [Ministry of Energy's XX Program (Vote/Item 29XX-XX)].
 - b. Approve the creation of a new Transfer Payment entitled "XX" in the [Ministry of Energy's XX Program (Vote/Item 29XX-XX)]
 - c. Approve an expenditure increase of [\$\$\$ in "XX" (Vote/Item 29XX-XX)] for a capital contribution to Hydro One Limited.
 - d. Approve an expenditure increase of [\$53,000,000] in the Ministry of Energy's Ministry Administration Program (2901-1) for IPO and Brampton Distribution Holdco Inc. related procurement expenses, including underwriters, legal costs, and marketing costs.
- ii. Direct that any underspending be returned to Treasury Board/Management Board of Cabinet and not be reallocated within the Ministries.

Creation of Hydro One Limited

- v. Approve the creation of Hydro One Limited. This corporation's activities will include acquiring, holding, disposing, and otherwise dealing with the securities of Hydro One Inc.
- vi. Recommend an Order in Council to authorize the incorporation of Hydro One Limited under the Business Corporations Act (Ontario).
- vii. [Approve an exchange of the Minister of Energy's preferred shares in Hydro One Inc. for an issuance of common shares in Hydro One Inc. of an equivalent market value.]
- viii. [Approve an exchange of the Minister of Energy's common shares in Hydro One Inc. for an issuance of common and preferred shares in Hydro One Limited of equivalent values.]

Administrative Framework

- ix. Receive a report back on the Governance Agreement between the Province and Hydro One Limited.
- x. Approve the final Governance Agreement between the Province and Hydro One Limited, including the following key provisions:
 - a. The Provincial Representative for the purposes of the Governance Agreement is the Minister of Energy and any other person designated by the Minister of Energy. Any action taken by a Provincial Representative binds the Province.
 - b. Hydro One Limited will adopt governance standards consistent with best practices in Canada for leading public companies having regard to Hydro One Limited's ownership structure and the Governance Agreement.
 - c. The Province will engage in the business and affairs of Hydro One Limited as an investor, not as a manager.

- d. The Board will consist of 10 to 15 members and will be comprised of:
 - i. The CEO;
 - ii. Directors nominated by the Province up to 40 per cent of the number of directors (or its pro-rata share, whichever is less, but subject to a minimum cure period); and
 - iii. Directors nominated by the Nominating and Governance Committee established by the Hydro One Limited Board.
- e. Each Director nominee must be an individual of high quality and integrity who has:
 - i. significant experience and expertise in business or that is applicable to business,
 - ii. served in a senior executive or leadership position,
 - iii. broad exposure to and understanding of the Canadian or international business community,
 - iv. skills for directing the management of a company,
 - v. motivation and availability, and
 - vi. met the requirements of applicable securities and other Laws and any exchange on which Voting Securities are listed
- f. The Province and the Board's Nominating and Governance Committee may reject a Board nominee only if they determine, acting reasonably, that the nominee does not meet the qualifications
 - i. The initial directors at the time of the IPO are not subject to this process unless their circumstances materially change.
- g. Other than the CEO, each Director nominee shall be independent of Hydro One Limited and the Province.
- h. The majority of the Board must at all times be resident Canadians.
- i. The Province will have the right to requisition a shareholders' meeting to consider the removal of the Board at which time the Province may vote for the removal of all, but not less than all of the Board (other than the CEO and, at the Province's sole discretion, the Chair)
- j. The Province will have the pre-emptive right to acquire up to 45 per cent of a Hydro One Limited offering of shares or securities that are convertible into shares:
 - i. Hydro One Limited would be required to provide notice of a proposed distribution to the Province not later than 30 days prior to the date Hydro One Limited enters into an agreement to issue shares.
 - ii. The Province would have 10 business days after receiving the notice to determine if it wishes to exercise its pre-emptive right.
- k. The Province will be permitted to acquire (subject to securities laws and TSX requirements) additional Hydro One Limited common shares from other shareholders so long as its ownership interest after the acquisition does not exceed 45 per cent.
- l. Hydro One Limited and the Province would enter into a confidentiality agreement with respect to confidential information provided to the Province to which the Province would agree:
 - iii. To use confidential information only to exercise its rights under the Governance Agreement and Registration Rights Agreement or for the purpose of evaluating, overseeing and determining how to deal with its

- investment in Hydro One limited and exercising its rights as a shareholder, in accordance with the Governance Agreement and applicable law;
- iv. To use confidential information provided to the Minister of Finance or the President of the Treasury Board under the *Financial Administration Act*; only for preparing the Province's consolidated financial statements;
- v. To establish sufficient procedures to protect against insider trading; and
- vi. Not to disclose confidential information that the Province receives in its capacity as a shareholder about Hydro One Limited, or its subsidiaries, except as required by law and to provide Hydro One Limited with prior notice of such disclosures where permitted by law.
- m. Hydro One Limited and the Province will agree to cooperate in good faith to amend the Governance Agreement if there are changes in circumstances in the future that impact the original purpose and intention of the parties in entering into the agreement
- n. The appointment of CEO and Chair requires annual confirmation and approval of at least two-thirds of the directors of the Board present at the meeting.
 - i. Changes to initial governance standards, including the mandate for the Hydro One Ombudsman and the skills matrix for nominees, would require approval of at least two-thirds of the directors of the Board present at the meeting.
 - o. Any disputes would be determined by binding, confidential arbitration
- xi. Approve a Registration Rights Agreement which outlines the terms on which the Province can buy and sell shares and terms to facilitate coordination with Hydro One Limited on its own issuances, including the following key provisions:
 - p. The terms within the agreement will continue as long as the Province is a "control person" of Hydro One Limited.
 - q. The Province can require Hydro One Limited to use commercially reasonable efforts to facilitate an offering of the Province's shares, under a prospectus in Canada or as a private sale in Canada or other jurisdictions
 - i. Hydro One Limited is obliged, at the Province's request, to file a prospectus no more than 4 times in a 12 month period, and Hydro One Limited may in some cases defer a request for up to 60 days.
 - ii. The Province shall enter into an underwriting agreement and lock up agreement on "customary market terms"
 - r. The Province also has the right to "piggy back" on a Hydro One Limited offering:
 - i. Hydro One Limited must provide notice of a proposed distribution to the Province not later than 30 days prior to the date Hydro One Limited enters into an agreement to issue shares.
 - ii. The Province has 10 business days after receiving the piggy back notice to determine if it wishes to participate in the proposed distribution.
 - iii. If the Province chooses to piggy back onto a Hydro One Limited distribution, the underwriters may limit the number of shares that are included in the distribution on a pro rata basis between the Province and Hydro One, if in their reasonable judgment, market conditions require such limitations in order to maximize value of the offering.
 - s. The Province is responsible for the costs associated with a distribution of shares under a demand registration

- i. The Province is responsible for these costs even if the Province withdraws its request for a demand registration or in circumstances where a distribution does not otherwise occur pursuant to a prospectus prepared at the Province's request
 - ii. The Province and Hydro One Limited share costs in proportion to the gross proceeds for a piggy back registration
- xii. Authorize the Minister of Energy to sign the prospectus, Underwriting Agreement, Lock up Agreement and other ancillary agreements necessary to complete the IPO.
- xiii. Approval of an administrative framework post-IPO, including the following key provisions:
 - t. The Minister of Energy, as shareholder, will represent the Province and report to TB/MBC on an annual basis to receive broad policy approval to purchase and sell shares during the fiscal year.
 - u. The Ministries of Finance and Treasury Board Secretariat will work with the Ministry of Energy, including developing targets to support the fiscal plan.

Loan and Share Purchase Agreements

- xiv. Receive a report back on the Loan and Share Purchase Agreements between the Province and the Power Worker's Union (PWU) and between the Province and the Society of Energy Professionals (SEP).
- xv. Approve final loan agreements and share and purchase agreements that include the following key provisions:
 - a. The loan will be made to the borrowing Unions(s) and used by borrowing Union(s) to:
 - i. purchase Hydro One common shares at the IPO price immediately after the IPO; and
 - ii. pay for the fees of any financial advisors to the unions.
 - b. The borrower will agree not to vote any shares they own in any matter for so long as the loan remains outstanding.
 - c. The loan matures and becomes repayable in full 15 years from the initial advance.
 - d. The interest rate applicable to the interest period (as selected by the borrower) will be the Province's borrowing rate for a term equal to the selected interest period, plus 15 basis points (bps, or 0.15 percentage points).
 - i. Interest will be payable in arrears at the end of each fiscal quarter
 - e. Interest payments are to be made from quarterly dividends on the shares
 - i. If the dividends are insufficient to pay the interest due on any interest payment date, the borrower may elect to defer payment of interest to the next interest payment date
 - ii. If the market value of the shares pledged by the borrower is greater than 2x the outstanding principal and interest the loan, the borrower may use any dividends in excess of interest payments for its own purposes
 - iii. If the market value of the shares pledged by the borrower is less than 2x the outstanding principal and interest associated with the loan, the borrower must use the excess dividends (i.e. dividends remaining after payment of interest) solely to repay the loan

- f. The borrower may prepay the loan without penalty at any time
 - i. If the borrower sells the pledged shares, the proceeds of the sale must be used to repay the loan
 - ii. If there is a change of control of Hydro One Limited, the borrower must repay the loan in full
- g. The loan will be secured by the pledged shares and by dividends received on the pledged Shares. If the market value of the pledged shares is more than 2x the outstanding principal and interest on the loan, the Borrower is entitled to request that the Lender release pledged shares up to an amount so that the market value of the pledged shares is not less than 2X the outstanding principal and interest on the loan.
- h. The shares will be sold at the IPO purchase price and will not be transferred until the date of the IPO.
- i. The shares will be sold under a securities law exemption and, therefore, will not be qualified under a prospectus.
- j. The borrower and their respective union will not be permitted to buy any additional Hydro One common shares in the IPO.
- xvi. Approve that the PWU Loan Agreement and Share Purchase Agreement will be entered into by the Province and an Ontario trust, the sole trustee of which is an Ontario corporation wholly-owned by the PWU and the sole beneficiary of which is the PWU, and will include the following specific provisions
 - a. The Province will advance a term loan of up to \$75,000,000 to the PWU Trust.
 - b. The fees for financial advisors that can be paid for through the loan proceeds is capped at \$3,000,000.
- xvii. Approve a second Share Purchase Agreement will be entered into by the Province and a separate Ontario trust (Second PWU Trust), the sole trustee of which is an Ontario corporation wholly-owned by the PWU and the sole beneficiary of which is the PWU, and will include the following specific provisions
 - a. Hydro One common shares will be sold to the Second PWU Trust with funds provided by the PWU at the IPO purchase price and will not be disposed of by the Second PWU Trust until at least one year after the date of the IPO
 - b. The shares will be sold under a securities law exemption and therefore will not be qualified under a prospectus
 - c. Neither the PWU, the PWU borrower or the Second PWU Trust will be permitted to buy any additional Hydro One common shares in the IPO
- xviii. Approve that the SEP Loan Agreement and Share Purchase Agreement will be entered into by the Province and an Ontario trust, the sole trustee of which is an Ontario corporation wholly-owned by the SEP and the sole beneficiary of which is the SEP, and will include the following specific provisions
 - a. The Province will advance a term loan of up to **\$[XX]** to the SEP Trust.
 - b. The fees for financial advisors that can be paid for through the loan proceeds is capped at **[\$XX]**.
- xix. Approve a second Share Purchase Agreement will be entered into by the Province and a separate Ontario trust (Second SEP Trust), the sole trustee of which is an Ontario corporation wholly-owned by the SEP and the sole beneficiary of which is the SEP, and will include the following specific provisions

- a. Hydro One common shares will be sold to the Second SEP Trust with funds provided by the SEP at the IPO purchase price and will not be disposed of by the Second SEP Trust until at least one year after the date of the IPO
 - b. The shares will be sold under a securities law exemption and therefore will not be qualified under a prospectus
 - c. Neither the SEP, the SEP borrower or the Second SEP Trust will be permitted to buy any additional Hydro One common shares in the IPO
- xx. Recommend an Order in Council to authorize the Minister of Finance to enter into the loan agreement with the PWU Trust [and to authorize certain officials to enter into other agreements that are necessary and desirable in connection with the loan agreement.]
- xxi. Recommend an Order in Council to authorize the Minister of Finance to enter into the loan agreement with the SEP Trust [and to authorize certain officials to enter into other agreements that are necessary and desirable in connection with the loan agreement.]
- xxii. Authorize the Minister of Energy to enter into the Share Purchase Agreement with the Power Workers Union.
- xxiii. Authorize the Minister of Energy to enter into the Share Purchase Agreement with the Society of Energy Professionals.

Procurements

- xxiv. Approve an exemption from the open competitive requirements of the OPS Procurement Directive to allow for a joint procurement by Hydro One Inc. and the Ministry, using an invitational competitive process for a procurement of over \$100,000 to acquire active book runners and the underwriting syndicate for the IPO and in this regard
 - v. Approve an exemption from the mandatory requirements of the OPS Procurement Directive in respect of the procurement documents for this procurement.
 - w. Approve the reimbursement of expenses for the active book runners
- xxv. Approve an allowable exception to the OPS Procurement Directive, to acquire consulting services valued at \$1,000,000 or more to support the IPO process, where there are matters of a confidential or privileged nature and the disclosure of these matters through a competitive procurement process could reasonably be expected to compromise government confidentiality.
- xxvi. Approves an exemption from the use of the Central Common Service procurement process for the acquisition of legal and financial services to support the IPO process.
- xxvii. Note that Section 4.4.4.2 (b) of the Procurement Directive permits the non-competitive acquisition of consulting services regarding matters of a confidential or privileged nature where the disclosure of these matters through a competitive procurement process could reasonably be expected to compromise government confidentiality and that Ontario's Trade Agreements also permit the non-competitive acquisition of consulting services in similar situations.
- xxviii. Note that the cost of the Ministry of Energy's IPO procurements, and the costs incurred by Hydro One Limited, will be recovered from the proceeds from the IPO.

Hydro One Brampton

- xxix. Approve the creation of Brampton Distribution Holdco Inc. This corporation's activities will include acquiring, holding, disposing, and otherwise dealing with the securities of Brampton Distribution Holdco Inc.
- xxx. Recommend an Order in Council to authorize the incorporation of Brampton Distribution Holdco Inc. under the Business Corporations Act (Ontario).
- xxxi. Note that the Minister of Energy will issue one or more shareholder declarations and/or resolutions to Hydro One Inc. to transfer to Brampton Distribution Holdco Inc. all shares in Hydro One Brampton Networks Inc. through a dividend in kind.
- xxxii. Note that the Minister of Energy will issue one or more shareholder declarations and/or resolutions to Hydro One Inc. to reduce the stated capital of Hydro One Inc. by transferring to the Province all the long-term debt receivables owed by Hydro One Brampton Networks Inc. to its parent Hydro One Inc.
- xxxiii. Note that the Minister of Energy will issue one or more shareholder declarations and/or appointing the board members of Brampton Distribution Holdco Inc
- xxxiv. Note that the Minister of Energy will issue one or more shareholder declarations and/or resolutions addressing operational requirements (insurance, letter of credit) of Brampton Distribution Holdco Inc.
- xxxv. Approve an expansion to the objects of the Ontario Electricity Financing Corporation to include providing financial assistance to a distributor owned or controlled, directly or indirectly, by the Province.
- xxxvi. Recommend an Order in Council to expand the objects of the Ontario Electricity Financial Corporation.
- xxxvii. [Note that Hydro One will provide to the province through a return of stated capital an account receivable equal to the value of Hydro One Brampton's debt to Hydro One.]
- xxxviii. [Note that Hydro One will provide a dividend in-kind to the province equal to the value of Hydro One Brampton equity (its book value).]
- xxxix. Note that the Ministry of Energy and Brampton Distribution Holdco Inc. will enter into a Memorandum of Agreement with respect to the governance, mandate, reporting requirements, performance expectations and communications.
- xl. Approve exempting Brampton Distribution Holdco Inc. from any Treasury Board/Management Board of Cabinet directives.

Report backs

- xli. Direct the Ministry of Energy to continue to work with Cabinet Office, Premier's Office, Ministry of Finance (Ontario Financing Authority), and Treasury Board Secretariat on a communications plan.
- xl.ii. Direct the Ministry of Energy, working with the Ministry of Aboriginal Affairs, Ministry of the Attorney General, and Cabinet Office to report back on the status of engagement with First Nations prior to tabling a formal proposal in any discussions with First Nations.
- xl.iii. Direct the Ministry of Energy, working with the Ministry of Finance (Ontario Financing Authority) and Cabinet Office, to report back to Treasury Board/Management Board of Cabinet with the results of the IPO, including financial details.
- xl.iv. Direct the Ministry of Finance (Ontario Financing Authority), working with the Ministry of Energy, to report back to Treasury Board/Management Board of Cabinet with details on the financial benefit to be provided to the OEFC as a result of the IPO.

- xliv. Direct the Ministry of Energy, working with the Ministry of Finance and Treasury Board Secretariat to report back to Treasury Board/Management Board of Cabinet for approval of an implementation plan to achieve a target for the Hydro One Limited investment for the 2016-17 fiscal year.
- xlvi. Direct the Ministry of Energy, working with the Ministry of Finance (Ontario Financing Authority) to report back to Treasury Board/Management Board of Cabinet with details on the final Brampton Transaction Results.
- xlvii. Note that the Ministry of Finance (Ontario Financing Authority), working with the Ministry of Energy will report back on designating Hydro One Limited and Brampton Distribution Holdco Inc. as qualifying assets under the *Trillium Trust Act*.

Financial Impacts: Changes to Expense and Revenue				Table B1
	Fiscal Plan Basis			Appropriations Basis
\$ Millions	2015-16	2016-17	2017-18	2015-16
Initiative cost recommended	0.0000	0.0000	0.0000	
Expense changes:				
Oper	0.0000	0.0000	0.0000	0.0000
Revenue changes:				
Revenue increase	0.0000	0.0000	0.0000	
Revenue decrease	0.0000	0.0000	0.0000	
Total Fiscal Impact (draw from c-funds)	0.0000	0.0000	0.0000	0.0000

APPENDIX C: PWU SHARE ARRANGEMENTS

	Benefit to the Province	Benefit to the Union	Benefit to Members
PWU	Increase in employee pension contributions of 2.70% and employer contributions to not be less than employee contributions up to March 31, 2025	\$75M loan from the province to a Trust, the sole beneficiary of which is the PWU which can be used to purchase Hydro One common shares at the IPO price; and - pay for the fees of any financial advisors (capped at \$3M). - A second Share Purchase Agreement will be entered into by the Province and a separate Ontario trust (Second PWU Trust), which will enable the PWU to purchase (using its own funds) up to \$10M in shares at the IPO price	- Share grants will be made on April 1 of each year from April 1, 2017 up to and including April 1, 2028 (Up to a maximum of 12 annual share grants) - Grants will be 2.7% of salary as of April 1, 2015, provided in form of Hydro One shares, based on initial share price. - To be eligible, Hydro One employee must still be an active employee and have less than 35 years of pensionable service. - Example – if an employee has a salary on April 1, 2015 of \$90,000, and the initial share price is \$20.00, 121.5 shares (2.70% x \$90,000/\$20.00) will be granted to the employee each year up to a maximum of 12 grants. At the end of the 12 years, the employee will have 1,458 shares

APPENDIX C: SEP SHARE ARRANGEMENTS

	Benefit to the Province	Benefit to the Union	Benefit to Members
SEP	• Increase in employee pension contributions for existing members, who joined before November 17, 2005 (Pre-2005 employees), of the plan as per the following: - o April 1, 2016 – 0.50% Below YMPE/0.50% above YMPE (Year's Maximum Pensionable Earnings) - o April 1, 2017 – 0.75% Below YMPE/0.75% above YMPE - o April 1, 2018 – 1.00% below YMPE/1.50% above YMPE - o Eventual Increase will be 2.25% of total salaries. • Increase in employee pension contributions for new members of the plan joining on or after November 17, 2005 (Post-2005 Employees): - o April 1, 2016 – 0.50% Below YMPE/0.50% above YMPE - o April 1, 2017 – 0.75% Below YMPE/0.75% above YMPE - o April 1, 2018 – 0.50% below YMPE/1.00% above YMPE - o Eventual increase will be 2.00% of total salaries	• \$XXM loan from the province to a Trust, the sole beneficiary of which is the PWU which can be used to - o purchase Hydro One common shares at the IPO price; and - o pay for the fees of any financial advisors (capped at \$XM). • A second Share Purchase Agreement will be entered into by the Province and a separate Ontario trust (Second SEP Trust), which will enable the SEP to purchase (using its own funds) up to \$5M in shares at the IPO price	• Share grants will be made on April 1 of each year from April 1, 2018 up to and including April 1, 2029 - o Grants will be 2.00% of salary as of September 1, 2015 provided in the form of Hydro One shares based on the initial share price. - o To be eligible, Hydro One employees must still be an active employee and have less than 35 years of pensionable service. - o Example – If an employee has a salary on September 1, 2015 of \$100,000 and the initial share price is \$20.00, 100 shares (2% x \$100,000/\$20.00) will be granted to the employee each year up to a maximum of 12 grants. At the end of the 12 years, the employees will have 1,200 shares.

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Hydro One IPO Implementation Plan, Governance Agreement & Loan and Share Purchase Agreements

August 25, 2015
(Draft: August 19, 2015)

CONFIDENTIAL ADVICE TO CABINET

Minister

Deputy Minister

Commercial Sensitivity

- The following submission contains confidential and commercially sensitive information
- Dissemination of this submission could have significant commercial impacts to the Province
- Information in this submission may have impact on market expectations and / or assessment of value. Any communication on these matters should be restricted to publicly available information
- Securities laws impose restrictions on the manner in which a prospective issuer and/or selling security holder communicates with the investing public while it is preparing for, and during, an offering. This period is often referred as the “quiet period”
- Counsel has advised that the Province has entered the quiet period with respect to the IPO

Purpose

- The Province is moving forward with the Premier's Advisory Council on Government Assets recommendations to broaden the ownership of Hydro One* through an initial public offering (IPO) and **the sale of ~~merge~~ Hydro One Brampton to a merged entity ~~of with~~** three other large utilities – PowerStream, Enersource and Horizon
- In April 2015, the Ministry received Treasury Board/Management Board of Cabinet (TB/MBC) approval of the announcement and terms for an IPO process for Hydro One
 - At that time, it was requested that the Ministry of Energy report back to TB/MBC with:
 1. A detailed IPO Implementation Plan
 2. A completed Governance Agreement with Hydro One prior to execution
 - The Ministry is now seeking TB/MBC approval of this plan and the related agreements
- The April Treasury Board Minute also included that the Ministry of Energy would work with the Ministry of Finance on the amount of the capital contribution to Hydro One and supplementary estimate amount of the departure tax that Hydro One would be required to pay as a result of the IPO
- In May 2015, the Ministry received TB/MBC approval of both OPG and Hydro One's collective agreements with the Power Workers' Union (PWU). In August 2015 the Ministry received TB/MBC approval of Hydro One's collective agreements with the Society of Energy Professionals (the Society)
 3. The Ministry requires TB/MBC approval of loan and share purchase agreements to fulfill an obligation made by the Province and Hydro One as part of collective bargaining with PWU and the Society in respect of the collective agreements, including approval of required OICs and necessary supplementary estimates
 4. The Ministry will report back to TB/MBC at a later date with details on the final Brampton transaction results
- The Ministry is also seeking approval of various items required in order to facilitate the transfer of Hydro One Brampton to the Province

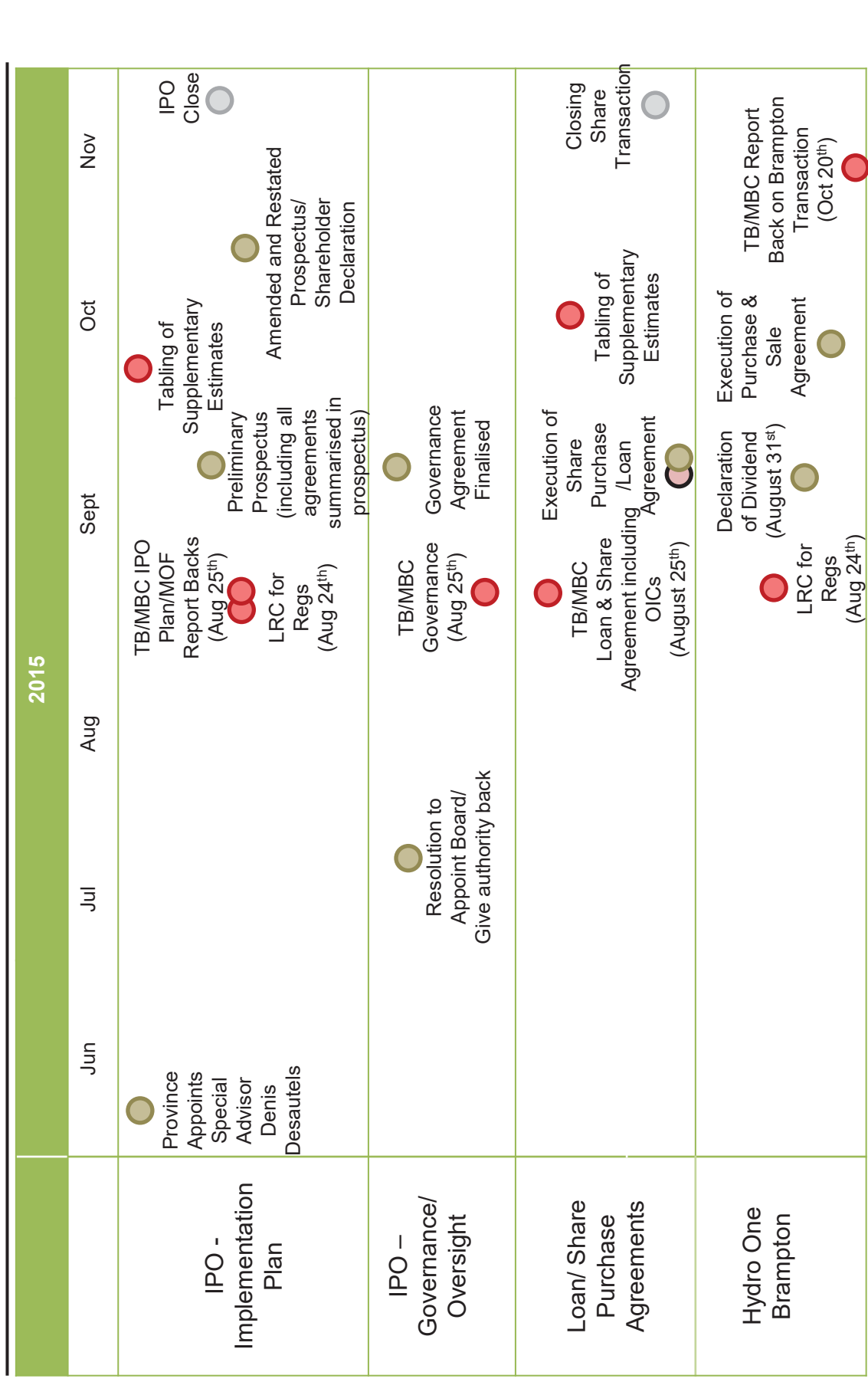
*Hydro One means Hydro One Limited, the shares of which will be sold in the IPO

Context

Budget Commitments: Proceeds Re-Invested in Infrastructure

- Broadening ownership of Hydro One means that taxpayers would realize net proceeds to help support unprecedented investments in transit, transportation and other priority infrastructure projects. This approach could generate an estimated net gain of approximately \$4 billion (gain amount will be subject to market conditions)
- Any net proceeds from the sale of shares in Hydro One would be set aside in the Trillium Trust to help fund the government's \$31.5 billion Moving Ontario Forward plan to invest in infrastructure, transportation and transit across the province
- Moving Ontario Forward is expected to support more than 20,000 jobs per year on average, over 10 years, in construction and related industries, boost productivity and revitalize communities
- Moving Ontario Forward investments would be made across Ontario, with a split of about \$16 billion for the Greater Toronto and Hamilton Area and about \$15 billion for the rest of the province

High-Level Draft Timeline

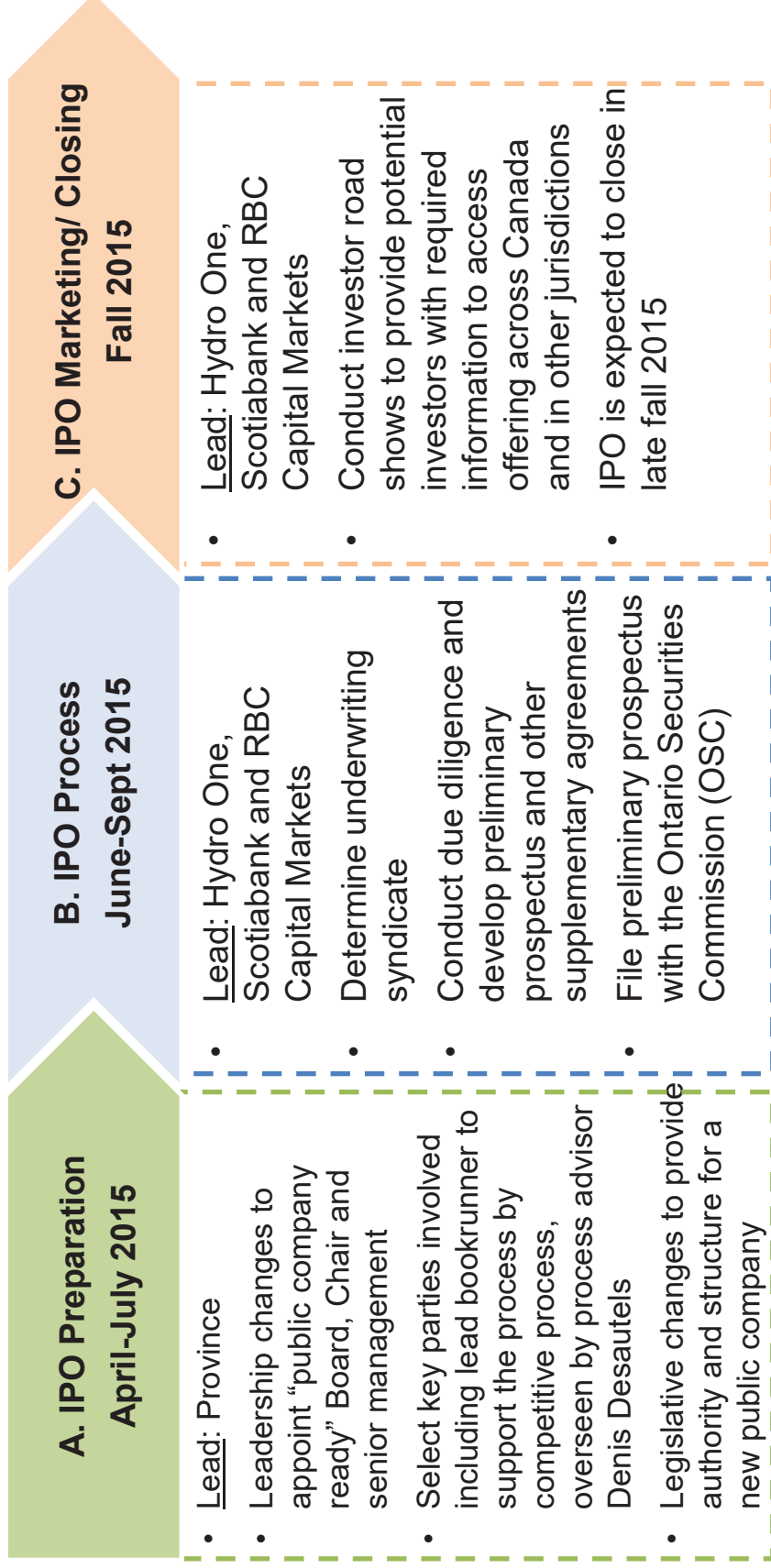


1. IPO Implementation Plan

1. IPO Implementation

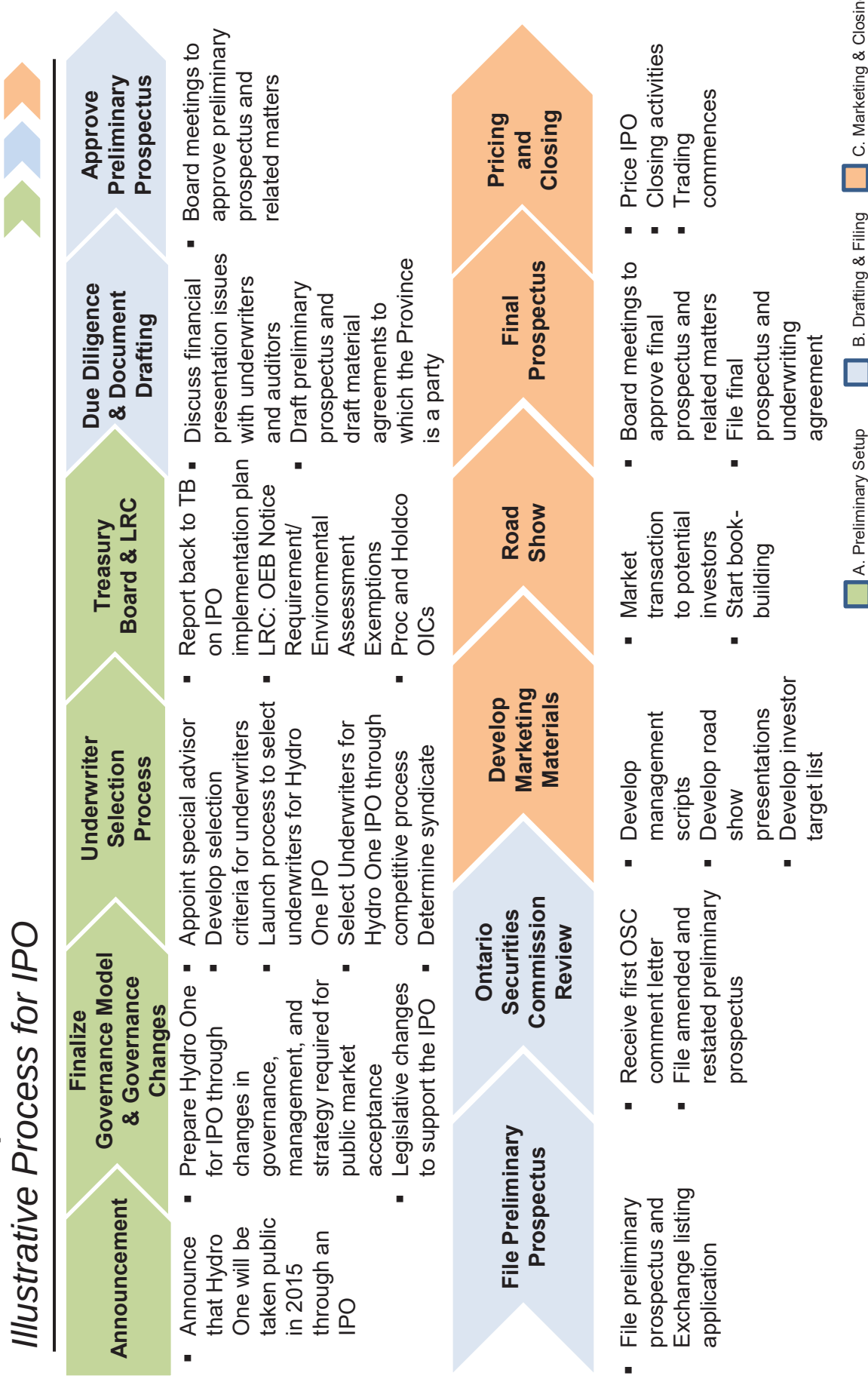
IPO Process Overview

- The next few slides will go through each of the three stages of the IPO process, which are outlined below, in more detail
 - While the Province has had a direct role in facilitating part A, parts B and C will largely be led by Hydro One and the active bookrunners, Scotiabank and RBC Capital Markets



1. IPO Implementation

Illustrative Process for IPO



1. IPO Implementation

A. Preparation: Leadership Changes



- To receive optimal value through an IPO, the company must provide investors with comfort that it has in place an effective, experienced and “public company ready” Board, Chair and senior management
- Over the past couple months, various leadership changes have been made:
 - April 16, 2015: David Denison was appointed the Chair of Hydro One
 - Mr. Denison has extensive experience leading major companies in Canada and elsewhere. He served as President and CEO of the Canada Pension Plan Investment Board
 - June 23, 2015: Michael Vels was hired as the new Chief Financial Officer
 - Mr. Vels has extensive experience in mergers and acquisitions. Most recently he served as Chief Financial Officer at Maple Leaf Foods Inc.
 - July 17, 2015: Province appointed a new Board of Directors of Hydro One
 - The new Board will oversee the company as it prepares to become publicly traded, with a renewed focus on customer service excellence and improved performance and reliability. This Board will become the Board of Holdco
 - The Province also returned authority to the Board to proceed with the IPO
 - August 20, 2015: Mayo Schmidt announced as Hydro One CEO-designate
 - Mr. Schmidt will commence his duties effective September 3, 2015, taking over from current President and CEO Carmine Marcello who will remain as an advisor to both Mr. Schmidt and Mr. Denison to provide support in the transition and the upcoming IPO

1. IPO Implementation

A. Preparation: Procurements to Support the IPO



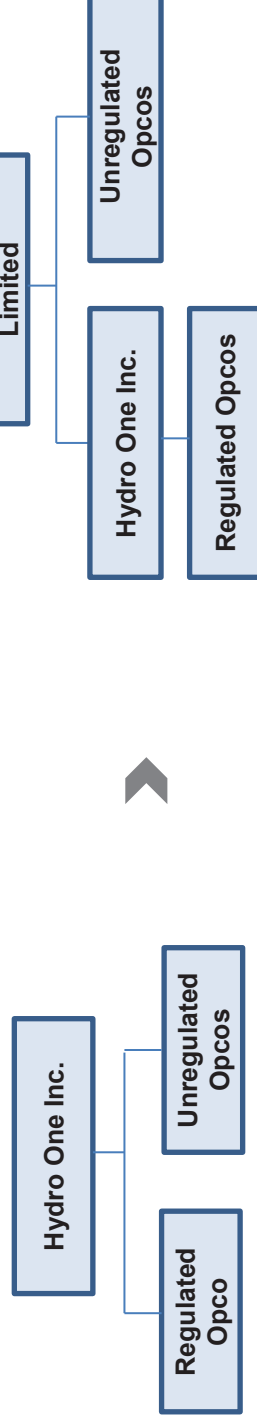
- **Special Advisor** –Ontario appointed Denis Desautels as Special Advisor to the Minister of Energy
 - Mr. Desautels has reviewed and will continue to review the processes followed by the Province to procure service providers for the IPO
 - He will also advise on the process to establish a dedicated Ombudsperson's office in Hydro One
- Key parties to the IPO process include:
 - **Bookrunners:** The evaluation panel which consisted of representatives from the Ministry of Energy, Ontario Financing Authority, Secretariat for the Premier's Advisory Council, and three independent evaluators, selected RBC Capital Markets and Scotiabank to act as active bookrunners under the observation of Denis Desautels. These banks will carry out most of the work relating to the IPO including conducting due diligence, participating in the preparation of the prospectus, organizing roadshows, marketing, and managing the other experts.
 - **Underwriters:** Chosen by a committee with one representative from RBC Capital Markets, one from Scotiabank, one from the Restructuring Secretariat, the CFO of Hydro One, the CEO of the OFA (or designate), and the Deputy Minister of Energy (or delegate), under the observation of Denis Desautels, the underwriters will purchase shares and resell to investors through their networks of brokers and dealers (all bookrunners are also underwriters)
 - Underwriting fees will be a percentage of sales to investors (3% for retail investors 1% for institutional investors). These are substantially below typical private IPO rates (driven by prestige of the issue and the Province's economic influence)
 - The total payment to bookrunners and the accompanying underwriting syndicate would be approximately 1.8% of the transaction value (about \$35M-\$45M, with \$50M as a ceiling), which the Council indicates is considerably lower than the industry average of 4-5% (\$100M). The Ministry will also pay the expenses of the bookrunners. These will include items such as costs related to the marketing effort and road shows. All of the items will be outlined in the underwriting agreement
 - **Broker/Dealers:** Buy securities for purchase by individual investors, and provide investment advice
- Other procurements may be needed to support the IPO process and the Ministry will need to act quickly to procure various services. As a result, the Ministry of Energy is requesting an exemption from the OPS Procurement Directive and from the Central Common procurement process for legal and financial services to undertake the remaining procurements required for the IPO

1. IPO Implementation

A. Preparation: Government Preparation: Creation of Holdco



- This structure is used by all the comparable public utility companies (e.g., Fortis, Emera, Canadian Utilities, etc.) to increase value as well as fund growth opportunities
- This structure allows Hydro One to:
 - separate the financing of non-regulated businesses. This would mitigate negative factors in the credit evaluation of the currently regulated Hydro One
 - Take on additional debt (increase leverage) in order to lower the overall cost of capital, increase the ROE for common shareholders, and increase the overall value of the company
- The creation of Hydro One Limited would also support the financing of growth opportunities while preserving the credit quality of the existing regulated businesses
- The separation of credits would allow Hydro One Limited to issue additional debt based on its rating to support acquisitions, without impacting the credit quality of Hydro One Inc. The additional debt at the Hydro One Limited level would be supported by dividend payments from Hydro One and income from the acquired assets
- The creation of Hydro One Limited will facilitate the increase of leverage while maintaining the credit quality of the debt issued by the Ontario wires company and without falling outside regulatory restrictions on leverage



1. IPO Implementation

A. Preparation: MOF Report-backs and other financial issues



Context

- As part of Cabinet approval to move forward with the Hydro One IPO, a number of items were identified for a report back to Treasury Board / Management Board of Cabinet
- The Ministry of Finance (MOF) / Ontario Financing Authority (OFA), working with the Ministry of Energy (ENERGY) is responsible for reporting back on a number of key issues, prior to implementation:
 - Approval of supplementary estimates and/or details on the proposed capital contribution, cash transaction or remission to the departure tax, and any related transactions
 - The financial benefit to be provided to OEFC as a result of the IPO, and any related transactions
 - The designation of Hydro One Limited shares as qualifying assets under the *Trillium Trust Act*
- Other key financial issues have also been identified for discussion, including issues related to the Hydro One Brampton merger and the Province's preferred shares in Hydro One

1. IPO Implementation

A. Preparation: MOF Report-backs



PILs Regime Exit and Departure Tax Determination/Capital Contribution

- An IPO transaction of greater than 10 per cent will cause Hydro One to leave the payments-in-lieu of tax (PILs) regime and enter the normal corporate tax regime. This will result in Hydro One being subject to a departure tax payable under the PILs regime to the Ontario Electricity Financial Corporation (OEFC), a crown agency solely owned by the Province of Ontario that manages the legacy debt and other liabilities of the old Ontario Hydro
- The departure tax payment has no direct fiscal impact, as the departure tax net impact is fiscally neutral upon consolidation
 - The departure tax will increase PILs revenues of OEFC and lower Hydro One's net income
 - The Province consolidates both OEFC PILs and Net Income of Hydro One so the net impact is nil.
- While the departure tax is fiscally neutral, the payment would result in a large one-time expense and associated reduction to Hydro One's equity which is not recoverable from ratepayers
 - Uncertainty with respect to the amount of this payment could have a significant, negative impact on the valuation of Hydro One by investors at the time of the IPO
- Determination of the departure tax amount is based on Hydro One analysis and supported by the work of an external accounting firm engaged by Hydro One to validate the valuation, which estimated the amount to be about \$[2 x] billion
 - The *Electricity Act, 1998* provides the Minister of Finance with discretion to consent to a reasonable approximation of an amount for departure tax under section 16.1(5)2 of Ontario Regulation 207/99
- As a result, to keep Hydro One whole and support its value in the IPO, the Province, consistent with the April TB minute, intends to inject cash into Hydro One through a capital contribution (e.g., equity injection) for the amount of the departure tax. The two transactions are fiscally neutral.
 - This will require Supplementary Estimates for that amount
- Settling the departure tax obligation in cash is the recommended option, as it is transparent, and mitigates any risk of stakeholders arguing that a departure tax remission for Hydro One provided it with special treatment

1. IPO Implementation

A. Preparation: Hydro One Limited Capital Structure



Special Dividend

- As part of optimizing the value of Hydro One, the Restructuring Secretariat and Hydro One are reviewing the capital structure for Hydro One Limited with the aim of making it similar to other comparable publicly traded utilities
 - A company's capital structure is the amount and share of debt and equity in the company
 - While the debt cost is typically lower than the equity cost, debt payments are a fixed cost and rank ahead of equity holders
- As part of this process, Hydro One may pay to the Province a one-time special dividend in the range of [\$500 to \$1,000 million]
 - A dividend payout reduces the relative amount of equity and increases the relative amount of debt in the capital structure
 - A dividend payment is not reported as revenue in the Province's Public Accounts so it would not have a direct fiscal impact on the Province's bottom line
 - A dividend payment would contribute to reducing the Province's borrowing needs, and lowering the Province's interest on debt expense
- There is a regulatory risk that the OEB, in the context of rate filing, could see the cash dividend as an extraction of value from Hydro One that should be shared with rate payers. In such a case, Hydro One could argue that this is a tax-driven outcome that did not result in a direct fiscal impact
- The final assessment of Hydro One's capital structure and potential special dividend would also consider the potential impact on Hydro One's valuation going forward

1. IPO Implementation

A. Preparation: MOF Report-backs



Benefit to OEFC/ s.50.3 of EA

- The actual gain provided to OEFC will be subject to the proceeds received from the IPO
- Section 50.3 of the *Electricity Act, 1998* provides for an amount equal to the proceeds of the sale of the Province's shares in Hydro One, less transaction costs and certain deductions as determined by the Minister of Finance, to be paid to OEFC
 - These deductions involve any amount in connection with the acquisition of the securities, including the amount of the purchase price, any obligations assumed and any other costs incurred by the Crown and any amounts which have been allocated by the Crown to OEFC in respect of the securities
 - The method of payment could be in cash, set-off, debt issuance or remission, or other method, as determined by the Minister of Finance
 - OEFC is the legal continuation of the old Ontario Hydro with the mandate to service and retire its debt and certain other liabilities
- This reflects the amended Section 50.3 of the *Electricity Act, 1998*, following the 2015 Budget Bill, to allow for the net proceeds from the sale of Hydro One to be dedicated to the Trillium Trust, while also ensuring that the Province can meet the commitment to OEFC
- Policy decisions around the treatment of the departure tax and its impact on electricity sector dedicated income (ESDI) will also impact the total gain realized by OEFC from the IPO, including the gain provided to OEFC under s. 50.3 of the *Electricity Act, 1998*
- MOF/OFA will report back to Treasury Board on the above after the IPO

1. IPO Implementation

B. Process: Exchange Listings



- Once the foundation for an IPO has been established, the Province must determine where to float the initial public offering
 - Scotiabank and RBC Capital Markets have recommended a Toronto Stock Exchange listing
- There may also be advantages to distributing shares in other jurisdictions (diversification, increased liquidity etc.), although this cannot be done until after the initial IPO. If a decision is made to offer shares of Hydro One on other platforms (e.g. NYSE), Hydro One may in the future require access to a Multijurisdictional Disclosure System (MJDS), which:
 - Permits eligible Canadian issuers to raise capital in US in a cross-border public financing
 - Allows issuers to mitigate substantially the impact of dual regulation and oversight by two sets of securities regulators
 - Generally has no SEC review, although the SEC reserves the right to review.
- It is expected that shares will be sold in the US market in reliance on the 144A exemption for sophisticated purchasers, rather than seeking an immediate public listing in the US

1. IPO Implementation

B. Process: Documentation/Agreements



Preliminary Prospectus

- The preliminary prospectus, prepared by Hydro One, its counsel and the active bookrunner(s) working together with provincial staff and approved by the Hydro One Board, provides details about the investment offering to assist potential investors in making informed investment decisions
 - The Minister of Energy will sign the preliminary prospectus certifying the disclosure on behalf of the Province in his role as selling shareholder. Hydro One will also sign the prospectus
- Hydro One must file its preliminary prospectus with the Ontario Securities Commission (OSC) as its principal regulator and other Canadian securities commissions as selling shareholder and, if required by the OSC, as a promoter
 - OSC reviews the document and provides comments that are typically focused on the structure and terms of the offering and the adequacy of the disclosure in the document
 - Hydro One and its legal counsel will respond to any initial or follow on comments raised by the OSC, and will submit an amended and restated preliminary prospectus that reflects any significant changes requested by the OSC
- The preliminary prospectus will likely be filed with the OSC in early September
 - The preliminary prospectus, which is a public document, will include disclosure of the Governance Agreement, Registration Rights Agreement, departure tax determination and the Province's capital contribution to Hydro One Limited, the loan and share purchase agreements with the PWU and the Society, and the Hydro One Limited business plan
- Marketing will commence after completion of the OSC review process, which is typically concluded within 4 weeks from the filing of the preliminary prospectus and the filing of an amended and restated prospectus to reflect the OSC's comments
- The preliminary prospectus also forms the basis for a listing application, formally requesting that Hydro One's securities list on the given Exchange
 - This review generally focuses on the company's business plan, material shareholders, officers and directors, risks associated with an investment in the company and compliance with the minimum listing requirements of the Exchange

1. IPO Implementation

B. Process: Signing Requirements



- There are multiple agreements that must be put in place to facilitate the IPO. While many of these documents will not need to be signed until the IPO closes, the government will need to approve these in late August in order for them to be summarised in, and/or separately filed with the preliminary prospectus
- **Registration Rights Agreement:** Outlines terms on which the Province can require Hydro One assistance to sell shares and terms to facilitate coordination with Hydro One on its own issuances (see section 2 for details)
- **Governance Agreement:** Outlines rights and obligations of the Province as an investor, including the number of, and process for nominating, Provincial nominees and rights of the Province depending on ownership (see section 2 for details) and includes provisions for pre-emptive rights
- **Underwriting Agreement:** The underwriting agreement outlines the terms on which the underwriters agree to purchase and distribute the shares of Hydro One Limited, including the offering price and number of shares to be sold (the base offering, plus an “over-allotment option” allowing the underwriters to purchase additional shares for market support)
- **Lock Up Agreement:** To maintain an orderly market post-closing of the IPO, Hydro One (as issuer) and the Province (as selling shareholder) will enter into an agreement not to sell any additional shares for 180 days after the IPO closes without the underwriters’ approval
- **Other Agreements:** Various ancillary documents required to complete the transaction
- The shareholder, represented by the Minister of Energy will be required to sign these agreements

1. IPO Implementation

C. Marketing and Closing: Road Shows



- Scotiabank and RBC Capital Markets will prepare a summary of the prospectus, referred to as a “green sheet” (used in marketing), as well as a roadshow presentation, both of which are required to be filed prior to commencement of marketing; however, the prospectus will be considered the comprehensive marketing document
- The underwriters will arrange meetings, called “road shows,” with financial analysts, brokers, and potential institutional investors
- Underwriters will solicit expressions of interest during marketing and build a book of interested investors
 - Building a book involves developing a list of interested investors and keeping track of the quantity and price of securities they would be willing to purchase

1. IPO Implementation

C. Marketing and Closing: Final Prospectus, Pricing & Closing



- Based on the results of marketing, the active bookrunners, Scotiabank and RBC Capital Markets, and the Province will determine the price of the offering and the allocation of shares to investors
- All significant issues arising from the OSC review of the preliminary prospectus will be resolved by the filing of the amended and restated prospectus
- Once the offering has been priced, the final prospectus and the underwriting agreement are finalized
 - The underwriting agreement sets forth the terms and conditions of a securities offering, including the underwriter's compensation (a percentage of proceeds plus expenses), the offering price, and number of shares
- Once a receipt has been issued for the final prospectus, it is printed and delivered to prospective purchasers. The prospective purchasers at this time will have a waiting period to withdraw their offer (two business days after receipt of final prospectus)
- Typically, closing will take place within one week of the issuance of the receipt for the final prospectus. Following closing, the securities are listed and trading will commence on the Exchange
- The underwriters may choose to use a "PREP" or "post-receipt pricing" prospectus: this procedure allows companies to file a final prospectus that would be approved by the OSC, that omits the deal size and other pricing information that would be received by the OSC, and once pricing is determined a "supplemented prospectus" is filed and provided to purchasers (typically filed the next day)
 - This gives companies greater flexibility in timing an offering to take advantage of market opportunities

1. IPO Implementation

Government Communications Plan

- Securities laws restrict the communications that can be made by a seller/issuer of shares while it is preparing for, and during, an IPO
 - This is known as the “**quiet period**”
- Generally, the quiet period is aimed at preventing the seller/issuer from engaging in communication that is aimed at promoting the shares that will be offered to the public in the IPO
- As the Province has publicly announced that it intends to move forward with the Hydro One IPO, the Province has entered the quiet period with respect to the transaction
 - As such, the Province should not engage in any communication that promotes Hydro One’s shares
- Given its public mandate, there is scope in spite of these rules for the Province to discuss policy rationales supporting the IPO and the potential benefits the IPO brings to the Province provided it does so only where necessary to support that mandate and on a limited basis
- **Communications should use approved key messages focusing on the policy rationale for the IPO to avoid inadvertently breaching securities laws**
 - This is important for all oral statements made by Ministers, MPPs or government officials, and press releases

1. IPO Implementation

CUPE

- CUPE wrote the Ontario Securities Commission on July 15, 2015 to raise concerns about the IPO and particularly the conduct of the Government as sole shareholder of Hydro One in restricting the powers of Hydro One's board of directors during the IPO. This correspondence follows an earlier press release that challenged the authority of the Province to proceed with the IPO based on the provision of the *Electricity Act, 1998*.
- ~~Counsel for CUPE recently stated: "The announcement of a sale is not the end of the process... so I would think that the board would consult all the stakeholders broadly about various elements of the company. But when they go to the next stage, they will know there are a group of people watching closely." Counsel for CUPE more recently called for broad stakeholder consultation on matters related to Hydro One and indicated that stakeholders will be watching the IPO process going forward.~~
- The authority of the Province to proceed with the IPO was addressed through legislative amendments that came into force on June 4, 2015
- A shareholder declaration dated July 24, 2015 returned in full the powers of the board of directors of Hydro One with respect to the IPO.

Strategy

- This declaration followed the appointment of the new board
- Provide assurance in the prospectus to underwriters and the market regarding authority of Minister to sell the shares in Hydro One

1. IPO Implementation

First Nations

- The Chiefs of Ontario (COO) wrote to Minister Chiarelli on July 13, 2015 advising that First Nations recognize the partial sale of Hydro One as a “significant opportunity...to move past historic grievances and to...share resources and the benefits of the lands.” The Chiefs of Ontario stated an expectation to own 10 percent of Hydro One and to work with the Minister and the Ministry to ensure that ownership of shares is transferred outside of the IPO
- The COO letter was followed by a letter on July 16, 2015 from the Nishnawbe Aski Nation (NAN) who wrote that the privatization of Hydro One “activates” the Crown’s duty to consult and accommodate Aboriginal and Treaty rights. NAN requested the establishment of a NAN Energy Table with Ontario on energy and policy development affecting the Treaty 9 and Treaty 5 territory
- A legal challenge by First Nation communities, regardless of merit, could impact the timing of the IPO

Strategy

1. Minister Chiarelli is scheduled to meet with Chief Day on Aug 26th. The Minister would propose that a facilitated discussion might help accelerate the dialogue and can offer to return with some potential names of individuals that would be helpful in this regard
2. The Ministry of Energy is proposing to work with the MAA, MAG and CO to engage FN communities through facilitated discussions and to provide re-assurances that this discussion can happen outside the IPO process and without concern about the timelines of the IPO. There are multiple share offerings planned that can provide the opportunity for First Nations **and it is important to get it right**
3. The Ministry of Energy will assess potential arrangements to support First Nation share purchases and report back to TB/MBC prior to tabling a formal proposal



2. Governance Agreement & Registration Rights Agreement

2. Governance Agreement & Registration Rights Agreement

Significant Changes Post IPO

- Prior to the IPO, as sole Shareholder, the Province has been able to direct Hydro One through Shareholder Declarations and Resolutions and use Hydro One to achieve certain policy objectives
- Post-IPO, the Province's relationship with Hydro One will change in three main ways:
 1. Province will deal with Hydro One as an investor with respect to its ownership interest
 - The Province would engage in the business and affairs of Hydro One as an investor, rather than a manager and intends to achieve its policy objectives through regulation
 2. Though the Province will be the most significant shareholder, it will be one shareholder among many
 - The Province would vote its shares as any other shareholder, except for restrictions as expressly provided for in the Governance Agreement (i.e. restrictions on its rights to vote on the election of directors and to initiate fundamental changes) and its right to nominate 40% of the directors, or its pro-rata share, whichever is less
 3. The Province's fiscal/financial relationship with Hydro One will change
 - The Province will seek to maximize its return on investment and will need to organise in a manner that enables administration of its rights and obligations as a shareholder, including management of confidential information

2. Governance Agreement

Pre-IPO Decisions and Approvals by Province

Governance Standards:

- Hydro One will adopt governance standards consistent with best practices in Canada for leading public companies having regard to Hydro One's ownership structure and the Governance Agreement
 - These would typically include mandates setting out the role and responsibilities of the CEO, the board and each committee, and may include policies on board composition (a skills matrix and diversity policy), the Ombudsperson's mandate and a Majority Voting Policy

Board of Directors/Hydro One Executives:

- Director nominees must be experienced, meet the requirements of corporate and securities laws, and be independent of the Province
- Province appointed all the initial directors that will serve on Hydro One's initial post-IPO Board
- Province approved the initial Chair of the Board (David Denison) and is working with the Board to identify the new CEO

Rationale:

- As with other public companies, the governance of Hydro One is vested in its Board of Directors
- All directors (including the Provincial nominees) must act in accordance with their fiduciary duty to act in the best interests of the company. In practical terms this often means directors seek to maximize return to investors while considering other stakeholders' (e.g. creditors, unions, etc.) interests
- This commitment will enable the Province to maximize value through the IPO by providing investors with comfort regarding the Province's role with respect to governing Hydro One

2. Governance Agreement

Governance Principles

- “Governance Principles” are obligations of Hydro One and the Province:
 - Hydro One to maintain governance consistent with best practices
 - Hydro One’s Board is to be responsible for overseeing Hydro One’s business
 - Province is restricted from engaging in the business and affairs of Hydro One “as a manager”, signalling the commitment of the Province to vest the management of the Company in the Board of Directors and the Officers of the Corporation (CEO, CFO)
- The OEB will continue to regulate Hydro One and the Province will retain the ability to enact or enforce laws that affect Hydro One. Hydro One will also continue to contribute to system planning pursuant to its regulatory obligations
- With respect to its ownership interest in Hydro One, the Province will state its intention to achieve its policy objectives through regulation. However, the Province will preserve its right to vote its shares in the sole interest and sole discretion of the Province, except as expressly provided for in the agreement
 - The Province will not be restricted from achieving its policy objectives through regulation of the sector

Rationale:

- This is fundamental to provide comfort to the market that the Province will act in a manner that is consistent with being an investor
- This limitation will restrict the Province’s ability to use its investment in Hydro One to achieve energy policy objectives
- The OEB will continue to regulate Hydro One, including ensuring Hydro One provides planning information to the IESO, and the Province will maintain its right to enact or enforce laws that affect Hydro One



2. Governance Agreement *Provincial Representative*

- The Governance Agreement lists the Minister of Energy, or any other person designated by the Minister of Energy, as the Provincial Representative to fulfil any obligation or exercise any right of the Province under the Governance Agreement
- Any action taken by a Provincial Representative binds the Province. This role will be critical to manage the Province's investment
 - “Provincial Representative” is defined as the Minister of Energy and any other person designated by the Minister of Energy as representing the Province for matters under the Governance Agreement, provided the Minister designates no more than one person for a particular matter

Rationale:

- The Minister of Energy will designate a representative of the Province in order to ensure consistency in dealings with Hydro One and a nimble response to circumstances as they arise
- The Province will consider who will act and have authority to act in this capacity in any designation, as well as the interplay between a designation and other government processes such as financial approvals (Treasury Board)
- Any designate will represent the view of the government as a whole, recognizing that within government, different interests may exist (e.g., need for access to information, financial reporting vs. obligation to protect against use of insider information)

2. Governance Agreement

Board Composition

- The Board will establish a Nominating and Governance Committee with governance responsibilities, including recruiting, assessing and succession planning for directors, ensuring that the board has appropriate competencies to fulfil its stewardship role in the management of Hydro One
- The Board would consist of 10 to 15 members and would be comprised of:
 - the CEO;
 - Province would nominate 40% of the number of directors (or its pro-rata share, whichever is less, but subject to a minimum cure period); and
 - the Nominating and Governance Committee would nominate the remaining directors

Rationale:

- The Province would continue to have at least 6 of 15 (or 4 of 10) nominees unless it falls below 35% (due to rounding)
- Reflects good governance practices where board representation reflects ownership and value is maintained for the Province by ensuring that the majority of the Board is nominated by others

2. Governance Agreement

Election of Directors to the Board

- Both the Nominating and Governance Committee and the Province will need to be satisfied, acting reasonably, that each director nominated by the other satisfies the qualifications outlined in the Governance Agreement
- The Province and the Nominating and Governance Committee may reject a nominee only if it determines, acting reasonably, that the nominee does not meet the qualifications required by the Governance Agreement
- The initial directors at the time of the IPO are not subject to this process unless their circumstances change materially
- The parties would need to provide notice (including reasons) of nominee rejections within 10 business days of the nomination, failing which nominees are deemed fit to be nominated
 - Any disputes would be determined by binding, confidential arbitration
- The Board would propose the slate of director nominees for election at a meeting of shareholders
- The Province would be required to vote for the proposed slate including its own nominees. It would not be permitted to withhold votes from individual nominees, except where it withholds votes from all of the directors (other than the CEO and, in the Province's sole discretion, the Chair) or in a contested election
 - Contested election occurs where there are more nominees than available board seats, which could occur if a shareholder (other than the Province) nominates one or more directors
 - In a contested election the Province would be free to vote its shares but may not nominate directors except in accordance with procedures set out in the Governance Agreement
- The Company would institute a majority voting policy under which any director that does not receive a majority (50%+1) of the total votes cast for or withheld would be required to resign

2. Governance Agreement

Election of Directors to the Board (Cont'd)

Rationale:

- This provides assurance to investors that the Province would not use its voting control to, in effect, select each individual member of the board
- While the Province owns more than 50% of Hydro One common shares, withholding votes from directors would be sufficient to require the resignation of any such director who is elected and if the Province owns between 40% and 50% of Hydro One common shares, the Province's holdings would likely also be sufficient (and will be if less than 80% of the shares are represented in person or by proxy at the meeting)
- For directors that tender their resignation under the majority voting policy, Hydro One's board will have discretion to accept the resignations immediately and sequentially replace the directors with new qualifying nominees of the Province and the Nominating and Governance Committee, to call a shareholders meeting for the election of directors, or not to accept the resignations at all, or some combination of those alternatives

2. Governance Agreement

Province's Right to Vote to Remove the Board

- Outside of the annual nomination process, the Province would have the right to require a shareholders meeting to be called to consider the removal of the Board at which the Province may vote for the removal of all, but not less than all of the Board (other than the CEO and, at the Province's discretion, the Chair)
- If the Province's vote to remove the Board is successful, the then current Board would remain in place until the replacement directors are elected, and new directors would be nominated as follows:
 - The CEO
 - Province would nominate 40% of the replacement directors or its pro-rata share, whichever is less (again with the same cure period if its interest falls below 40%)
 - If Province elects to not remove the Chair of the Board, the Chair would be one of Province's replacement nominees
 - A Committee (comprised of one representative of each of Hydro One's 5 (or at least 3) largest shareholders as known by Hydro One) would nominate the remaining directors
- Alternative to Committee being comprised of shareholders:
 - If 3 shareholders are not willing to serve on a Committee or it is not formed within 30 days of the Province requiring the removal meeting to be called, the four replacement directors nominated by Province would act as the Committee

Rationale:

- Provides the Province with the power to vote to terminate the Board (other than the CEO)
- While the Province owns more than 50% of Hydro One common shares, its vote would alone be sufficient to remove Hydro One's Board
- Given the 10% ownership restriction on all other shareholders, if Province owns between 40% and 50% of Hydro One common shares, the Province's holding would likely be sufficient to remove the Board, and is sufficient if less than 80% of the shares are represented in person or by proxy at the meeting

2. Governance Agreement

Governance of Subsidiaries

- This provision requires “mirror boards” for each of Hydro One, Hydro One Networks Inc. (HONI) and Hydro One Inc. (HOI), subject to applicable law
- The board of HOI and of HONI (which operates transmission and distribution) will be the same as the board of the new Hydro One
- Section 2.1.2 of the Ontario Energy Board’s Affiliate Relationship Code provides that at least one-third of the board of directors of a utility (HONI) must be independent from any affiliate and the OEB has issued a compliance bulletin stating that a shareholder, director, officer or employee of an affiliate would not be considered independent
- Hydro One to cause subsidiaries to comply with the Governance Principles

Rationale:

- Mirror boards were requested in order to ensure alignment between the parent company and the subsidiaries
- Ministry and Torys have concluded that in these circumstances and given the independence requirement in the Governance Agreement, there are strong arguments that mirror boards comply with Section 2.1.2 of the OEB Affiliate Relationship Code, not withstanding the compliance bulletin

2. Governance Agreement

Province's Right to Acquire Shares of Hydro One

- Province would be permitted to acquire (subject to securities laws) additional Hydro One common shares in the market so long as its ownership interest after the acquisition does not exceed 45%
- Province would have a pre-emptive right to acquire Hydro One common shares or other voting securities (including securities convertible or exchangeable for voting securities) where Hydro One issues securities for cash (other than under employee compensation and dividend reinvestment plans):
 - Province would be entitled to acquire 45% of Hydro One common shares being issued, subject to compliance with securities laws and TSX requirements
 - Province would be required to accept the offering price negotiated with underwriters or other buyers
 - Province would have to confirm its participation in the offering in advance (Hydro One required to provide 30 days notice of an issuance, and the Province would have ten business days to respond) but can build in acceptable price ranges and corresponding caps on the number of shares to be acquired
- Province may still be diluted because Hydro One may issue shares (to acquire assets or on a merger) or for employee share compensation or as part of a dividend reinvestment plan, or because it decides not to exercise its pre-emptive right to buy shares in a cash offering
- Province is permitted to buy shares in the market up to 45% (subject to securities laws)

Rationale:

- This limits the Province from buying back shares in order to provide assurance to investors that the Province intends to reduce its ownership over time to 40%
- This will enable the Province to maximize value for the IPO
- The Province will have mechanisms to maintain 40% ownership as required in legislation, with a 5% buffer

2. Governance Agreement

Confidential Information

- Hydro One would enter into a confidentiality agreement with respect to information provided to Province to which the Province would agree:
 - To use information it acquires in its capacity as shareholder only for purposes of exercising its rights under the Governance Agreement and the Registration Rights Agreement for preparing the Province's consolidated financial statements or to manage its investment
 - To establish sufficient procedures to protect against insider trading, and
 - Not to disclose confidential information about Hydro One except as required by law and to provide Hydro One with prior notice of such disclosures where permitted by law

Rationale:

- This will ensure that confidential information the Province acquires as a shareholder is protected
- Procedures would be in place to ensure restricted distribution and prevent unauthorized use
- In designing these procedures regarding confidential information, Energy will look to existing models (e.g. legal and financial firms) as well as the IESO/OPA merger and experience gained through the Renewable Energy Facilitation Office and under the Green Energy Act, 2009, and ensure its procedures meet securities law requirements

2. Registration Rights Agreement

Overview

- A Registration Rights Agreement is a framework agreement often entered into between issuers (i.e., Hydro One) and their larger shareholders (i.e., the Province) who are subject to securities law restrictions on their ability to freely sell their shares
 - A commitment by Hydro One to facilitate offerings by the Province so that the Province can sell its shares over time
 - The terms within the agreement will continue as long as the Province is a “control person” of Hydro One Limited under securities law (i.e., holds 20% or more of Hydro One Limited’s voting securities)
- This agreement also sets out firm timelines within which the Province will need to act
 - Hydro One will give 30 days’ notice if it is moving forward with an offering, and the Province will have 10 business days to exercise its right to “piggy back” on this issuance
 - This is the same timeline that the Province will need to follow in order to exercise its pre-emptive right under the Governance Agreement to purchase any of a Hydro One offering of voting securities
 - Tight timelines are common within these types of agreements
- The following slides provide an overview of key terms of the Registration Rights Agreement

2. Registration Rights Agreement

Share Offerings

- Under this agreement, the Province can require Hydro One to facilitate an offering of the Province's shares, under a prospectus in Canada or as a private sale (prospectus-exempt transaction) in Canada or other jurisdictions
 - Hydro One is obligated to use commercially reasonable efforts to assist
 - On request, Hydro One is obliged to provide the Province with a prospectus no more than 4 times in a 12 month period (more than would be typical under most registration rights agreements) and Hydro One may defer a request for up to 60 days for confidentiality or bona fide reasons (e.g., financial results or a major announcement pending)
 - The Province would enter into an underwriting agreement and lock up agreement on "customary market terms" in connection with these offerings
- The Province also has the right to "piggy back" on a Hydro One offering
 - Hydro One must provide notice of a proposed distribution to the Province not later than 30 days prior to the date Hydro One enters into an agreement to issue shares
 - The Province has 10 business days after receiving the piggy back notice to determine if it wishes to participate in the proposed distribution
 - If the Province chooses to piggy back on a Hydro One distribution, the underwriters may limit the number of shares on a pro rata basis that are included in the distribution, if in their reasonable judgment, market conditions require such limitations in order to maximize value of the offering

2. Registration Rights Agreement

Other Details

- The Province is responsible for the costs associated with a distribution of shares under a demand registration
 - The Province is responsible for these costs even if the Province withdraws its request for a demand registration or in circumstances where a distribution does not otherwise occur pursuant to a prospectus prepared at the Province's request
 - The Province and Hydro One share costs in proportion to the gross proceeds for a piggy back registration
- The Province is not required under the Registration Rights Agreement to provide any indemnities to Hydro One or the underwriters (although the underwriters may nonetheless request this for a particular future offering)
 - Hydro One is required to indemnify the Province and the underwriters for any claims that may arise with respect to misstatements or omissions in the prospectus or failure to comply with securities laws
- If Hydro One lists its shares in the United States in the future, the demand and piggy back registration rights will be extended to U.S. offerings

2. Governance Agreement & Registration Rights Agreement

Administrative Framework: Context

- Even though the Province will remain the largest shareholder, Hydro One will be a publicly traded company requiring the Province to manage its interest as an investor
 - Legislative requirements as well as governance arrangements as set out in the Governance Agreement between the Province and Hydro One will need to be monitored and acted upon
 - The Province will need to manage its shareholdings, abiding by the terms set out in the Governance Agreement which will outline the terms of the Province's pre-emptive right and restrictions on the Province's right to buy shares, and in the Registration Rights Agreement which will outline the terms on which the Province can sell shares and terms to facilitate coordination with Hydro One when it offers shares publicly
 - A deep understanding of market conditions and Hydro One performance will be required to provide effective ongoing management of this important asset as well as to meet the fiscal targets established by the Government with respect to the sale of additional shares
- In order to effectively carry out these roles and responsibilities, the government will need to dedicate resources and expertise to support the government shareholder in these decisions
- The following slides provide an overview of the administrative framework the Ministry of Energy will use to manage its obligations as an investor in Hydro One moving forward

2. Governance Agreement & Registration Rights Agreement

Administrative Framework: Considerations

Flexibility/Timing:

- Delegation of authority combined with standing mandate to undertake buy and sell transactions would be required to facilitate quick action
 - Hydro One will give 30 days notice if it is moving forward with an offering, and the Province will have 10 business days to exercise its right to “piggy back” on this issuance
 - This is the same timeline that the Province will need to follow in order to exercise its pre-emptive right to purchase any of a Hydro One offering

Division of Financial/Policy Decisions:

- The Province will need to ensure there is a distinct line between those with access to policy decision making and those making buy/sell decisions to maintain the Province’s role as an investor and meet securities law requirements
 - The Financial Advisor procured by Energy will provide independent advice on whether to buy or sell with no knowledge of current policy discussions ongoing at the Ministry of Energy that could impact Hydro One

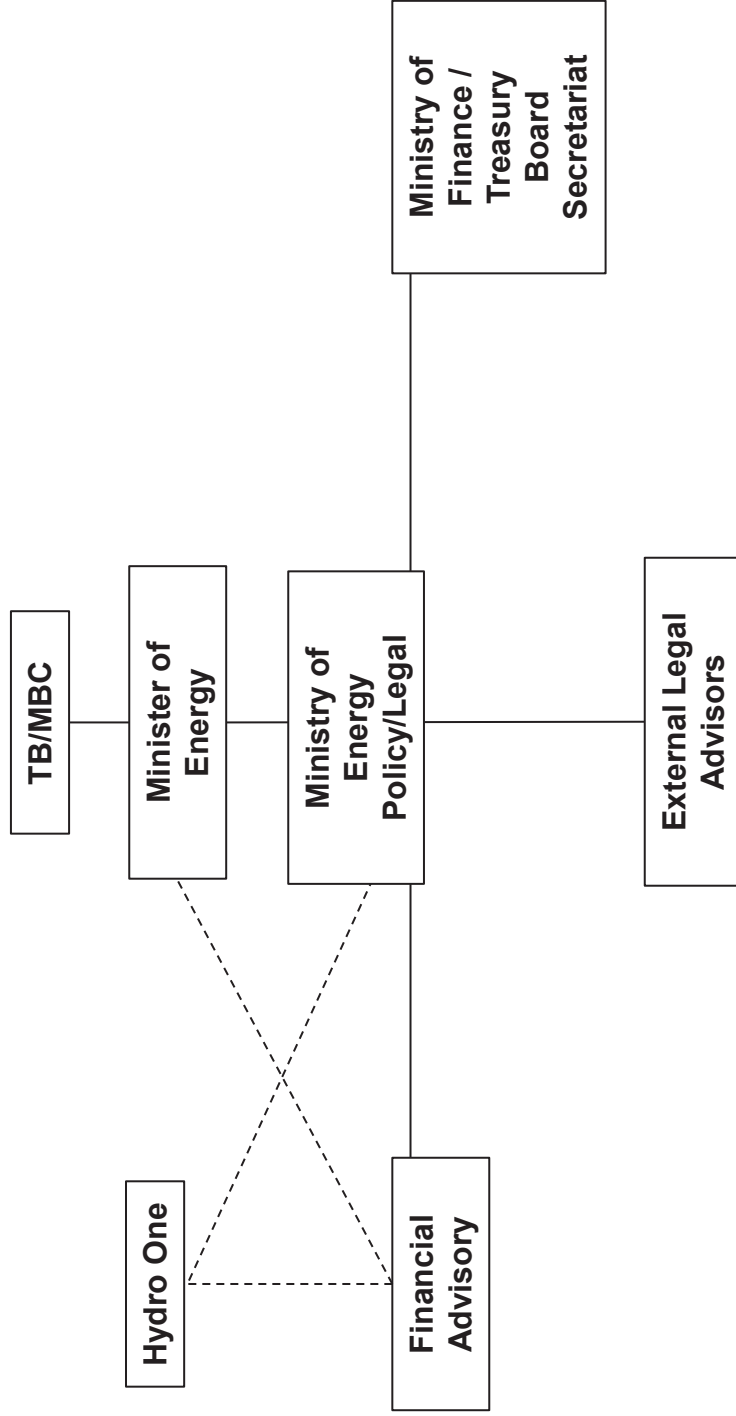
Coordination Role

- Energy would continue to work with Finance to ensure close coordination with fiscal priorities

2. Governance Agreement & Registration Rights Agreement

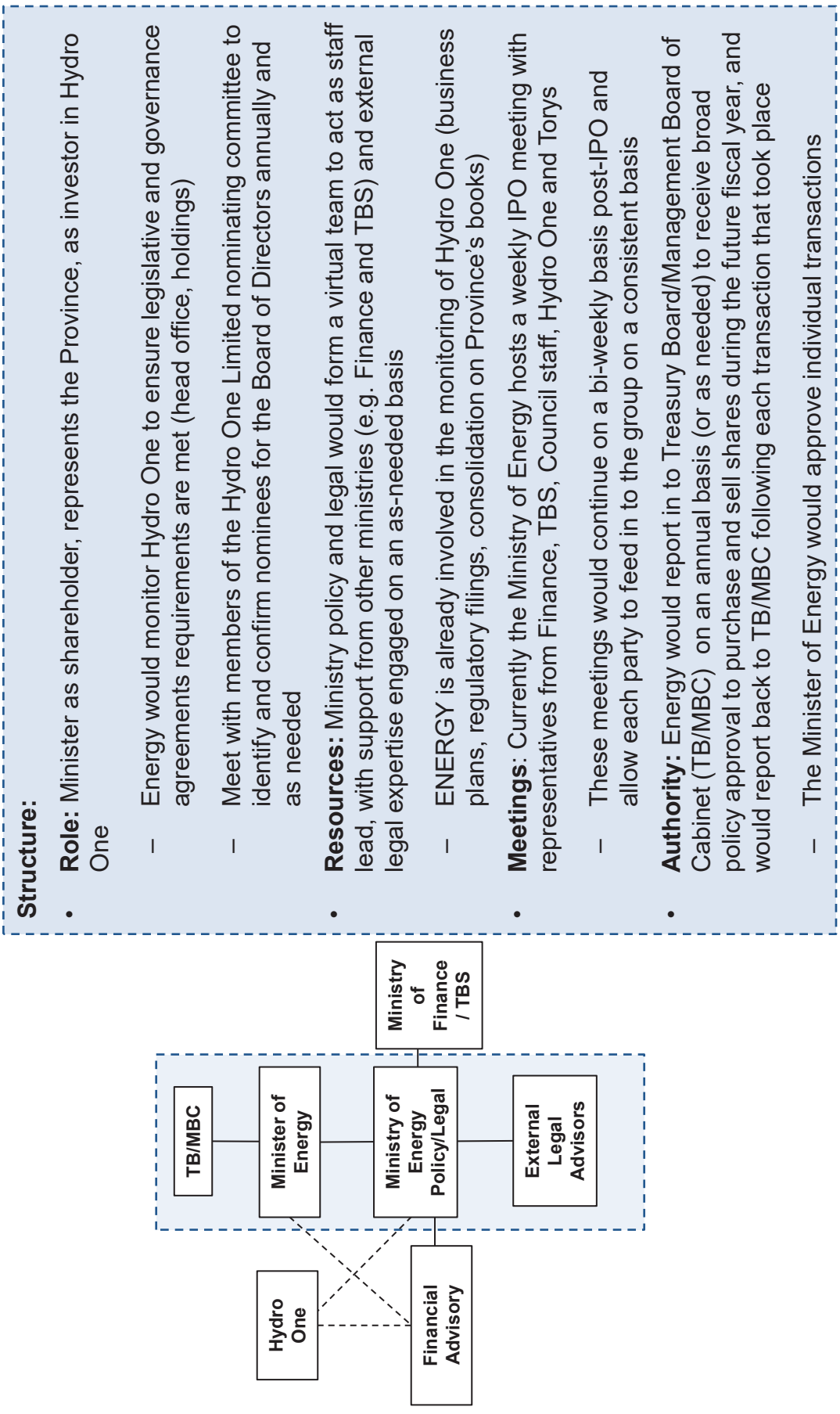
Administrative Framework: Overview

- Ministry of Energy plans to build on existing oversight functions in place and provide direct support to Minister leveraging external expertise as required
- Proposed reporting structure is illustrated below:



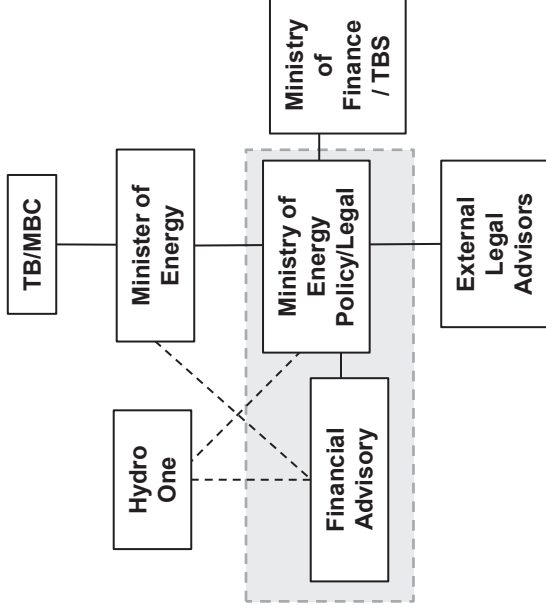
2. Governance Agreement & Registration Rights Agreement

Administrative Framework: Ministry of Energy Role



2. Governance Agreement & Registration Rights Agreement

Administrative Framework: Financial Advisory

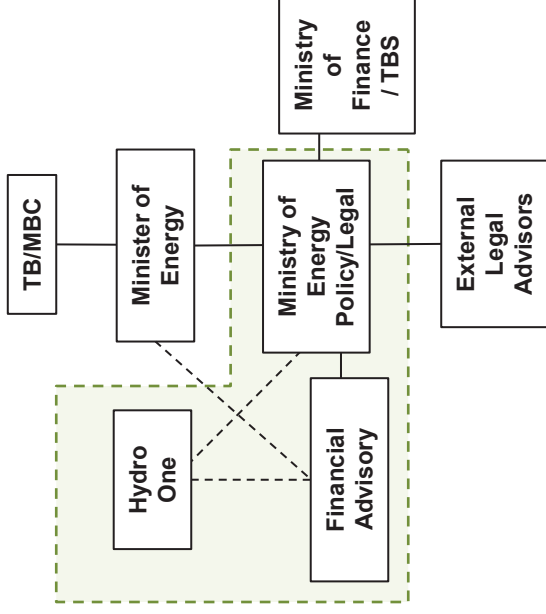


Structure:

- **Role:** Act as the Province's financial advisor
 - Could procure external Financial Advisors as needed to monitor market conditions to inform buy/sell decisions
 - Would advise Energy on other governance matters (legislative requirements, nominations etc.)
- **Resources:** Financial advisory would work with the Ministry and procure external financial advisors as required
 - This committee would be made up of senior level people with strong financial and accounting knowledge. Members could include a mix of public and private sector experience
- **Meetings:** Members of the financial advisory would join Energy's IPO meetings to update the group on a bi-weekly basis
 - The financial advisory would also have a direct communication line with Energy to provide advice on a daily basis
- **Authority:** The financial advisory would receive direction from the Ministry of Energy obtained through Treasury Board as explained on the previous slide

2. Governance Agreement & Registration Rights Agreement

Administrative Framework: Hydro One Role

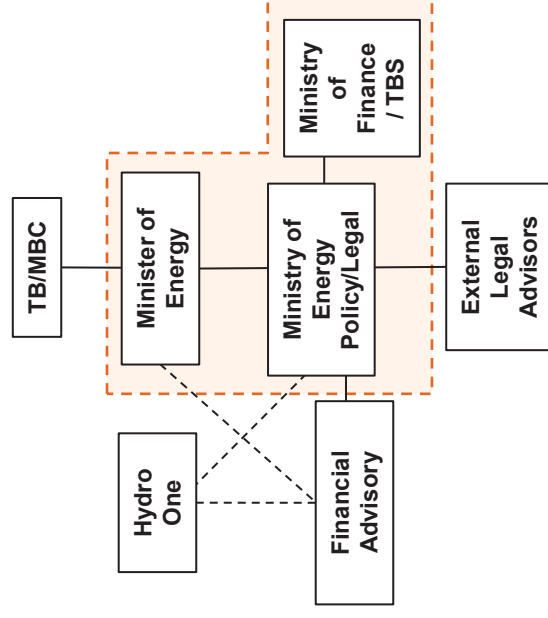


Structure:

- **Role:** Hydro One would coordinate closely with the Province to facilitate secondary share offerings
 - Timing and requirements outlined in the Registration Rights Agreement
- **Resources:** Hydro One would have one contact at the Ministry of Energy in order to coordinate broad strategy, and a contact with the Province's Financial Advisory
- **Meetings:** Given Hydro One's position as a publicly traded company it would not be involved in the Province's weekly IPO meetings
 - Hydro One would have a direct communication line with Energy to ensure both parties are aware of the others' near-term intentions
- **Authority:** Hydro One would be required to support the Minister of Energy (within the limits of the Registration Rights Agreement) in the event of share sales by the Province

2. Governance Agreement & Registration Rights Agreement

Administrative Framework: Ministry of Finance / Treasury Board Secretariat Role



Structure:

- **Role:** Ministries of Finance and Treasury Board Secretariat will work with the Ministry of Energy and be responsible for setting targets for the Ministry of Energy to support the fiscal plan
 - Finance could ensure close coordination with fiscal priorities
 - TBS could ensure appropriate government approvals are taken into account
- **Resources:** Policy and legal staff from MoF and TBS would work closely with the Ministry of Energy
 - Finance could engage the OFA which has a large pool of financial market expertise and already conducts borrowing, investment and financial risk management for the Province
- **Meetings:** Both Finance and TBS would continue to be involved with the IPO meetings held by the Ministry of Energy
 - Finance and TBS would have a direct communication line with Energy to ensure close coordination
- **Authority:** Finance and TBS would support the Minister of Energy in his role as shareholder

3. PWU and Society Loan and Share Purchase Agreements

3. Loan and Share Purchase Agreements

Context – Collective Bargaining

- The Council's Phase 1 report highlighted the need for a dialogue with management and labour unions to address cost implications of labour and pension agreements at Hydro One
- In January 2015, the Ministry of Energy received TB/MBC approval to establish a bargaining mandate for agencies in negotiations within the Energy sector which included three key provisions:
 1. Multiple year agreements (2-4 years)
 2. The cumulative effect of the resolution of compensation issues would reflect an overall net neutral costing result
 3. Pension contributions from employees adjusted upwards gradually in order to achieve equal cost sharing between employers and employees
 4. Where relevant, enable restructuring activities recommended by the Council and approved by government
- In the Council's Phase 2 report the Council recommended that the Province, Hydro One management, and unions finalize agreements on pensions and labour costs in advance of the Hydro One IPO to address issues raised by the Leech Report and the Ontario Energy Board with respect to pensions and compensation
- In May 2015, the Ministry returned to TB/MBC and received approval of tentative agreements between Ontario Power Generation, Hydro One and the Power Workers' Union, prior to ratification
- In August 2015, the Ministry returned to TB/MBC and received approval of tentative agreements between Hydro One and the Society, prior to ratification

3. Loan and Share Purchase Agreements *Required Approvals*

- The Power Workers' Union (PWU) and Society share purchase, loan and ancillary agreements are expected to be agreed with the Province in September before the preliminary prospectus is filed, after the PWU reached collective agreements with Hydro One and OPG, and the Society reached collective agreement (yet to be ratified) with Hydro One
- These collective agreements, approved by TB/MBC in May for PWU and August for Society, provide for net zero increases and substantial movement in pension sustainability, aligning with the recommendations contained in the Leech report
- The unions have expressed a desire to invest in high quality jobs for Ontarians and the Province believes the investment would be consistent with the purpose of the IPO and better align the interests of the unions with investors in Hydro One
- The transaction would be documented by a Share Purchase Agreement, Loan Agreement and related security documentation
 - TB/MBC approval is required for these agreements
- Two OICs for both of the loans and approval for Supplementary Estimates in the Ministry of Finance's estimates in the amount of the proposed loans to the Borrowers are also required to be approved

3. Loan and Share Purchase Agreements

Share Purchase Agreements – Summary

- The share purchase agreements are expected to be signed by the Borrowers and the Ministry of Energy shortly before the prospectus is filed but the Hydro One common shares will not be transferred to the Borrowers until the IPO is closed
- The Hydro One common shares will be sold to the Borrowers under a securities law exemption and therefore will not be qualified under a prospectus
- The Borrowers are to be 2 trusts, for the benefit of each of the PWU and Society, which would qualify as an accredited investor for securities act purposes
- We have requested an opinion from counsel to each Borrower that the Borrower's sole beneficiary is the relevant union, that the sole trustee is a corporation wholly-owned by the relevant union and that the trust is validly established
- We will provide an opinion from our legal counsel that the sale to the relevant unions is exempt from prospectus requirements. Our legal counsel will review the financial statements of the PWU and Society on a confidential basis (which would not permit our legal counsel to disclose any information in the financial statements to the Province)
- The Borrowers will not be permitted to buy any additional Hydro One common shares in the IPO
- The Province provides limited representations and warranties regarding authority to enter into the due authorization of the agreements and ownership of the shares, which representations will survive closing

3. Loan and Share Purchase Agreements

Loan Agreements - Background

- The Minister of Finance, on behalf of the Province, (the “Lender”) will advance term loans to two Ontario corporations, each in its capacity as trustee of an Ontario trust (the “Borrower”); the sole shareholder of the corporation and the sole beneficiary of the trusts would be the relevant union
 - The loan to the PWU will be in the amount of \$75M
 - The loan to the Society will be in the amount up to \$36M
- The Borrowers will be newly formed sole purpose trusts created for the purposes of these transactions.
 - The terms of a side letter by the relevant union and the Borrower in favour of the Lender and the Minister of Energy will require that the benefit of the Hydro One common shares (“Shares”) acquired with the Loan and any distributions or proceeds from those Shares be used for training, employee benefits and other matters determined by the relevant union to be for the benefit of its members.
- The Loans will be used to:
 - purchase the Shares at the IPO price; and
 - pay for the fees of any financial advisors to the PWU and the Society in connection with the negotiation of the Loan and labour agreements
- Each Borrower will agree not to vote any Shares it owns in any matter for so long as the Loans remain outstanding (Maximum term of 15 years)

3. Loan and Share Purchase Agreements

Loan Agreements - Summary

- The material terms of the Loan Agreements include:

Maturity

- The Loans mature and become repayable in full 15 years from the initial advance

Limited Recourse

- Because the Borrowers are single purpose entities created to obtain the Loans and acquire the Shares, and the PWU and the Society will not be party, the Province's recourse will effectively be limited to the Shares, including dividends received on the Shares

Conditions Precedent

- The IPO is closed
- The PWU collective agreements or Memorandum of Understanding, if no agreement has been finalized, are in form and substance satisfactory to the Province with both Hydro One and OPG and the Society collective agreement with Hydro One or Memorandum of Understanding, if no agreement has been finalized, is in good standing for the full period currently contemplated for the collective agreement
- Other standard conditions precedent

Interest

- The interest rate applicable to the interest period (as selected by the Borrowers) will be the Government of Ontario's borrowing rate for a term equal to the selected interest period, plus 15 basis points
- Interest will be payable in arrears at the end of each fiscal quarter but interest may be deferred by the Borrowers as described on the following slide



3. Loan and Share Purchase Agreements

Loan Agreements – Summary (Cont'd)

Interest and Principal Payments

- Interest payments are to be made solely from quarterly dividends on the Shares
- If the dividends are insufficient to pay the interest due on any interest payment date, the Borrowers may elect to defer payment of interest to the next interest payment date
- If the market value of the Shares pledged by the Borrower is greater than 2x the outstanding principal balance and deferred interest, the Borrower may use any dividends in excess of interest payments for its own purposes

Repayment

- The Borrower may prepay the Loan without penalty at any time
- If the Borrower sells the pledged Shares, the proceeds of the sale must be used to repay the Loan
- If there is a change of control of Hydro One (defined to be the acquisition by any person of 100% of the Shares, the Borrower must repay the Loan in full)
- If the market value of the Shares pledged by the Borrower is less than 2x the outstanding principal balance and deferred interest, the Borrower must use the excess dividends (i.e. dividends remaining after payment of interest including deferred interest) solely to repay the Loan

Security

- The Loan will be secured by the pledged Shares and by dividends received on the pledged Shares
- If the value of the Shares pledged by the Borrower exceeds 2x the market value of the Loan, the Borrower can request that Shares (not having a market value less than \$100,000) be released up to an amount such that the market value of the pledged Shares is not less than 2x the outstanding principal balance and deferred interest. The released Shares (including dividends received on the released Shares) will no longer be security for the Loan

3. Loan and Share Purchase Agreements

Loan Agreement – Summary (Cont'd)

Negative Covenants

- The Loan Agreements contains restrictions on the ability of each Borrower to:
 - change its business,
 - acquire or dispose of assets,
 - amend its constating documents, or the deed of trust, or dissolve or terminate the trust,
 - grant security interests,
 - make restricted payments,
 - incur debt or provide financial assistance,
 - vote Shares,
 - create subsidiaries,
 - enter into reorganizations, or
 - enter into non-arm's length transactions
- These restrictions are subject to certain carve-outs, including the ability to incur debt from the PWU (capped at \$100,000 in each fiscal year) provided the debt is contractually subordinated and the ability to make investments with the proceeds and distributions of released Shares

Miscellaneous Provisions

- Lender may assign the Loan without Borrower's consent:
 - after an event of default, or
 - to another governmental entity or a corporation controlled by a governmental entity (whether before or after an event of default)
- Lender may otherwise assign the Loan with the Borrower's consent to any third party before an event of default
- The Borrower provides a standard indemnity to the Lender for all losses incurred as a consequence of a default, the entering into of the Loan Agreement by the Lender or the application by the Borrower of the proceeds of the Loan

3. Loan and Share Purchase Agreements

Loan Agreement – Variances from Term Sheet with PWU

- In the original term sheet, it was not contemplated that the borrower would need to take on any other additional debt, other than the \$75 million loan with the Province. However, the borrower is being allowed to assume subordinated debt with its union for the purposes of paying administrative costs such as management, consulting, advisory fees or similar compensation, and making the trust income payable to the union
- The Borrower can make certain permitted investments using distributions and proceeds on released shares
- The unions will also be permitted to purchase additional common shares from the Province (again through trusts) with their own resources
- Finally, the original term sheet stated that neither Hydro One, the lender nor the borrower would be allowed to make any public announcement concerning the loan or the purchase agreement without the written consent of either party except as may be required by law or rule of any stock exchange or quotation system. The Agreements now contemplate that the agreements will be described in the prospectus (the form of which is being agreed) and otherwise remain confidential [NTD: subject to agreement by the Province]

Most Favoured Nations

- The Province also agrees to include as a term of the loan that it shall not provide Financial Assistance on financial terms any more beneficial to a Related Union than the financial terms reflected in the Loan Agreement for the purpose of such Related Union investing in Hydro One shares. The amount of loan provided to a Related Union should mirror the Loan to PWU on a per capita basis



3. Loan Agreement

Loan Agreement - Impacts

- The administrative work for this provincial loan can be accommodated by existing staff within the Ministries. There are no new FTEs being requested and therefore no administrative impacts
- There is a slight risk that the common share price of Hydro One Limited could decline such that the market value of all the shares held by the Borrower have a value of less than the remaining loan balance
- Should the Borrower repay the entire loan, the Province will have a positive fiscal impact as the interest rate being charged on the loan is at the Province's cost of funds, plus a margin of 15 basis points
- However, should the Borrower be unable to repay the loan in its entirety, and if the value of the pledged shares decreases, the Province could have a negative fiscal impact for the balance of the loan plus any interest owed to the Province less the amount the Province recovers from a sale of the pledged shares

3. Loan and Share Purchase Agreements

Second Share Purchase Agreements – Summary

- In addition, the PWU and the SEP will each set up a separate trust to purchase up to [\$10M and \$5M, respectively] shares with funds provided by each union
- Hydro One common shares will be sold to the Second PWU and Society Trusts with funds provided by the PWU and Society at the IPO purchase price and will not be disposed of by the Second PWU and Society Trusts until at least one year after the date of the IPO
- The shares will be sold under a securities law exemption and therefore will not be qualified under a prospectus

4. Hydro One Brampton Merger

Brampton Implementation

Process Overview

- As announced in the 2015 Ontario Budget, the Province is moving forward with the Premier's Advisory Council on Government Assets recommendations to broaden the ownership of Hydro One through an initial public offering (IPO) and the sale of Hydro One Brampton to a merged entity of three other large utilities – PowerStream, Enersource and Horizon
- As part of the Hydro One Brampton transaction the Province will cause Hydro One Inc. to transfer Hydro One Brampton to Brampton Distribution Holdco Inc., a holding company created for that purpose. The Province will sell Hydro One Brampton to PowerStream, Enersource and Horizon or another party
 - It is expected that the Province would only hold Brampton for a short period (e.g. 9 months), between the time of the transfer and the close of the Brampton transaction
 - Brampton will continue normal, uninterrupted operations through closing of the merger
- The following slides run through the steps required to facilitate this transaction



A. Preparation *Regulation Amendments & Financing*



Regulation Amendments

- Various ministries are proceeding to the Legislation and Regulations Committee (LRC) on August 24, 2015 for regulation amendments to support the Hydro One Brampton transaction
- 1. **Ministry of Environment and Climate Change (MOECC)**
 - Amendment to exempt the acquisition and sale of Brampton shares by the Province from an environmental assessment
- 2. **Ministry of Energy (Energy)**
 - A regulation to exempt the acquisition of Brampton shares from OEBA s. 81 transfer notice requirements due to Holdco being affiliated with OPG.
- 3. **Ministry of Finance (MOF)***
 - Regulatory amendments to define Brampton as an MEU for tax purposes in order to ensure it stays in the PILs regime during Province's ownership
- 4. **Ministry of Government and Consumer Services (MGCS)**
 - Regulatory amendment is required to ensure Brampton remains exempt from MFIPPA while held by the Province

Financing

- In addition, the Ministry of Finance is seeking approval of an Order in Council to expand the objects of the Ontario Electricity Financial Corporation to include providing financial assistance to a distributor owned or controlled, directly or indirectly, by the Province, so that would be in a position to provide financial support to Brampton Distribution Holdco Inc. if necessary, as a contingency measure

B. Implementation *Mechanics of Transfer*



Create Holding Company

- As part of the Hydro One Brampton transaction the Ministry of Energy is seeking approval for the creation of Brampton Distribution Holdco Inc. under the Business Corporations Act (Ontario).
Legislative authority to do this is provided in the Electricity Act, 1998 (Ontario)
 - An Order in Council is required to create the Holding Company together with OBCA incorporation documents

Hydro One Brampton Transferred to the Province/Brampton Distribution Holdco Inc.

- Hydro One Brampton shares will be transferred from Hydro One to Brampton Distribution Holdco Inc. through a dividend in-kind on August 31, 2015, by way of a Shareholder Declaration from the Minister of Energy, acting as sole shareholder.
 - The Shareholder Declaration will direct Hydro One to pay the dividend by transferring Hydro One Brampton to Brampton Distribution Holdco Inc. Hydro One Brampton will continue to operate as a going concern while owned
- At transfer to the Province, Hydro One Brampton will be held by a holding company created under s.50.1 of the *Electricity Act, 1998* (EA) to mirror the administrative holding of Hydro One Networks.
 - This allows for maximum flexibility in operations without reducing government's ability to transact

C. Ongoing Governance Post IPO



Appointment of Brampton Distribution Holdco Inc. and Hydro One Brampton Board of Directors

- Minister of Energy would appoint Brampton Distribution Holdco Inc. Board of Directors by way of a Shareholder Resolution
 - The Brampton Distribution Holdco Inc. board would mirror the HOBNI board
- Given the Province is only expected to hold Brampton for a short period, the CEO of Hydro One, Carmine Marcello, will continue in addition to two new members: the Deputy Minister of Energy, Serge Imbrogno, and the CFO of IO, Krishnan Iyer

Governance

- Operation of Brampton Distribution Holdco Inc. in the interim period between the dividend and the merger may require shareholder declarations and resolutions signed by the Minister of Energy which would provide clarity to the directors about the shareholder's expectations regarding the transaction and the operation of the business
- The Province will also put in place a Memorandum of Agreement (MOA) between Brampton Distribution Holdco Inc. and the Province on governance, mandate, reporting requirements, performance expectations, and communications of the company while held by the Province

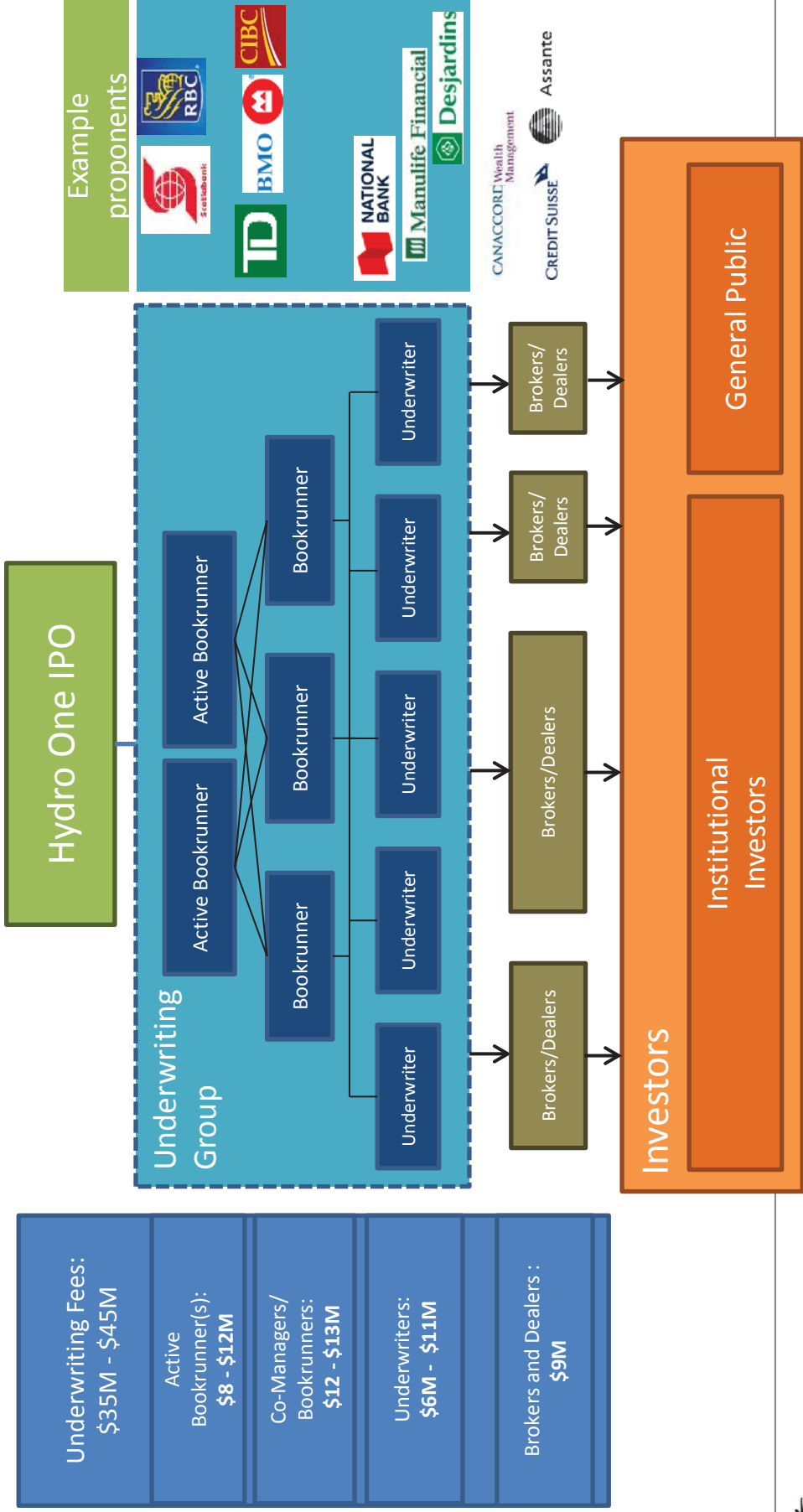
Appendix

1. IPO Process

B. Documentation/Agreements

Bookrunner and Underwriting Agreements – Fee Structure

- Province and the successful bookrunner(s) will enter into an agreement that will detail out the parameters of the engagement, including the fee structure and work fees



1. IPO Process

B. Documentation/Agreements

Bookrunner and Underwriting Agreements – Comparison of Fees with Other Transactions

- The following table provides an overview of fees paid for large public sector company initial public offerings, and equivalent rate if applied to the Hydro One IPO:

IPO	Year	Fee Structure	Equivalent cost if applied to proposed 2015 Hydro One IPO
Air Canada	1988	5%	~\$100M
Potash Corp.	1989	5%	~\$100M
Petro-Canada	1991	5%	~\$100M
Nova Scotia Power	1992	3.9% on instalment receipts, 4.5% on common shares	~\$78M to ~\$90M
CN Rail	1995	4%	~\$80M
Manitoba Telecom Services	1996	3.9% on instalment receipts, 4.5% on common shares	~\$78M to ~\$90M
Information Services Corp. (Sask.)	2013	6%	~\$120M
Hydro One (2015, proposed)	2015	Less than 2% (1% for institutional investors, 3% for retail investors)	~\$35M to ~\$45M



Hydro One Board of Directors

- On July 17, 2015 the Province appointed a new board of directors for Hydro One Inc.
 - David Denison (returning Director and Chair), former President and CEO of the Canada Pension Plan Investment Board
 - Ian Bourne, Chair of Ballard Power Systems Inc.
 - Charles Brindamour, CEO of Intact Financial Corporation
 - Marc Caira, Vice Chairman of the Board of Directors of Restaurant Brands International Inc.
 - Christie Clark, former CEO and Senior Partner of PricewaterhouseCoopers LLP
 - George Cooke, (returning Director), Chair of the Board of Directors of the OMERS Administration Corporation
 - M. Marianne Harris, former Managing Director at Bank of America Merrill Lynch Canada
 - James Hinds, former Chair of the Independent Electricity System Operator (IESO) Board
 - Kathryn Jackson, Senior Vice President and Chief Technology Officer of RTI International Metals, Inc.
 - Roberta Jamieson, President and CEO of Indspire, former Board Member of Ontario Power Generation, and former Ombudsman of Ontario
 - Frances Lankin, a member of the Board of Directors with the Ontario Lottery and Gaming Corporation; former President and CEO of United Way Toronto; and former member of the Premier 's Advisory Council on Government Assets
 - Carmine Marcello, (returning Director), President and CEO of Hydro One Inc.
 - Philip Orsino, former President and CEO of JELD-WEN Inc.
 - Jane Peverett, former President and CEO of British Columbia Transmission Corporation
 - Gale Rubenstein, (returning Director), Partner at the law firm Goodmans LLP

Brampton Steps

Pre-August 31st

- Regulation amendments to facilitate HOBNI dividend
 - Energy, MOF, MGCS and MOECC are bringing forward regulation amendments to support the dividend to the Province
- Formation of Brampton Holdco
 - Order in Council authorizing the formation of Brampton Holdco
 - Articles of Incorporation filed
 - Determine Brampton Holdco board of directors. Directors will be:
 - Carmine Marcello, President and CEO, Hydro One Inc.
 - Serge Imbrogno, Deputy Minister, Ministry of Energy
 - Krishnan Iyer, Executive Vice President and Chief Financial Officer, Infrastructure Ontario
- Funding of HOBNI by HOI
 - HOI will subscribe for additional share of HOBNI to provide funds sufficient to bring HOBNI's working capital to \$27M (D/R required) and to allow HOBNI to repay short-term debt owed to HOI.
- HOBNI repays short term debt owed to HOI
 - HOBNI repays the balance of the intercompany short term loan facility owed to HOI

Brampton Steps August 31st

- FMV of debt receivable by HOI from HOBNI
 - RBC/Scotiabank provide a letter that outlines the FMV of the debt receivable by HOI from HOBNI
- IESO prudential support
 - HOBNI obtains a \$5-10M letter of credit to provide prudential guarantee to the IESO (D/R required) (this may not be complete until shortly after August 31, 2015.)
- HOBNI Credit Rating
 - HOBNI obtains credit rating for the company (this may not be complete until shortly after August 31, 2015.)
- Line of Credit for HOBNI
 - HOBNI obtains a line of credit to finance its working capital needs while the company is owned by the Province (D/R required)
- HOBNI insurance
 - HOBNI obtains stand-alone insurance effective August 31, 2015 (D/R required)
- Transitional Services
 - Service agreements will be in place between HOBNI and HOI to ensure HOBNI will have the right to such services while HOBNI is owned by the Province/Brampton Holdco (Corporate functions, use of smart meter system, license agreement for use of the name “Hydro One Brampton Networks”)

Brampton Steps

August 31st (Cont'd)

- Spin-off of HOBNI by HOI
 - HOI transfers all of the issued and outstanding shares of HOBNI to Province as a dividend in kind (D/R required)
 - Province directs HOBNI shares to Brampton Holdco
- Return of Stated Capital by HOI to Province
 - HOI transfers the entire amount of long-term debt receivable from HOBNI to Province as a return of stated capital of the common shares of HOI (D/R required)
- Run-Off Insurance
 - Brampton Holdco to cause HOBNI to obtain run-off D&O insurance in the event of any disposition of HOBNI (or alternatively to require that any acquirer of HOBNI purchase run-off D&O insurance (D/R required))
- Memorandum of Agreement
 - Province and Brampton Holdco to enter into a Memorandum of Agreement with respect to the governance, mandate, reporting requirements, performance expectations and communications

Brampton Steps *Post August 31st*

- Settlement of HOBNI long-term liability to Province
 - HOBNI will need to settle the long-term liability owed to Brampton Holdco by issuing an appropriate amount of common shares from treasury
 - This will occur just prior to the transfer of HOBNI to Mergeco
- Transfer of HOBNI to Mergeco
 - The Province will cause Brampton Holdco to transfer the shares of HOBNI to the Mergeco formed by the amalgamation of Powerstream, Enersource and Horizon

Comparison of 2002 and Proposed 2015 Transactions

Key Terms	Proposed Hydro One 2002 Transaction	Hydro One IPO (2015)
Transaction	- Up to 100 percent of Hydro One shares up for sale in initial announcement (subsequently amended) - Common shares were to be offered in Canada, United States, and internationally - Shares were to be listed on TSX and NYSE	- Up to 60 percent in multiple tranches, initial IPO of approximately 15 percent - Common shares would be offered publicly in Canada and by private placement in the United States - Listing potentially on TSX and other Canadian exchanges - Divesting the of Province's interest in Hydro One Brampton for cash or a 17 percent interest in the merged entity
Ownership	No single entity could own or control more than 15 percent of voting shares	Maximum of 10 percent ownership limitation for any individual or group with exception for the Province
Protections	- Province was to be issued one special share to allow to veto any proposal to: - amend the articles of Hydro One to relocate its head office outside of Ontario; - change the jurisdiction of Hydro One's incorporation; or - alter rights attached to the special share	- A combination of protections in legislation and, through a governance agreement between the Province and Hydro One, to: - Maintain head office, CEO, and substantially all strategic decision-making management and functions in Ontario - Restrict sale of substantially all assets regulated by the OEB (transmission or distribution assets) - Return to legislature prior to selling > 60 percent ownership - Province has the right to acquire up to 40 percent of each share issue - Province nominates up to 40 percent of directors pro rata to its interest - Company must be listed on TSX
Regulatory Oversight	Rate regulated. Transmission and distribution rates are set by the Ontario Energy Board	Regulated, and strengthen OEB to ensure regulatory rigour
Use of Proceeds	- Province was to receive all proceeds from the sale of the common shares - Proceeds to be used to pay down the legacy debt and liabilities of former Ontario Hydro	- Province will receive all the proceeds from the sale - Dedicated to Trillium Trust and investments in public transit, transportation and other infrastructure
Taxes	- Province agreed up front to the amount of the PILs payable by Hydro (\$440M), and a capital contribution of \$290M - Hydro One agreed not to request to have the PILs amount included in rate recovery	- Upfront payment of departure tax paid to OEFC in year one of offering - Amounts equivalent to departure taxes to be re-injected into Hydro One as additional equity

Comparison to Highway 407

Key Item	Highway 407	Hydro One IPO (2015)
Ownership	Sold 99-year lease to a foreign syndicate	Province to sell up to 60 percent in multiple tranches, with an initial round of approximately 15 percent. Also, divesting the of Province's interest in Hydro One Brampton for cash or a 17 percent interest in the merged entity
Assets / Business Model	Self-contained toll-road that would be easier to operate, more limited opportunities for efficiencies	Complex, integrated, and multi-faceted business with considerable opportunity to drive operating efficiencies from private ownership
Proceeds & Use (if known)	- Proceeds were not maximized as significant value was lost due to the structure of the transaction which allowed the foreign syndicate to raise rates and there was no mechanism in place to share any additional revenues with the Province - Used for general government purposes	- Proceeds would be maximized based on structure of the proposed IPO. A partial share offering allows the market to establish value through improved company performance, which would benefit the Province in subsequent company share offerings. The Province would continue to benefit from the net income of the company and it would also be able to monitor the market and determine the optimal timing for the secondary share offerings - Dedicated to Trillium Trust and investments in public transit, transportation and other infrastructure
Ongoing revenues	Province receives no on-going revenues	Province would continue to receive a portion of dividends and improved earnings as a 40 percent owner
Restrictions	Responsibility for completing partial extension and highway usage minimums	Must be listed on TSX; 10 percent ownership cap (excluding Province); Ontario Grid control, head office and substantially all of strategic decision-making management and functions to stay in Ontario; cannot sell substantially all OEB regulated transmission or distribution assets; 25-30 percent retail investor access for IPO; potential conditions regarding offshoring; Province has the right to acquire up to 40 percent of each share issue; Province nominates up to 40 percent of directors pro rata to its interest;
Regulatory	No price setting ability in place; unregulated	Regulated, and strengthen OEB to ensure regulatory rigour



Comparison to Nova Scotia Power Company (NSPC)

Key Item	Nova Scotia Power Company	Hydro One IPO (2015)
Ownership	Complete government divestment in 1992	Province to sell up to 60 percent in multiple tranches, with an initial round of approximately 15 percent. Also, divesting the of Province's interest in Hydro One Brampton for cash or a 17 percent interest in the merged entity
Assets / Business Model	- Vertically Integrated electrical utility - Privatization designed to reduce systems costs	Complex, integrated, and multi-faceted business with considerable opportunity to drive operating efficiencies from private ownership
Proceeds & Use (if known)	- Total proceeds of \$851M, of which: - Majority of proceeds used to pay down outstanding debt - Portion of proceeds to the Nova Scotia government for general purposes	Dedicated to Trillium Trust and investments in public transit, transportation and other infrastructure
Ongoing revenues	None	Province would continue to receive a portion of dividends and improved earnings as a 40 percent owner
Restrictions	- No single entity may own more than 15 percent - Non-residents may not beneficially own or control more than 25 percent of the votes attached to all outstanding voting shares - Non-resident votes at shareholder meetings pro-rated to not exceed 25 percent of total vote	Must be listed on TSX; 10 percent ownership cap (excluding Province); Ontario Grid control, head office and substantially all of strategic decision-making management and functions to stay in Ontario; cannot sell substantially all OEB regulated transmission or distribution assets; 25-30 percent retail investor access for IPO; potential conditions regarding offshoring; Province has the right to acquire up to 40 percent of each share issue; Province nominates up to 40 percent of directors pro rata to its interest;
Regulatory	Rate regulated with a permitted ROE range	Regulated, and strengthen OEB to ensure regulatory rigour

Comparison to Petro-Canada

Key Item	Petro Canada	Hydro One IPO (2015)
Ownership	- Government of Canada sold ~20 percent in 1991 - Remaining ~80 percent sold in tranches between 1992 and 2004	Province to sell up to 60 percent in multiple tranches, with an initial round of approximately 15 percent. Also, divesting the of Province's interest in Hydro One Brampton for cash or a 17 percent interest in the merged entity
Assets / Business Model	Integrated oil and gas company	Complex, integrated, and multi-faceted business with considerable opportunity to drive operating efficiencies from private ownership
Proceeds & Use (if known)	- To reduce the deficit - CAN ~\$550M initial offering and ~\$5.7B total between 1992 and 2004	Dedicated to Trillium Trust and investments in public transit, transportation and other infrastructure
Ongoing revenues	Revenues continued during sell-down period; none beyond 2004	Province would continue to receive a portion of dividends and improved earnings as a 40 percent owner
Restrictions	- Cap at 20 percent of shares per shareholder - Head office to remain in Calgary, Alberta - A provision prevented selling, transferring or otherwise disposing of substantial assets	Must be listed on TSX; 10 percent ownership cap (excluding Province); Ontario Grid control, head office and substantially all of strategic decision-making management and functions to stay in Ontario; cannot sell substantially all OEB regulated transmission or distribution assets; 25-30 percent retail investor access for IPO; potential conditions regarding offshoring; Province has the right to acquire up to 40 percent of each share issue; Province nominates up to 40 percent of directors pro rata to its interest;
Regulatory	No economic regulation	Regulated, and strengthen OEB to ensure regulatory rigour

Comparison to CN Rail

Key Item	CN Rail	Hydro One IPO (2015)
Ownership	- Government of Canada sold 95 percent of Equity in 1995 - Remaining 5 percent sold at a later date	Province to sell up to 60 percent in multiple tranches, with an initial round of approximately 15 percent. Also, divesting the of Province's interest in Hydro One Brampton for cash or a 17 percent interest in the merged entity
Assets / Business Model	Rail and transportation conglomerate	Complex, integrated, and multi-faceted business with considerable opportunity to drive operating efficiencies from private ownership
Proceeds & Use (if known)	(CAD ~\$2B) used to pay down CN debt and remaining for general government purposes	Dedicated to Trillium Trust and investments in public transit, transportation and other infrastructure
Ongoing revenues	No revenues once final 5 percent was divested	Province would continue to receive on-going dividends and a portion of improved earnings as a 40 percent owner
Restrictions	- No individual or corporate shareholder may own more than 15 percent of CN - The company's headquarters must remain in Montreal	Must be listed on TSX; 10 percent ownership cap (excluding Province); Ontario Grid control, head office and substantially all of strategic decision-making management and functions to stay in Ontario; cannot sell substantially all OEB regulated transmission or distribution assets; 25-30 percent retail investor access for IPO; potential conditions regarding offshoring; Province has the right to acquire up to 40 percent of each share issue; Province nominates up to 40 percent of directors pro rata to its interest;
Regulatory	Largely unregulated. Price regulation effects setting railway revenue caps for moving western grain and interswitching rates	Regulated, and strengthen OEB to ensure regulatory rigour

Comparison to Air Canada

Key Item	Air Canada	Hydro One IPO (2015)
Ownership	Government of Canada sold 100 percent of its interest in two stages (57 percent 1988 and 43 percent 1989)	Province to sell up to 60 percent in multiple tranches, with an initial round of approximately 15 percent. Also, divesting the of Province's interest in Hydro One Brampton for cash or a 17 percent interest in the merged entity
Assets / Business Model	Commercial airline	Complex, integrated, and multi-faceted business with considerable opportunity to drive operating efficiencies from private ownership
Proceeds & Use (if known)	The government used the proceeds from the IPO to re-capitalize the airline	Dedicated to Trillium Trust and investments in public transit, transportation and other infrastructure
Ongoing revenues	None beyond 1989	Province would continue to receive on-going dividends and a portion of improved earnings as a 40 percent owner
Restrictions	- Maintain select Canadian operational and overhaul centres - No shareholder may own more than 10 percent of the airline's stock - Foreign ownership capped at 25 percent - Air Canada's corporate headquarters to remain in Montreal - Service must be provided in both official languages - A majority of the board of directors must be residents of Canada	Must be listed on TSX; 10 percent ownership cap (excluding Province); Ontario Grid control, head office and substantially all of strategic decision-making management and functions to stay in Ontario; cannot sell substantially all OEB regulated transmission or distribution assets; 25-30 percent retail investor access for IPO; potential conditions regarding offshoring; Province has the right to acquire up to 40 percent of each share issue; Province nominates up to 40 percent of directors pro rata to its interest;
Regulatory	No economic regulator	Regulated, and strengthen OEB to ensure regulatory rigour

Comparison to Royal Mail

Key Item	Royal Mail	Hydro One IPO (2015)
Ownership	- Sale by British government closed on October 2013 - The British government retains a 30 percent stake	Province to sell up to 60 percent in multiple tranches, with an initial round of approximately 15 percent. Also, divesting the of Province's interest in Hydro One Brampton for cash or a 17 percent interest in the merged entity
Assets / Business Model	National mail and parcel delivery service	Complex, integrated, and multi-faceted business with considerable opportunity to drive operating efficiencies from private ownership
Proceeds & Use (if known)	- Proceeds equivalent to ~\$3.4 B (in 2015 Canadian dollars) - In UK transactions proceeds usually go to general revenues	Dedicated to Trillium Trust and investments in public transit, transportation and other infrastructure
Ongoing revenues	Continue to receive benefit equivalent to the government's 30 percent ownership stake	Province would continue to receive on-going dividends and a portion of improved earnings as a 40 percent owner
Restrictions	- No ownership conditions - Shareholder governance provisions: limited voting rights if more than 30 percent government ownership maintained - One board seat if ownership above 10 percent	Must be listed on TSX; 10 percent ownership cap (excluding Province); Ontario Grid control, head office and substantially all of strategic decision-making management and functions to stay in Ontario; cannot sell substantially all OEB regulated transmission or distribution assets; 25-30 percent retail investor access for IPO; potential conditions regarding offshoring; Province has the right to acquire up to 40 percent of each share issue; Province nominates up to 40 percent of directors pro rata to its interest;
Regulatory	Ofcom (the regulator) removed price controls on the majority of Royal Mail's products and services. The proportion of Royal Mail revenues under direct price regulation is now approximately 5 percent	Regulated, and strengthen OEB to ensure regulatory rigour

Comparison to UK Regional Electricity Companies (RECs)

Key Item	UK Regional Electricity Companies (RECs)	Hydro One IPO (2015)
Ownership	British government sold 100 percent of its equity interest in 1999	Province to sell up to 60 percent in multiple tranches, with an initial round of approximately 15 percent. Also, divesting the of Province's interest in Hydro One Brampton for cash or a 17 percent interest in the merged entity
Assets / Business Model	Electrical distribution companies, geographical monopoly franchises	Complex, integrated, and multi-faceted business with considerable opportunity to drive operating efficiencies from private ownership
Proceeds & Use (if known)	- Proceeds equivalent to \$18.7B (in 2015 Canadian dollars) - In UK transactions proceeds usually go to general revenues	Dedicated to Trillium Trust and investments in public transit, transportation and other infrastructure
Ongoing revenues	None	Province would continue to receive on-going dividends and a portion of improved earnings as a 40 percent owner
Restrictions	No one was able to own more than 15 percent for the first 5 years	Must be listed on TSX; 10 percent ownership cap (excluding Province); Ontario Grid control, head office and substantially all of strategic decision-making management and functions to stay in Ontario; cannot sell substantially all OEB regulated transmission or distribution assets; 25-30 percent retail investor access for IPO; potential conditions regarding offshoring; Province has the right to acquire up to 40 percent of each share issue; Province nominates up to 40 percent of directors pro rata to its interest;
Regulatory	Regulated by Ofgem using a price cap methodology comprised of the retail price index, adjusted to reflect the potential for additional productivity	Regulated, and strengthen OEB to ensure regulatory rigour

Comparison to United Energy (Australian Distribution Privatization)

Key Item	United Energy	Hydro One IPO (2015)
Ownership	Australian government sold its 100 percent equity interest in the company in 1995	Province to sell up to 60 percent in multiple tranches, with an initial round of approximately 15 percent. Also, divesting the of Province's interest in Hydro One Brampton for cash or a 17 percent interest in the merged entity
Assets / Business Model	Electrical Distribution Company	Complex, integrated, and multi-faceted business with considerable opportunity to drive operating efficiencies from private ownership
Proceeds & Use (if known)	- Proceeds equivalent to ~\$2.2 B (in 2015 Canadian dollars) - Debt reduction and investments	Dedicated to Trillium Trust and investments in public transit, transportation and other infrastructure
Ongoing revenues	None	Province would continue to receive on-going dividends and a portion of improved earnings as a 40 percent owner
Restrictions	Retail tariffs were frozen until 1996 (i.e. less than a year)	Must be listed on TSX; 10 percent ownership cap (excluding Province); Ontario Grid control, head office and substantially all of strategic decision-making management and functions to stay in Ontario; cannot sell substantially all OEB regulated transmission or distribution assets; 25-30 percent retail investor access for IPO; potential conditions regarding offshoring; Province has the right to acquire up to 40 percent of each share issue; Province nominates up to 40 percent of directors pro rata to its interest;
Regulatory	Economically regulated	Regulated, and strengthen OEB to ensure regulatory rigour

Comparison to Railtrack

Key Item	Railtrack	Hydro One IPO (2015)
Ownership	British government sold 100 percent of its equity interest in 1996	Province to sell up to 60 percent in multiple tranches, with an initial round of approximately 15 percent. Also, divesting the of Province's interest in Hydro One Brampton for cash or a 17 percent interest in the merged entity
Assets / Business Model	England national rail track and signaling infrastructure	Complex, integrated, and multi-faceted business with considerable opportunity to drive operating efficiencies from private ownership
Proceeds & Use (if known)	Proceeds equivalent to ~\$5.6 B (in 2015 Canadian dollars)	Dedicated to Trillium Trust and investments in public transit, transportation and other infrastructure
Ongoing revenues	None	Province would continue to receive on-going dividends and a portion of improved earnings as a 40 percent owner
Restrictions	No Restrictions on Ownership	Must be listed on TSX; 10 percent ownership cap (excluding Province); Ontario Grid control, head office and substantially all of strategic decision-making management and functions to stay in Ontario; cannot sell substantially all OEB regulated transmission or distribution assets; 25-30 percent retail investor access for IPO; potential conditions regarding offshoring; Province has the right to acquire up to 40 percent of each share issue; Province nominates up to 40 percent of directors pro rata to its interest;
Regulatory	Railtrack's main source of income was access charges levied on passenger and freight traffic. The regulator established access charges through negotiation with the industry	Regulated, and strengthen OEB to ensure regulatory rigour

4 - August 25, 2015 - Hydro One Initial Public Offering Implementation Plan.pdf



TREASURY BOARD/MANAGEMENT BOARD OF CABINET

TB/MBC Date: August 25, 2015, held in the Chair's Boardroom, 1st Floor, Frost Building South, at 8:00 am.

Attendees: Ms. D. Matthews (Chair), Mr. B. Chiarelli, Ms. M. Hunter, Mr. B. Mauro, Ms. M. Meilleur, Mr. Y. Naqvi, Mr. D. Oraziotti, Ms. L. Sandals, and Mr. Y. Baker.

Item Number: 07

Ministry: Energy

Title: Hydro One Initial Public Offering Implementation Plan

Type of Item: Order in Council

Received a report and supporting material for the Hydro One Initial Public Offering (IPO) implementation plan.

In this regard, the Board:

IPO Overview

- i) Approved that, consistent with and further to the April 15, 2015 Treasury Board/Management Board of Cabinet (TB/MBC) direction, the IPO for Hydro One will include the following key components:
 - a) Approximately 15 per cent of the Province's Interest in Hydro One voting securities.
 - b) There will be an offering of common shares by the Province only.
 - c) At least 25-30 per cent of the total shares in the IPO will be made available to retail investors, with the remaining shares to be allocated to institutional investors.
 - d) The IPO will take place on the Toronto Stock Exchange.
 - e) The preliminary prospectus is expected to be filed with the Ontario Securities Commission by September 15, 2015.

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- f) The price of the offering will be approved by the Ministry of Energy (ENE) working together with the Ministry of Finance (MOF) - Ontario Financing Authority (OFA) and Cabinet Office (CO), and in consultation with the active bookrunners and underwriters.
- g) The IPO is expected to be completed by December 21, 2015.
- h) The Province will provide to Hydro One Limited a capital contribution of \$2,600,000,000, which is to be equivalent to the amount of departure tax paid to the Ontario Electricity Financial Corporation (OEFC) by Hydro One.
- i) Procurement costs incurred during the 2015-16 fiscal year that are related to the IPO will be offset from the proceeds resulting from the IPO.
- ii) Directed ENE to work with the Ministry of Aboriginal Affairs (MAA), Ministry of the Attorney General (MAG) and CO to support the IPO by engaging with First Nations communities in a discussion on a range of issues to assess potential provincial options that are fiscally neutral.
- iii) Received a report on the proposed capital contribution in relation to Hydro One's departure tax obligation.
- iv) Noted that Hydro One will make a one-time dividend payment to the Province in the range of \$500,000,000 to \$1,000,000,000 as it adjusts its capital structure to become a publicly traded company. A dividend payment is not expected to have a direct fiscal impact for the Province.

Supplementary Estimates

Approved supplementary estimates in the amount of \$2,750,000,000 in 2015-16, including \$2,663,000,000 in operating expense and \$87,000,000 in operating assets, as follows:

Ministry of Finance

Approved the creation of:

- i) An Operating Assets account, entitled "Strategic Assets - Loans and Investments" (Vote/Item 1203-24), in Economic, Fiscal, and Financial Policy Program.

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- ii) An account entitled "Loans and Investments" in Strategic Assets - Loans and Investments (Vote/Item 1203-24).

Approved an expenditure increase of \$87,000,000 in Strategic Assets - Loans and Investments, Loans and Investments (Vote/Item 1203-24), for loans to the Power Workers Union (PWU) and Society of Energy Professionals (SEP).

Ministry of Energy

Approved the creation of:

- i) A Vote entitled "Strategic Asset Management" (Vote 2906).
- ii) An Operating Expense account entitled "Strategic Asset Management and Transformation" in Strategic Asset Management (Vote/Item 2906-1).
- iii) A transfer payment entitled "Tax Adjustment Offset for Hydro One Transformation" in Strategic Asset Management and Transformation (Vote/Item 2906-1).
- iv) An account entitled "Services" in Strategic Asset Management and Transformation (Vote/Item 2906-1).

Approved expenditure increase of:

- \$2,600,000,000 in the Tax Adjustment Offset for Hydro One Transformation Transfer Payment (Vote/Item 2906-1), for expenses to support the Ministry's objectives regarding its assets management and transformation strategy, through a capital contribution to Hydro One Limited.
- \$63,000,000 in Strategic Asset Management and Transformation, Services (Vote/Item 2906-1), for expenses to engage external support and expertise required to achieve the Ministry's assets management and transformation strategy. This includes the IPO and Brampton Distribution Holdco Inc. related projects.

Directed that any underspending be returned to TB/MBC and not be reallocated within MOF and ENE.

Creation of Hydro One Limited

Approved the creation of Hydro One Limited. This corporation's activities will include acquiring, holding, disposing, and otherwise dealing with the securities of Hydro One Inc.

In this regard:

- i) Recommended an Order in Council (OIC) authorizing the incorporation of Hydro One Limited under the Business Corporations Act.
- ii) Approved an exchange of the Minister of Energy's:
 - a) Preferred shares in Hydro One Inc. for an issuance of common shares in Hydro One Inc. of an equivalent market value.
 - b) Common shares in Hydro One Inc. for an issuance of common and preferred shares in Hydro One Limited of equivalent values.
- iii) Noted that MOF and the OEFC are working to draft an amendment to terminate the indemnity provided by the OEFC to Hydro One.

Administrative Framework

Received a report on the Governance Agreement between the Province and Hydro One Limited.

Approved the Governance Agreement between the Province and Hydro One Limited, including the following key provisions:

- i) The Provincial Representative for the purposes of the Governance Agreement is the Minister of Energy and any other person designated by the Minister of Energy. Any action taken by a Provincial Representative binds the Province.
- ii) Hydro One Limited will adopt governance standards consistent with best practices in Canada for leading public companies having regard to Hydro One Limited's ownership structure and the Governance Agreement.
- iii) The Province will engage in the business and affairs of Hydro One Limited as an investor, not as a manager.

- iv) The Board will consist of 10 to 15 members and will be comprised of:
 - a) The Chief Executive Officer (CEO).
 - b) Directors nominated by the Province up to 40 per cent of the number of directors (or its pro-rata share, whichever is less, but subject to a minimum cure period).
 - c) Directors nominated by the Nominating and Governance Committee established by the Hydro One Limited Board.
- v) Each Director nominee must be an individual of high quality and integrity who has:
 - a) Significant experience and expertise in business or that is applicable to business.
 - b) Served in a senior executive or leadership position.
 - c) Broad exposure to and understanding of the Canadian or international business community.
 - d) Skills for directing the management of a company.
 - e) Motivation and availability.
 - f) Met the requirements of applicable securities and other laws and any exchange on which voting securities are listed.
- vi) The Province and the Board's Nominating and Governance Committee may reject a Board nominee only if they determine, acting reasonably, that the nominee does not meet the qualifications.

The initial directors at the time of the IPO are not subject to this process unless their circumstances materially change.
- vii) Other than the CEO, each Director nominee shall be independent of Hydro One Limited and the Province.
- viii) The majority of the Board must at all times be resident Canadians.

- ix) The Province will have the right to requisition a shareholders' meeting to consider the removal of the Board at which time the Province may vote for the removal of all, but not less than all of the Board (other than the CEO and, at the Province's sole discretion, the Chair).
- x) The Province will have the pre-emptive right to acquire up to 45 per cent of a Hydro One Limited offering for cash of shares or securities that are convertible into shares:
 - a) Hydro One Limited will be required to provide notice of a proposed distribution to the Province not later than 30 days prior to the date Hydro One Limited enters into an agreement to issue shares.
 - b) The Province will have 10 business days after receiving the notice to determine if it wishes to exercise its pre-emptive right.
- xi) The Province will be permitted to acquire, subject to securities laws and the Toronto Stock Exchange requirements, additional Hydro One Limited common shares from other shareholders so long as its ownership interest after the acquisition does not exceed 45 per cent.
- xii) Hydro One Limited and the Province will enter into a confidentiality agreement with respect to confidential information provided to the Province to which the Province will agree:
 - a) To use confidential information only to exercise its rights under the Governance Agreement and Registration Rights Agreement or for the purpose of evaluating, overseeing and determining how to deal with its investment in Hydro One Limited and exercising its rights as a shareholder, in accordance with the Governance Agreement and applicable law.
 - b) To use confidential information provided to the Minister of Finance or the President of the Treasury Board, under the Financial Administration Act, only for preparing the Province's consolidated financial statements.
 - c) To establish sufficient procedures to protect against insider trading.

- d) Not to disclose confidential information that the Province receives in its capacity as a shareholder about Hydro One Limited, or its subsidiaries, except as required by law and to provide Hydro One Limited with prior notice of such disclosures where permitted by law.
- xiii) Hydro One Limited and the Province will agree to cooperate in good faith to amend the Governance Agreement if there are changes in circumstances in the future that impact the original purpose and intention of the parties in entering into the agreement.
- xiv) The appointment of CEO and Chair requires annual confirmation and approval of at least two-thirds of the directors of the Board present at the meeting.

Changes to initial governance standards, including the mandate for the Hydro One Ombudsman and the skills matrix for nominees, would require approval of at least two-thirds of the directors of the Board present at the meeting.

- xv) Any disputes will be determined by binding, confidential arbitration.

Approved a Registration Rights Agreement which outlines the terms on which the Province can buy and sell shares and terms to facilitate coordination with Hydro One Limited on its own issuances, including the following key provisions:

- i) The terms within the agreement will continue as long as the Province is a “control person” of Hydro One Limited.
- ii) The Province can require Hydro One Limited to use commercially reasonable efforts to facilitate an offering of the Province’s shares, under a prospectus in Canada or as a private sale in Canada or other jurisdictions.
 - a) Hydro One Limited is obliged, at the Province’s request, to file a prospectus no more than four times in a 12-month period, and Hydro One Limited may in some cases defer a request for up to 60 days.
 - b) The Province shall enter into an underwriting agreement and lock up agreement on “customary market terms”.

- iii) The Province also has the right to “piggy back” on a Hydro One Limited offering:
 - a) Hydro One Limited must provide notice of a proposed distribution to the Province not later than 30 days prior to the date Hydro One Limited enters into an agreement to issue shares.
 - b) The Province has 10 business days after receiving the piggy back notice to determine if it wishes to participate in the proposed distribution.
 - c) If the Province chooses to piggy back onto a Hydro One Limited distribution, the underwriters may limit the number of shares that are included in the distribution on a pro rata basis between the Province and Hydro One, if in their reasonable judgment, market conditions require such limitations in order to maximize value of the offering.
- iv) The Province is responsible for the costs associated with a distribution of shares under a demand registration:
 - a) Even if the Province withdraws its request for a demand registration or in circumstances where a distribution does not otherwise occur pursuant to a prospectus prepared at the Province’s request.
 - b) The Province and Hydro One Limited share costs in proportion to the gross proceeds for a piggy back registration.

Authorized the Minister of Energy to sign the prospectus, Underwriting Agreement, Lock up Agreement and other ancillary agreements necessary to complete the IPO.

Approved an administrative framework post-IPO, including the following key provisions:

- i) The Minister of Energy, as shareholder, will represent the Province and report to TB/MBC on an annual basis to receive broad policy approval to purchase and sell shares during the fiscal year.
- ii) MOF and Treasury Board Secretariat (TBS) will work with ENE, including developing targets to support the fiscal plan.

Loan and Share Purchase Agreements

Received a report on loan and share purchase agreements.

Approved loan agreements and share purchase agreements that include the following key provisions:

- i) The loans will be made to a trust established by the borrowing Unions(s) to:
 - a) Purchase Hydro One common shares at the IPO price immediately after the IPO.
 - b) Pay for the fees of any financial advisors to the Unions.
- ii) The borrower will agree not to vote any shares it owns in any matter for so long as the loan remains outstanding.
- iii) The loan matures and becomes repayable in full, 15 years from the initial advance.
- iv) The interest rate applicable to the interest period (as selected by the borrower) will be the Province's borrowing rate for a term equal to the selected interest period, plus 15 basis points (bps, or 0.15 per centage points).

Interest will be payable in arrears at the end of each fiscal quarter.

- v) Interest payments are to be made from quarterly dividends on the shares.
 - a) If the dividends are insufficient to pay the interest due on any interest payment date, the borrower may elect to defer payment of interest to the next interest payment date.
 - b) If the market value of the shares pledged by the borrower is greater than two times the outstanding principal and interest associated with the loan, the borrower may use any dividends in excess of interest payments for its own purposes.

- c) If the market value of the shares pledged by the borrower is less than two times the outstanding principal and interest associated with the loan, the borrower must use the excess dividends (i.e. dividends remaining after payment of interest) solely to repay the loan.
- vi) The borrower may prepay the loan without penalty at any time.
 - a) If the borrower sells the pledged shares, the proceeds of the sale must be used to repay the loan.
 - b) If there is a change of control of Hydro One Limited, the borrower must repay the loan in full.
- vii) The loan will be secured by the pledged shares and by dividends received on the pledged shares. If the market value of the pledged shares is more than two times the outstanding principal and interest on the loan, the borrower is entitled to request that the Lender release pledged shares up to an amount so that the market value of the pledged shares is not less than two times the outstanding principal and interest on the loan.
- viii) The shares will be sold at the IPO purchase price and will not be transferred until the date of the IPO.
- ix) The shares will be sold under a securities law exemption and, therefore, will not be qualified under a prospectus.
- x) The borrower and their respective union will not be permitted to buy any additional Hydro One common shares in the IPO.

Approved that the Power Workers Union (PWU) Loan Agreement and Share Purchase Agreement will be entered into by the Province and an Ontario trust, the sole trustee of which is an Ontario corporation wholly-owned by the PWU and the sole beneficiary of which is the PWU, and will include the following specific provisions:

- i) The Province will advance a term loan of up to \$75,000,000 to the PWU Trust.
- ii) The fees for financial advisors that can be paid for through the loan proceeds is capped at \$3,000,000.

Approved a second Share Purchase Agreement to be entered into by the Province and a separate Ontario trust (Second PWU Trust), the sole trustee of which is an Ontario corporation wholly-owned by the PWU and the sole beneficiary of which is the PWU, and will include the following provisions:

- i) Hydro One common shares will be sold to the Second PWU Trust with funds provided by the PWU at the IPO purchase price and will not be disposed of by the Second PWU Trust until at least one year after the date of the IPO.
- ii) The shares will be sold under a securities law exemption and therefore will not be qualified under a prospectus.
- iii) Neither the PWU, the PWU Trust borrower nor the Second PWU Trust will be permitted to buy any additional Hydro One common shares in the IPO.

Approved that the Society of Energy Professionals (SEP) Loan Agreement and Share Purchase Agreement will be entered into by the Province and an Ontario trust, the sole trustee of which is an Ontario corporation wholly-owned by the SEP and the sole beneficiary of which is the SEP, and will include the following specific provisions.

- i) The Province will advance a term loan of up to \$36,000,000 to the SEP Trust.
- ii) The fees for financial advisors that can be paid for through the loan proceeds is capped.

Approved a second Share Purchase Agreement to be entered into by the Province and a separate Ontario trust (Second SEP Trust), the sole trustee of which is an Ontario corporation wholly-owned by the SEP and the sole beneficiary of which is the SEP, and will include the following specific provisions.

- i) Hydro One common shares will be sold to the Second SEP Trust with funds provided by the SEP at the IPO purchase price and will not be disposed of by the Second SEP Trust until at least one year after the date of the IPO.
- ii) The shares will be sold under a securities law exemption and therefore will not be qualified under a prospectus.
- iii) Neither the SEP, the SEP Trust borrower nor the Second SEP Trust will be permitted to buy any additional Hydro One common shares in the IPO.

Recommended an OIC authorizing:

- i) The Minister of Finance to enter into a loan agreement with the PWU Trust.
- ii) Certain officials to enter into other agreements that are necessary and desirable in connection with the loan agreement.

Authorized the Minister of Energy to enter into the Share Purchase Agreements with the:

- i) PWU Trusts.
- ii) SEP Trusts.

Procurements

Approved an exemption from the open competitive requirements of the Ontario Public Service (OPS) Procurement Directive to allow for a joint procurement by Hydro One Inc. and the Ministry, using an invitational competitive process for a procurement of over \$100,000 to acquire active book runners and the underwriting syndicate for the IPO. In this regard, the Board approved:

- i) An exemption from the mandatory requirements of the OPS Procurement Directive in respect of the procurement documents for this procurement.
- ii) The reimbursement of expenses for the active book runners.

Approved an exemption to the mandatory requirements of the OPS Procurement Directive, including the mandatory use of Central Common Services, for the future acquisition of services required to support the IPO process and to support the ongoing administrative framework to enable future share sales/purchases.

Noted that the cost of ENE's IPO procurements, and the costs incurred by Hydro One Limited, will be recovered from the proceeds of the IPO.

Hydro One Brampton

Approved the creation of Brampton Distribution Holdco Inc. This corporation's activities will include acquiring, holding, disposing, and otherwise dealing with the securities of Hydro One Brampton Networks Inc.

August 25, 2015

Recommended an OIC authorizing the incorporation of Brampton Distribution Holdco Inc. under the Business Corporations Act (Ontario).

Noted that the Minister of Energy will issue one or more shareholder declarations and/or resolutions:

- i) To Hydro One Inc. to transfer to Brampton Distribution Holdco Inc. all shares in Hydro One Brampton Networks Inc. through a dividend in kind.
- ii) To Hydro One Inc. to reduce the stated capital of Hydro One Inc. by transferring to the Province all the long-term debt receivables owed by Hydro One Brampton Networks Inc. to its parent Hydro One Inc. The Province will direct the long-term debt receivables to Brampton Distribution Holdco Inc.
- iii) Appointing the board members of Brampton Distribution Holdco Inc.
- iv) Addressing operational requirements (insurance, letter of credit) of Hydro One Brampton Networks Inc.

Approved an expansion to the objects of the OEFC to include providing financial assistance to a distributor owned or controlled, directly or indirectly, by the Province and recommended an OIC expanding the objects.

Noted that ENE and Brampton Distribution Holdco Inc. will enter into a Memorandum of Agreement with respect to the governance, mandate, reporting requirements, performance expectations and communications.

Approved exempting Brampton Distribution Holdco Inc. and Hydro One Brampton Networks Inc. from any TB/MBC directives.

Report backs

Directed ENE:

- i) To continue to work with CO, Office of the Premier, MOF - OFA, and TBS on a communications plan.

August 25, 2015

- ii) Working with MAA, MAG, and CO to report back on the status of engagement with First Nations prior to tabling a formal proposal in any discussions with First Nations.
- iii) Working with MOF - OFA and CO, to report back to TB/MBC with the results of the IPO, including financial details.
- iv) Working with MOF and TBS to report back to TB/MBC for approval of an implementation plan to achieve a target for the Hydro One Limited investment for the 2016-17 fiscal year.
- v) Working with MOF - OFA to report back to TB/MBC with details on the final Brampton Transaction Results.

Directed MOF - OFA, working with ENE, to report back to TB/MBC with details on the financial benefit to be provided to the OEFC as a result of the IPO.

Noted that MOF - OFA, working with the ENE will report back on designating shares of Hydro One Limited and Brampton Distribution Holdco Inc. as qualifying assets under the Trillium Trust Act.

Secretary, Treasury Board and
Management Board of Cabinet

Distribution

Mr. S. Imbrogno
Mr. S. Thompson
Mr. S. Davidson
Ms. L. LeBlanc
Mr. P. Monahan
Mr. G. Orenszak
Mr. R. Burns
Mr. H. Zisser
Ms. B. Dunker
Ms. P. Reid
Mr. D. Pontone
Ms. M. Fraser

5 - Assessment Note - ENERGY - Hydro One Governance Secretariat and Expert Investment Advisory Committee.pdf



TAB 2
TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	October 22, 2015
Agenda Class:	Discussion
Last reviewed by: Cabinet August 25, 2015	Tracking to: Cabinet October 28, 2015

SUBMISSION TITLE:	Hydro One Governance Secretariat and Expert Investment Advisory Committee

I. DECISION BEFORE THE BOARD

Request to: establish a short-term advisory committee to provide advice to the Minister related to Hydro One, remunerate its members, and funding and FTEs for a secretariat within the Ministry to support the ongoing relationship with Hydro One.

II. RECOMMENDATIONS:

• Approve the establishment of a short-term Expert Investment Advisory committee to advise the Minister of Energy on issues related to Hydro One	<i>Approve</i>
• The remuneration of the 3-5 committee members at the rate of up to \$2,000 per diem to a maximum of \$25,000 per year per member.	<i>Board Judgement</i>
• Recommend to Cabinet an OIC establishing the committee	<i>Recommend</i>
• Recommend to Cabinet OICs for the remuneration of committee members	<i>TBD</i>
• Note that the chair of the committee will not be remunerated	<i>Note</i>
• 5 FTEs for a secretariat within the Ministry to manage the ongoing relationship with Hydro One	<i>Manage from within in 2015-16</i>
• An expenditure increase of \$0.516M in 2015-16 for the committee members and the secretariat	<i>Manage from within</i>
• Direct the Ministry to report back during the 2016-17 PRRT process with the ongoing resource requirements for the secretariat and the committee	<i>Direct</i>

III. FINANCIAL SUMMARY

\$ Millions	2015-16	2016-17	2017-18
Initiative cost requested	0.516	1.43	1.43
Initiative cost recommended	0.0	0.0	0.0
Recommended program base	0.0	0.0	0.0
Offset Recommended (Specify	0.0	0.0	0.0

Ministry/Program)			
Total Fiscal Impact	0.0	0.0	0.0

IV. KEY COMMENTS AND CONSIDERATIONS

In the August 25, 2015 review of the Hydro One Initial Public Offering (IPO) implementation plan, it was noted that, after the IPO, the Ministry's relationship with Hydro One would change from that of a manager to that of a shareholder governed by the Governance Agreement and the Registration Rights Agreement with Hydro One. The Ministry indicated that it would require dedicated resources and expertise to support the Province as a shareholder.

The Ministry is reporting back with a request for an Expert Investment Advisory Committee to advise the Minister, particularly in matters related to investment and financial decisions, as well as providing advice to the Minister regarding Board member nominations and other elements of governance of Hydro One. The Ministry is also requesting funding and FTEs for a secretariat within the Ministry to support the Committee and carry on day-to-day work.

Expert Investment Advisory Committee

The Ministry is proposing to establish an Expert Investment Advisory Committee as a short-term advisory body as per the Agencies and Appointments Directive. The Committee would have 3-5 members (including a chair), appointed by Order-in-Council, for a period not to exceed three years. The purpose of the Committee is to provide expert advice to the Minister regarding future share sales of Hydro One (including timing, quantity, and pricing), the procurement of external advisors, compliance with securities law, governance matters and other shareholder rights and responsibilities. The Terms of Reference for the Expert Investment Advisory Committee are appended to the Order-in-Council establishing the Committee and are included in Appendix D below.

The Ministry is proposing a remuneration rate for each committee member excepting the chair, of \$2,000 per diem, to a maximum of \$25,000 per year per member from the date that the OIC is approved and ordered. The chair would receive reimbursement for eligible expenses only, as per the Travel, Meal and Hospitality Expenses Directive. This remuneration level has been established based on the skills required for the role (knowledge of financial markets, securities law, share offerings (including pricing and fee structures), investment expertise, and relationships with the industry to facilitate future share offerings) and remuneration provided for other advisors. Comparators are provided in Appendix C.

As per the Management Board of Cabinet Agencies and Appointments Directive, TB/MBC approval is required for the rates of remuneration for government appointees. Additionally, the Directive states that for rates of \$2,000 per diem and above, the judgement of the Board is required.

The Public Appointments Secretariat has been consulted and has no objections to the remuneration amount.

TBS staff note that the per diem amount requested is similar to that paid to special advisors (as per Appendix C), as opposed to multi-member short-term advisory bodies. The maximum that has been approved for the latter is \$1,500 per diem.

IV. KEY COMMENTS AND CONSIDERATIONS

TBS staff also note that three of the proposed committee members are currently appointed to other short-term advisory bodies or agency boards. The Ministry has been advised that only one per diem per day is applicable to these members.

Secretariat

The role of the secretariat is to manage the day-to-day relationships as a shareholder. This includes tracking financial performance and the consolidation onto provincial books with support from the Ministry of Finance and Treasury Board Secretariat, validating that the company continues to meet its legal requirements, carrying out the process for nomination of 40 per cent of Hydro One Board members, reviewing nominees from the Hydro One Board nominating committee to ensure that they meet the requirements set out in the Governance Agreement, and executing share sales.

The Ministry is requesting an additional five FTEs and annual funding for the establishment of a secretariat to support the new role as a shareholder. The anticipated expenditure in 2015-16 is \$0.516M including \$0.29M in salaries and wages. The Ministry indicates that this would rise to \$1.43M in 2016-17 and 2017-18. The request includes funding for the FTEs, the Committee, and \$0.5M annually in services for the acquisition of consulting services as required.

The Ministry notes that in the past day-to-day activities for oversight of Hydro One did not require dedicated full-time staff (although some activity from various staff was required). The level of effort will be significantly greater in the new role as shareholder and investor.

The five FTEs proposed include an SMG-3 (Assistant Deputy Minister), an SMG-1 (manager), and three staff level positions. The Ministry indicates that the staffing has been designed to provide the right level of support and advice to the Minister. The Ministry has not yet worked with the Executive Development Committee on the approval of the SMG-level positions, but has indicated that it intends to.

TBS staff note that, as of September 2015, the Ministry has a vacancy rate of 14 FTEs or 6.9 per cent. As a result, it should be able to manage the 5 FTEs from within its FTE allocation for 2015-16. TBS staff recommend that the FTEs be managed from within in 2015-16 and addressed through the 2016-17 PRRT process.

TBS staff also recommend that the funding request for 2015-16 be addressed through a Year-end Treasury Board Order. The request for Salaries and Wages is for six months. The TBS perspective is that it is unlikely that this entire request would be required this year. With its vacancy rate, there is likely Salaries and Wages underspending in other parts of the Ministry. Additionally, the Ministry received \$63M in ODOE-Services through the Supplementary Estimates tabled in September, so it should be able to offset the \$0.188M requested in Services from underspending in that area. It is also recommended that the Ministry return during the 2016-17 PRRT process for its multi-year funding request.

Risks:

TBS staff note that the projected expense for consulting services of \$0.5M in 2016-17 and

IV. KEY COMMENTS AND CONSIDERATIONS

2017-18 may not be sufficient to cover the costs of legal and financial advice and may be understated. The Ministry has taken this under advisement and will revisit the amount as part of its 2016-17 PRRT request.

Financial Implications:

The Ministry is requesting funding for these items, as the management of Hydro One as a shareholder represents a new line of business for the Ministry. The Ministry indicates that it is not able to provide offsets on a multi-year basis for the secretariat and the Expert Investment Advisory Committee.

Name of analyst:	Lorrie MacKinnon	Phone number:	416-325-2555
Date:	October 21, 2015	Log number:	
Branch / Division:	MBC Support Branch/PEMD		

APPENDIX A: PROPOSED MINUTE

Approve the establishment of a short-term Expert Investment Advisory Committee of three to five members including the chair, to advise the Minister of Energy on issues related to Hydro One and in this regard:

- i) Recommend to Cabinet an Order in Council establishing the Committee.

Should the Board approve the remuneration request, the proposed minute is as follows:

Approve the remuneration for the committee members at a rate of up to \$2,000 per diem each, to a maximum of \$25,000 per year for a total of \$300,000 over three years.

In this regard:

- i) Recommend to Cabinet the Orders in Council to remunerate the Expert Investment Advisory Committee members at \$2,000 per diem to a maximum of \$25,000 per year.
- ii) Note that expenses will be paid in accordance with the Travel, Meal, and Hospitality Expenses Directive and that any other relevant directives and policies will apply.
- iii) Note that the Chair will not receive a per diem but will be entitled to expenses incurred in accordance with the Travel, Meal, and Hospitality Expenses Directive.

Direct the Ministry to manage the requested FTEs from within its FTE allocation in 2015-16 and to report back in the 2016-17 PRRT process with its FTE request.

Direct the Ministry to address its funding request for 2015-16 through its Year-End Treasury Board Order.

Direct the Ministry to report back in the 2016-17 PRRT process with its multi-year funding request for the secretariat and the Expert Investment Advisory Committee.

Financial Impacts: Changes to Expense and Revenue					Table B1
\$ Millions	Fiscal Plan Basis			Appropriations Basis	
	2015-16	2016-17	2017-18	2015-16	
Initiative cost recommended		0.0000	0.0000	0.0000	
Expense changes:					
Operating item	Oper	0.0000	0.0000	0.0000	0.0000
Capital item	Cap	0.0000	0.0000	0.0000	00000
Revenue changes:					
Revenue increase/offset		0.0000	0.0000	0.0000	
Revenue decrease		0.0000	0.0000	0.0000	
Total Fiscal Impact (draw from c-funds)		0.0000	0.0000	0.0000	0.0000

APPENDIX C: PREVIOUS TB/MBC REMUNERATION DECISIONS FOR SPECIAL ADVISORS AND SHORT-TERM ADVISORY COMMITTEES

Ministry	Type	Title	Remuneration
Attorney General	Special Advisor	Review of First Nations Representation on Ontario Juries	\$2,000 per diem plus expenses
Attorney General	Special Advisor	Motherisk Review	\$2,000 per diem plus expenses
Education	Special Advisor	Advisor on Student Achievement	\$1,500 per diem plus expenses, max. \$80,000
Health and Long-Term Care	Special Advisor	eHealth Ontario Strategic Review - Co-Lead	\$1,000 per diem, max. \$50,000
Health and Long-Term Care	Special Advisor	New Pharmacy Funding Model Lead Negotiator	\$2,000 per diem, max \$75,000
Finance	Short-Term Advisory Committee	Revenue Forecasting Advisory Panel	\$1500 per diem for Chair max. \$30,000; \$750 per diem for members
Finance	Short-Term Advisory Committee	Commission on the Reform of Ontario's Public Services	\$1,500 per diem for the Chair, \$900 per diem for members, max. 100 days, plus expenses.
Health and Long-Term Care	Short-Term Advisory Committee	Laboratory Services Expert Panel	\$1,500 per diem for Chair, max. 96 days (\$144,000), plus expenses; \$723 per diem for members, max. 96 days (\$69,408), plus expenses.

APPENDIX D: TERMS OF REFERENCE

1.0 RATIONALE FOR COMMITTEE

- 1.1 The government has committed to broadening the ownership of Hydro One Inc, through an initial public offering of approximately 15 per cent. The Province intends to reduce this ownership to 40% over the coming years.
- 1.2 Post-IPO, the Province will require robust and ongoing management of its shares to decide when is the best time to sell, which is the best approach for divestment and in some cases, to whom to sell. The Committee will also help the Province ensure it is effectively monitoring and responding to items within the governance agreement and registration rights agreement.

2.0 MANDATE

- 2.1 The Committee will be responsible for assisting the Minister of Energy in his role as shareholder of Hydro One Inc.

3.0 ROLES AND RESPONSIBILITIES

- 3.1 The Committee will be comprised of between three to five members.
- 3.2 The Chair will also be responsible for ensuring the efficient and effective management and operations of the Committee.
- 3.3 The Committee's investment and financial responsibilities will include:
 - i. Establishing and maintaining an investment policy including purchase, sale and retention of shares
 - ii. Developing an annual share sale plan / targets based on direction from the Minister and Treasury Board and executing future offerings based on the approved plan
 - iii. Leveraging connections to potential investors in order to facilitate and enable efficient and value-maximizing transactions
 - iv. Providing advice to the Minister on current market conditions in support of share sale plan
 - v. Monitoring progress to share sale targets
 - vi. During transactions acting as a pricing committee in order to provide oversight and advice to the Minister regarding appropriate share sale price ranges, fee structures and other transaction related activities

- vii. Making recommendations to the Minister on any other matters affecting the investment of assets which the Secretariat determines should be brought to the attention of the Minister
- viii. Selecting investment advisors, managers and providers of other investment-related services, as required

3.4 The Committee's Governance responsibilities will include:

- ix. Monitoring compliance with legislation and governance agreements
- x. Exercising shareholder rights including voting/proxy, participating in shareholders' meetings, nomination and election of directors
- xi. Performing such other functions as may be assigned from time to time by the Minister

3.5 For details on the Governance Agreement and Registration Rights Agreement, please see attached drafts.

4.0 PROCESS

4.1 The Ministry of Energy will provide the committee with the Governance Agreement and Registration Rights Agreement, the Confidentiality Agreement and the Controls policy (Attached) and will expect the committee to be responsive to these documents,

4.2 The Committee will meet with the Minister of Energy regularly to discuss progress on its mandate.

4.3 Committee member(s) are appointed by the Lieutenant Governor in Council and serve at pleasure for up to three year terms.

4.4 Committee member(s) will provide no less than thirty days' notice if they wish to step down from the committee.

5.0 CONFLICT OF INTEREST

5.1 The Ministry will engage the Public Appointments Secretariat to initiate the appointment process, and will work with PAS and the preferred candidates to facilitate all facets of the process, including the applicants conflict of interest declaration and personnel screening check

6.0 CONFIDENTIALITY

- 6.1 Confidential information includes any information that is not known to the general public and may include business research, strategic objectives, and unpublished financial information. Confidential information also includes discussions and advice provided by the Members to the Minister of Energy, or any other government staff are also considered confidential information.
- 6.2 Members are required to maintain the confidentiality of confidential information at all times, including after the conclusion of their Committee duties, and must refrain from any secondary use of the information, unless the information has been publicly released.
- 6.3 Members shall use the highest standards of ethics in handling all information disclosed to them throughout the advisory process, and shall comply with the Confidentiality Agreement and Controls document.

5 - October 22, 2015 - H1 Governance Secretariat.pdf



TREASURY BOARD/MANAGEMENT BOARD OF CABINET

TB/MBC Date: October 22, 2015, held in the Council Chamber, Room 275, Legislative Building, at 4:15 pm.

Attendees: Ms. D. Matthews (Chair), Mr. C. Sousa , Mr. B. Chiarelli, Mr. K. Flynn, Ms. M. Hunter, Ms. M. Meilleur, Ms. L. Albanese, Mr. Y. Baker.

Item Number: 03

Ministry: Energy

Title: Hydro One Governance Secretariat and Expert Advisory Committee

Type of Item: Orders in Council

Approved the establishment of a short-term Expert Investment Advisory Committee (the Committee), of three to five members including the Chair, to advise the Minister of Energy on issues related to Hydro One.

Noted that the Hydro One Governance Secretariat will support the Expert Investment Advisory Committee.

In this regard, the Board:

- i) Approved the remuneration for the committee members at a rate of up to \$2,000 per diem each, to a maximum of \$25,000 per year for a total of \$300,000 over three years.
- ii) Recommended Orders in Council establishing the Committee and remunerating the members.
- iii) Noted that:
 - a) Expenses will be paid in accordance with the Travel, Meal, and Hospitality Expenses Directive.
 - b) The Chair will not receive a per diem, but will be entitled to expenses incurred in accordance with the Travel, Meal, and Hospitality Expenses Directive.
- iv) Directed the Ministry to:

October 22, 2015

- a) Manage the requested Full-Time Equivalents (FTEs) for the Secretariat from within its FTE allocation in 2015-16 and to report back in the 2016-17 Program Review, Renewal and Transformation (PRRT) process with its FTE request.
- b) Address its funding request for 2015-16 through its year-end Treasury Board Order.
- c) Report back in the 2016-17 PRRT process with its multi-year funding request for the Secretariat and the Expert Investment Advisory Committee.

Secretary, Treasury Board and
Management Board of Cabinet

Distribution

Mr. S. Imbrogno
Mr. R. Burns
Ms. L. Sherin

6 - Assessment Note - Electricity Sector Engagement with Unions Third Reportback.pdf

**TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE**



Ministry:	Energy
Meeting Date:	October 22, 2015
Agenda Class:	Discussion
Last reviewed by: Cabinet (September 15, 2015)	Tracking to: Fast track Cabinet (October 28, 2015)

SUBMISSION TITLE: Electricity Sector Engagement with Unions – Third Reportback

I. DECISION BEFORE THE BOARD

- The Ministry of Energy is seeking approval for a tentative Collective Agreement between Ontario Power Generation and the Society of Energy Professionals (Society); also, an updated loan agreement with the Society.

II. RECOMMENDATIONS:

Approve that the Ministry of Energy request Ontario Power Generation to finalize the negotiated tentative collective agreement with the Society.	<i>Approve</i>
Recommend an Order in Council to authorize the Minister of Finance to enter into the Society of Energy Professionals loan agreement.	<i>Recommend</i>
Approve a Treasury Board Order for the Ministry of Finance in the amount of \$24,000,000, offset from the contingency fund.	<i>Approve</i>

III. FINANCIAL SUMMARY

\$ Millions	2015-16	2016-17	2017-18
Initiative cost requested	24.0	0.0	0.0
Initiative cost recommended	24.0	0.0	0.0
Recommended program base	36.0	0.0	0.0
Offset Recommended	0.0	0.0	0.0
Total Financial Impact	24.0	0.0	0.0

IV. KEY COMMENTS AND CONSIDERATIONS

The Ministry's submission consists of two components:

- 1) Approve proposed terms of the negotiated tentative collective agreement between Ontario Power Generation (OPG) and the Society of Energy Professionals (Society).
- 2) Update an existing Order in Council related to a loan agreement with the Society.

1) Tentative Collective Agreement between OPG and the Society

This is the third reportback on electricity sector engagement with unions regarding new collective agreements. The Ministry is returning to the Board requesting approval of the latest tentative agreement which is between OPG and the Society prior to ratification (Appendices D to F provide details of the agreement; Appendix G compares all three report backs). This agreement is for a three year term commencing April 1, 2016 to January 1, 2019.

The bargaining mandate for agencies in negotiations within the energy sector included three key provisions:

1. Net zero total labour compensation cost increases for the term of collective agreements.
 - The tentative agreement reaches net zero where Society members are receiving a fair number of benefits that includes stock awards and grants while OPG receives significant savings that includes more equal cost sharing of pension contributions and savings from enabling more purchased service agreements. OPG estimates there will be approximately \$10M in total net savings over the course of the three year term.
2. Where relevant, enable restructuring activities recommended by the Premier's Advisory Council on Government Assets, and approved by government.
 - The Ministry indicates with Society members participating in Hydro One Share grant/awards, there may be less friction from the union regarding the Hydro One IPO.
3. Pension contributions move toward Leech recommendations on both equal cost sharing and benefits modulation on an agreed timeline.
 - The latest tentative agreement also moves closer to equal contributions inline with other recent agreements. The following table shows changes in contribution ratio before and after new collective agreements (from the three reportbacks).

Employer/ Employee Contributions	Hydro One			OPG	
	Society of Energy Professionals		Power Workers' Union	Power Workers' Union	Society of Energy Professionals
	Pre-2005 Employees	Post-2005 Employees			
Before Collective Agreement Term	69/31	61/39	73/27	77/23	74/26
After Collective Agreement Term	61/39	50/50	60/40	66/34	64/36

2) Loan Agreement

On August 25, 2015, TB/MBC approved a number of items related to a planned Initial Public Offering of Hydro One, including (See Appendix C for selected sections of the minute):

- Loan, Share Purchase Agreements and ancillary documents between the Province and one or more trusts for the benefit of the Power Works' Union, including up to \$75,000,000 for the trusts to purchase Hydro One common shares at the IPO price immediately after the IPO.
- Loan, Share Purchase Agreements and ancillary documents between the province and one or more trusts for the benefit of the Society, including up to \$36,000,000 for the trusts to purchase Hydro One common shares at the IPO price immediately after the

IPO.

- Recommendation of an Order in Council to authorize the Minister of Finance to enter into the PWU loan agreements.
- Creation of a new operating asset line and an expenditure increase in the Ministry of Finance in the amount of \$87,000,000 to provide loans to the Society and the Power Workers' Union.

On September 15, TB/MBC recommended an Order in Council to authorize the Minister of Finance to enter into the Society loan agreement, including a value of \$12,000,000.

The Ministry of Energy is now seeking approval of an updated Order in Council to authorize the Minister of Finance to enter into an agreement with the Society, including a final total value of \$36,000,000. The Ministry is also seeking approval of an operating asset increase of \$24,000,000 in the Ministry of Finance.

The Society loan documents are substantially similar to the PWU loan documents. The loan amount (\$75M for the PWU versus \$36M for the Society) and a difference in the amount of the loan that can be spent on financial advisor fees (capped at \$3M for the PWU versus \$500,000 for the Society) are the only key substantive differences with respect to the material terms of the PWU and SEP loans.

The loan agreement details will be disclosed as part of the Hydro One Limited final prospectus which is planned to be submitted to the Ontario Securities Commission, and made public, on October 28, 2015.

Name of analyst:	James Strang, Mark Lyons	Phone number:	7-2071
Date:	October 16, 2015	Log number:	
Branch / Division:	General Government, Planning and Resources Branch / PEMD		

APPENDIX A: PROPOSED MINUTE

Receive the Ministry's report seeking approval for a tentative Collective Agreement between Ontario Power Generation and the Society of Energy Professionals; also, approval of an updated loan agreement with the Society of Energy Professionals.

In this regard:

Tentative Collective Agreement:

- i. Approve the Ministry of Energy request for Ontario Power Generation to ratify negotiated tentative agreement with the Society of Energy Professionals.

Update Loan Agreement with the Society of Energy Professionals:

- i. Recommend an Order in Council to authorize the Minister of Finance to enter into the loan agreement with the Society of Energy Professionals Trust for a maximum principal amount of \$36,000,000 for a term not to exceed 15 years, and to authorize the Minister of Finance and certain other officials to enter into such other agreements that they deem necessary and desirable in connection with the loan agreement.
- ii. Approve a Treasury Board Order, under authority of the Financial Administration Act in the amount of of \$24,000,000 in 2015-16 in the Ministry of Finance Strategic Assets – Loans and Investments line in the Economic Fiscal and Financial Policy Program (Vote/Item 1203-24), offset from the Treasury Board Secretariat Contingency Fund (Vote/Item 3404-2).

APPENDIX C: EXTRACTS OF AUGUST 25, 2015 TB/MBC MINUTE

Supplementary Estimates

- i. Approve supplementary estimates in the amount of \$2,750,000,000 in 2015-16 including \$2,663,000,000 in operating expense and \$87,000,000 in operating asset as follows:

Ministry of Finance

- a. Approve the creation of an Operating Asset (1203-24) entitled Strategic Assets - Loans and Investments in the Ministry of Finance's Economic, Fiscal and Financial Policy Program in 2015-16.
- b. Approve an expenditure increase of \$87,000,000 in 2015-16 in Strategic Assets - Loans and Investments in the Economic Fiscal and Financial Policy Program (Vote/Item 1203-24) for loans to the Power Workers Union and Society of Energy Professionals.

...

Loan and Share Purchase Agreements

- xv. Receive a report back on loan and share purchase agreements.
- xvi. Approve loan agreements and share purchase agreements that include the following key provisions:
 - a. The loans will be made to a trust established by the borrowing Unions(s) to:
 - i. purchase Hydro One common shares at the IPO price immediately after the IPO; and
 - ii. pay for the fees of any financial advisors to the unions.
 - b. The borrower will agree not to vote any shares it owns in any matter for so long as the loan remains outstanding.
 - c. The loan matures and becomes repayable in full 15 years from the initial advance.
 - d. The interest rate applicable to the interest period (as selected by the borrower) will be the Province's borrowing rate for a term equal to the selected interest period, plus 15 basis points (bps, or 0.15 percentage points).
 - i. Interest will be payable in arrears at the end of each fiscal quarter
 - e. Interest payments are to be made from quarterly dividends on the shares
 - i. If the dividends are insufficient to pay the interest due on any interest payment date, the borrower may elect to defer payment of interest to the next interest payment date
 - ii. If the market value of the shares pledged by the borrower is greater than 2x the outstanding principal and interest the loan, the borrower may use any dividends in excess of interest payments for its own purposes
 - iii. If the market value of the shares pledged by the borrower is less than 2x the outstanding principal and interest associated with the loan, the borrower must use the excess dividends (i.e. dividends remaining after payment of interest) solely to repay the loan
 - f. The borrower may prepay the loan without penalty at any time

- i. If the borrower sells the pledged shares, the proceeds of the sale must be used to repay the loan
 - ii. If there is a change of control of Hydro One Limited, the borrower must repay the loan in full
- g. The loan will be secured by the pledged shares and by dividends received on the pledged Shares. If the market value of the pledged shares is more than 2x the outstanding principal and interest on the loan, the borrower is entitled to request that the Lender release pledged shares up to an amount so that the market value of the pledged shares is not less than 2X the outstanding principal and interest on the loan.
- h. The shares will be sold at the IPO purchase price and will not be transferred until the date of the IPO.
- i. The shares will be sold under a securities law exemption and, therefore, will not be qualified under a prospectus.
- j. The borrower and their respective union will not be permitted to buy any additional Hydro One common shares in the IPO.
- xvii. Approve that the PWU Loan Agreement and Share Purchase Agreement will be entered into by the Province and an Ontario trust, the sole trustee of which is an Ontario corporation wholly-owned by the PWU and the sole beneficiary of which is the PWU, and will include the following specific provisions
 - a. The Province will advance a term loan of up to \$75,000,000 to the PWU Trust.
 - b. The fees for financial advisors that can be paid for through the loan proceeds is capped at \$3,000,000.
- xviii. Approve a second Share Purchase Agreement to be entered into by the Province and a separate Ontario trust (Second PWU Trust), the sole trustee of which is an Ontario corporation wholly-owned by the PWU and the sole beneficiary of which is the PWU, and will include the following provisions
 - a. Hydro One common shares will be sold to the Second PWU Trust with funds provided by the PWU at the IPO purchase price and will not be disposed of by the Second PWU Trust until at least one year after the date of the IPO
 - b. The shares will be sold under a securities law exemption and therefore will not be qualified under a prospectus
 - c. Neither the PWU, the PWU Trust borrower nor the Second PWU Trust will be permitted to buy any additional Hydro One common shares in the IPO
- xix. Approve that the SEP Loan Agreement and Share Purchase Agreement will be entered into by the Province and an Ontario trust, the sole trustee of which is an Ontario corporation wholly-owned by the SEP and the sole beneficiary of which is the SEP, and will include the following specific provisions
 - a. The Province will advance a term loan of up to \$36,000,000 to the SEP Trust.
 - b. The fees for financial advisors that can be paid for through the loan proceeds is capped.
- xx. Approve a second Share Purchase Agreement will be entered into by the Province and a separate Ontario trust (Second SEP Trust), the sole trustee of which is an Ontario corporation wholly-owned by the SEP and the sole beneficiary of which is the SEP, and will include the following specific provisions
 - a. Hydro One common shares will be sold to the Second SEP Trust with funds provided by the SEP at the IPO purchase price and will not be disposed of by the Second SEP Trust until at least one year after the date of the IPO

- b. The shares will be sold under a securities law exemption and therefore will not be qualified under a prospectus
 - c. Neither the SEP, the SEP Trust borrower nor the Second SEP Trust will be permitted to buy any additional Hydro One common shares in the IPO
- xxi. Recommend an Order in Council to authorize the Minister of Finance to enter into the loan agreement with the PWU Trust and to authorize certain officials to enter into other agreements that are necessary and desirable in connection with the loan agreement.
- xxii. Authorize the Minister of Energy to enter into the Share Purchase Agreements with the Power Workers Union Trusts.
- xxiii. Authorize the Minister of Energy to enter into the Share Purchase Agreements with the Society of Energy Professionals Trusts.

APPENDIX D: EXPIRING COLLECTIVE AGREEMENTS

The following table shows when current collective agreements expire.

	PWU	Society
OPG	March 31, 2018	December 31, 2015
Hydro One	March 31, 2018	March 31, 2019
IESO	March 31, 2017	April 30, 2015

Employer (Bargaining Unit Description)	Union	Number of Employees	Current Effective	Current Expiry
HYDRO ONE INC (MAINTENANCE, ELECTRICIAN, ADMIN, TECHNICAL)	CUPE (PWU)	5,000	01-Apr-15	31-Mar-18
HYDRO ONE INC (PROFESSIONAL, SUPERVISORS)	ENERGY PROF SOCIETY	1,527	01-Apr-13	31-Mar-19
INDEPENDENT ELECTRICITY SYSTEM OPERATOR (ENGINEERS – IESO/OPA merger Jan. 1/15)	ENERGY PROF SOCIETY	595	01-Jan-13	30-Apr-15
INDEPENDENT ELECTRICITY SYSTEM OPERATOR (POWER WORKERS – IESO/OPA merger Jan.1/15)	CUPE (PWU)	81	01-Apr-14	31-Mar-17
ONTARIO POWER GENERATION INC (NUCLEAR/ NON-NUCLEAR)	ENERGY PROF SOCIETY	3,453	01-Jan-13	31-Dec-15
ONTARIO POWER GENERATION INC (NUCLEAR/ NON-NUCLEAR)	CUPE (PWU)	6,600	01-Apr-15	31-Mar-18

OF EMPLOYERS = 3
 # OF AGREEMENTS = 6
 # OF EMPLOYEES COVERED = 17,256

APPENDIX E: BARGAINING MANDATE (JANUARY 2015 TB/MBC)

Approve the Ministry of Energy's proposed bargaining mandates for electricity sector bargaining that include the following parameters:

- i. Multiple year agreements (2-4 years).
- ii. Net zero total labour compensation cost increases over the term of collective agreements.
- iii. Where relevant, enable restructuring activities recommended by the Premier's Advisory Council on Government Assets, and approved by government.
- iv. Pension contributions to achieve equal cost sharing between employer and employee contributions on an agreed timeline.
- v. Increases in pension contributions should not be considered as offsets towards achieving net zero total labour compensation costs.

Note additional bargaining considerations to include:

- i. Reductions in, for example, benefit costs.
- ii. Other elements in bargaining, in addition to meeting the parameters above, that could be considered as concessions to reach an agreement.

Direct the Ministry to:

- i. Report back to Treasury Board Sub-Committee on Public Sector Bargaining and Compensation on progress of electricity sector bargaining, and also outline the Ministry's efforts to work with the entities on contingency planning in the event of any labour disruption and demonstrate that plans are well understood.
- ii. Return to Treasury Board/Management Board of Cabinet (TB/MBC) to seek approval of tentative collective agreements, prior to final ratification by the board of each entity.
- iii. Work with Cabinet Office and Premier's Office to develop communications strategy for the upcoming round of collective bargaining.
- iv. Report back to TB/MBC if the bargaining mandates cannot be met and/or a strike/lockout becomes probable.

APPENDIX E: DETAILS OF TENTATIVE COLLECTIVE AGREEMENT BETWEEN HYDRO ONE AND THE SOCIETY OF ENERGY PROFESSIONALS

- 3 year term commencing January 1, 2016
- Incremental wage increases of:
 - i. 1.0% on January 1, 2016
 - ii. 1.0% on January 1, 2017
 - iii. 1.0% on January 1, 2018
- Increase in employee pension contributions for members of the plan as per the following:
 - i. January 1, 2016 – 1.00%
 - ii. January 1, 2017 – 1.00%
 - iii. Eventual Increase will be 2.00% of total salaries.
- One time cash payments to avoid increases in base salary:
 - i. 1.00% of salary on January 1, 2016
 - ii. 2.00% of salary on January 1, 2017
- Share grants to avoid increases in base salary:
 - i. Share grants will be made on January 1st of each year from 2018 up to and including 2030
 - ii. Grants will be 2.00% of salary as of January 1st, 2016 provided in the form of Hydro One shares based on the initial share price.
- Pension benefits earned for future service beginning March 31, 2025 would be based on a high 5 year average instead of a high 3 year average and 82 points for unreduced early retirement will move to 85 points
- The terms of the tentative agreement will become null and void if the Hydro One IPO does not occur on or before March 31, 2016. Unlike the recent agreement reached by Hydro One and PWU where separate default terms were set in case the IPO does not occur, Society and OPG will have to negotiate a new agreement.

Year-over-year Society Wage Growth by Entity

Year	OPG (%)	Hydro One (%)
2001	3.00	3.00
2002	2.50	2.00
2003	2.00	3.00
2004	3.00	3.00
2005	3.00	4.00
2006	3.00	3.00
2007	3.00	3.00
2008	3.00	3.00
2009	3.00	3.00
2010	3.00	3.00
2011	3.00	2.50
2012	3.00	2.50
2013	0.75	2.00
2014	1.75	2.25
2015	1.75	2.25

Tentative Collective Agreement

2016	1.0	0.5
2017	1.0	0.5
2018	1.0	0.5

Breakdown of Cost and Savings of Tentative Agreement

(\$Millions)	2016	2017	2018	Total
Costs				
Wages and Salaries	(3.9)	(7.8)	(11.8)	(23.7)
Pension	(0.9)	(1.8)	(2.7)	(5.5)
OT- PWU Rate Equivalency*	(2.6)	(2.6)	(2.6)	(7.9)
Health and Sick Leave	(0.9)	(0.9)	(0.9)	(2.8)
Meal Allowances	(0.1)	(0.1)	(0.1)	(0.2)
Total Cost	(8.4)	(13.2)	(18.1)	(40.1)
Savings				
Purchase Service Agreements	16.4	16.4	16.4	49.4
Cease Goal Sharing Equivalent Payment	0.1	0.1	0.1	0.4
Total Savings	16.5	16.5	16.5	49.8
Net Savings (Cost) to OPG	8.1	3.3	(1.6)	9.7

* OPG will provide Society represented employees the same over time treatment as PWU represented employees

APPENDIX F: BENEFITS AND CONSIDERATIONS WITH TENTATIVE COLLECTIVE AGREEMENT

The Ministry flagged the following benefits and considerations:

Benefits

- **Significantly lower wage increase compared to historical increases:** The agreed upon wage increases is relatively lower compared to historical increases for Society members.
- **Moves closer to equal cost sharing in pension contributions:** Pension contribution increases by members will help move towards equal cost sharing.
- **Secures a long term agreement:** The three year agreement locks in a commitment of the union for lower labor costs incurred by the province over the long-term and is also consistent with previous collective agreements in the electricity sector. In addition, it saves resources from going into a round of collective bargaining had the agreement been for a shorter term.
- **Improved Flexibility:** In addition to limited wage increases, this agreement affords the company greater flexibility to utilize outsourcing (contracting out) in order to meet its needs cost-effectively and allows for greater responsiveness to changes in demand for labour.
- **Provides incentives for Council recommendations to proceed:** With Society and PWU represented employees participating in Hydro One Share grants and awards, there may be less friction from unions that would go against the IPO of the company.

Considerations

- **No model for shared governance risk:** The tentative agreement did not contain any provisions related to shared governance risk as recommended in the Leech Report such as funding management policy.
- **No contingency plan in case IPO does not occur:** The terms of the tentative agreement will become null and void if the Hydro One IPO does not occur on or before March 31, 2016. Unlike the recent agreement reached by Hydro One and PWU where separate default terms were set in case the IPO does not occur, Society and OPG will have to negotiate a new agreement.
- **Share grants/awards may be implied costs to the province:** By awarding shares to employees of OPG for the next 15 years, the additional shares will dilute the province's holdings in the company implying some cost to the province.
- **Share grants/awards adds a level of risk to the province:** Employees at OPG will be entitled to a fixed number of shares for the next 15 years based on their current salary and the initial price of Hydro One's stock. This was agreed on for tax purposes and to alleviate the risk of uncertainty on how much stock awards would be granted or awarded. Given that stock prices tend to be very volatile, it is difficult to ascertain the value of the grants or awards and thus the cost to the province.
- **Society Ratification:** This potential agreement was negotiated between senior staff at OPG and the Society. Prior to final sign off, this agreement would require ratification by Society employees, and while Society is likely to only come to a tentative agreement that it believes could be ratified, this is not a certain process.

APPENDIX G: COMPARISON OF RECENT AGREEMENTS

	Hydro One			OPG	
Key Terms	Society of Energy Professionals		Power Workers' Union	Power Workers' Union	Society of Energy Professionals
	Pre-2005 Employees	Post-2005 Employees			
Date of Ratification	September 1, 2015	September 1, 2015	July 6, 2015	May 28, 2015	November 2015 (TBD)
Term of Agreement	3 years	3 years	3 years	3 years	3 years
Wage Increase	0.5% annually during term	0.5% annually during term	1% Annually during term	1% annually during term	1% annually during term
Pension Contribution Increase	2.25% increase	2.00% Increase	2.70% for all members	2.75% for all members	2.00% for all members
Eventual Employer to Employee Contribution Ratio (After Collective Agreement Term)	61/39	50/50	60/40	66/34	64/36
Lump Sum payments	1% and 2% of salary in each of year 1 and year 2 of the term respectively	1% and 2% of salary in each of year 1 and year 2 of the term respectively	1% and 2% of salary in each of year 1 and year 2 of the term respectively	1% and 2% of salary in each of year 1 and year 2 of the term respectively	1% and 2% of salary in each of year 1 and year 2 of the term respectively
Share Grants/Awards	12 annual fixed share grants for Hydro One stock equivalent of 2.0% of current salary based on the initial share price.	12 annual fixed share grants for Hydro One stock equivalent of 2.0% of current salary based on the initial share price.	12 annual fixed share grants for Hydro One stock equivalent of 2.7% of current salary based on the initial share price.	15 annual fixed share awards for Hydro One stock equivalent of 2.75% of current salary based on the initial share price.	15 annual fixed share grants for Hydro One stock equivalent of 2.0% of current salary based on the initial share price.
Future Service Benefit	Adjust number of years for final average earnings to 5 years from 3 years effective March 31, 2025	Effective January 1, 2018, a bridge benefit would be added equal 0.625% up to the average YMPE for each year of service from January 1, 2018 onward	Existing and New Members: Adjust number of years for final average earnings to 5 years from 3 years effective March 31, 2025	Existing and New Members: Adjust number of years for final average earnings to 5 years from 3 years effective March 31, 2025	Existing and New Members: Adjust number of years for final average earnings to 5 years from 3 years effective March 31, 2025 and 82 points for unreduced early retirement will move to 85 points

6 - October 22, 2015 - Agreement with Society.pdf



TREASURY BOARD/MANAGEMENT BOARD OF CABINET

TB/MBC Date: October 22, 2015, held in the Council Chamber, Room 275, Legislative Building, at 4:15 pm.

Attendees: Ms. D. Matthews (Chair), Mr. C. Sousa , Mr. B. Chiarelli, Mr. K. Flynn, Ms. M. Hunter, Ms. M. Meilleur, Ms. L. Albanese, Mr. Y. Baker.

Item Number: 01

Ministry: Energy

Title: Collective Agreement between Ontario Power Generation and the Society of Energy Professionals

Type of Item: Order in Council

Received a report on a tentative Collective Agreement between Ontario Power Generation (OPG) and the Society of Energy Professionals, and an updated loan agreement with the Society of Energy Professionals.

In this regard, the Board:

Tentative Collective Agreement:

Approved the Ministry's request for the OPG to ratify a negotiated tentative agreement with the Society of Energy Professionals.

Update Loan Agreement with the Society of Energy Professionals:

- i) Recommended an Order in Council authorizing the Minister of Finance:
 - a) To enter into the loan agreement with the Society of Energy Professionals Trust for a maximum principal amount of \$36,000,000 for a term not to exceed 15 years.
 - b) And certain other officials to enter into such other agreements that they deem necessary and desirable in connection with the loan agreement.
- ii) Approved a Treasury Board Order, under authority of the Financial Administration Act, in the amount of \$24,000,000 in the Ministry of Finance, Economic Fiscal and Financial Policy Program, Strategic Assets – Loans and Investments (Vote/Item 1203-24), offset from the Treasury Board Contingency Fund (Vote/Item 3404-2).

October 22, 2015

ADMINISTRATIVE DATA

Authorization	Vote	Item	Amount	Standard / Sub-Account
Ministry of Finance:				
Treasury Board Order	1203	24	\$24,000,000	Loans and Investments
Treasury Board Contingency Fund:				
Expenditure Decrease	3404	2	\$24,000,000	Other Transactions

Secretary, Treasury Board and
Management Board of Cabinet

Distribution

Mr. S. Imbrogno
Mr. R. Burns
Mr. R. Pearson

7 - Assessment Note -ENERGY - Expense to Asset Authority.pdf

TREASURY BOARD / MANAGEMENT BOARD OF CABINET REQUEST ASSESSMENT NOTE



Ministry:	Energy
Meeting Date:	October 30, 2015
Agenda Class:	Discussion
Last reviewed by: TB/MBC, August 25, 2015	Tracking to: Cabinet, October 30, 2015

SUBMISSION TITLE: Authority to use an expense to acquire an asset

I. DECISION BEFORE THE BOARD

- The Ministry of Energy is seeking approval to use its operating expense appropriation to acquire an asset.

II. RECOMMENDATIONS:

Approve the Ministry of Energy's use of an operating expense appropriation to acquire an asset	<i>Approve</i>

III. FINANCIAL SUMMARY

\$ Millions	2015-16	2016-17	2017-18
Initiative cost requested	0.0	0.0	0.0
Initiative cost recommended	0.0	0.0	0.0
Recommended program base	0.0	0.0	0.0
Offset Recommended	0.0	0.0	0.0
Total Fiscal Impact	0.0	0.0	0.0

IV. KEY COMMENTS AND CONSIDERATIONS

On August 25, 2015 TB/MBC approved Supplementary Estimates to create a vote, item, operating expense, transfer payment, and an expenditure increase in the Ministry of Energy in the amount of \$2,600,000,000, representing the amount of a capital contribution the Province will provide to Hydro One (See Appendix C for an extract of the August 25 minute).

Since that time, it has become apparent that to ensure proper financial reporting, the operating expense should be recorded as an operating asset.

Section 11.5(2) of the *Financial Administration Act* (FAA) provides Treasury Board, based on a recommendation from the President of Treasury Board, with the authority to approve that a Ministry can use its operating expense to acquire an asset (See Appendix D for additional detail).

- The TB authorization should be obtained before an amount is charged to the operating expense appropriation since this would otherwise be prohibited under s. 11.2 (1) (a).

If Treasury Board approves the use of an operating expense appropriation to acquire an asset, additional disclosure in Volume 1 of the Public Accounts would be made. Specifically, a reconciliation in the form of a footnote in Volume 1 of the Public Accounts would be made to indicate that the operating expense was used to acquire an asset.

While the appropriation related treatment and/or disclosure in Volume 1 has no significance to the Auditor General's audit opinion on the Province's consolidated financial statements, the use of an approval by Treasury Board under s. 11.5(2) of the Financial Administration Act would need to be included in the Auditor General annual report to the Legislative Assembly.

The proposed approval would not in and of itself require the transfer to be reported as an investment, but would ensure that the transfer is properly authorized if it needs to receive this accounting treatment.

The Ministry of Energy is scheduled to process the capital contribution transaction on the morning of November 4, 2015.

Name of analyst:	Mark Lyons	Phone number:	416-327-2184
Date:	October 30, 2015	Log number:	
Branch / Division:	General Government, Planning and Resources Branch / PEMD		

APPENDIX A: PROPOSED MINUTE

Approve, pursuant to subsection 11.5(2) of the Financial Administration Act and on the recommendation of the President of the Treasury Board, the Ministry of Energy's use of its \$2,600,000,000 operating expense in Strategic Asset Management (Vote/Item 2906-01) to make a loan, advance or other form of investment for the purposes of completing the planned capital contribution to Hydro One.

APPENDIX B: FINANCIAL IMPACTS

Financial Impacts: Changes to Expense and Revenue				TABLE B1	
		Fiscal Plan Basis			Appropriations Basis
\$ Millions		2015-16	2016-17	2017-18	2015-16
Initiative cost recommended		0.0000	0.0000	0.0000	
Expense changes:					
Operating item	Oper	0.0000	0.0000	0.0000	0.0000
Operating Offset	Oper	0.0000	0.0000	0.0000	00000
Revenue changes:					
Revenue Increase/ Offset		0.0000	0.0000	0.0000	
Revenue decrease		0.0000	0.0000	0.0000	
Total Fiscal Impact (draw from c-funds)		0.0000	0.0000	0.0000	0.0000

APPENDIX C: EXTRACT OF AUGUST 25, 2015 TB/MBC MINUTE

Supplementary Estimates

- i. Approve supplementary estimates in the amount of \$2,750,000,000 in 2015-16 including \$2,663,000,000 in operating expense and \$87,000,000 in operating asset as follows:

...

Ministry of Energy

- a. Approve the creation of a new Vote in the Ministry of Energy entitled Strategic Asset Management (Vote 2906).
- b. Approve the creation of a new Operating Expense item entitled Strategic Asset Management and Transformation in Strategic Asset Management (Vote/Item 2906-01).
- c. Approve the creation of a Transfer Payment named Tax Adjustment Offset for Hydro One Transformation in Strategic Asset Management and Transformation (Vote/Item 2906-01) in 2015-16.
- d. Approve an expenditure increase of \$2,600,000,000 in 2015-16 in the Tax Adjustment Offset for Hydro One Transformation Transfer Payment (Vote/Item 2906-01) for expenses to support the Ministry's objectives regarding its assets management and transformation strategy, through a capital contribution to Hydro One Limited.
- e. Approve an expenditure increase of \$63,000,000 in Services in the Ministry of Energy's Ministry Administration Program (2906-01) in 2015-16 for expenses to engage external support and expertise required to achieve the Ministry's assets management and transformation strategy. This includes IPO and Brampton Distribution Holdco Inc. related project

APPENDIX D: EXTRACT OF THE FINANCIAL ADMINISTRATION ACT

Limits on charges to appropriations

- 11.2 (1) No appropriation shall be charged with an amount,
(a) that is for a purpose other than that for which the appropriation was provided; or
(b) that is in excess of the amount available under the appropriation. 2002, c. 8, Sched. B, s. 2.

Authorized investments

- 11.5 (1) Except as otherwise expressly provided in an Act of the Legislature, an appropriation for a fiscal year does not include the authority to make a loan, advance or other form of investment. 2002, c. 8, Sched. B, s. 2.

Treasury Board may authorize investments

- (2) Despite subsection (1), on the recommendation of the Minister of Finance, the Treasury Board may authorize a payment pursuant to an appropriation to be made in the form of a loan, advance or other form of investment on such terms and conditions as the Treasury Board considers advisable. 2002, c. 8, Sched. B, s. 2.

Note: The power referred to in subsection 11.5 (2) has been assigned and transferred to the President of the Treasury Board under the TBS Ministerial OIC.

7 - October 30, 2015 - Asset Council Report on Hydro One.pdf



TREASURY BOARD/MANAGEMENT BOARD OF CABINET

TB/MBC Date: October 30 2015, held by teleconference at 3:00 pm.

Attendees: Ms. D. Matthews (Chair), Mr. C. Sousa, Mr. B. Chiarelli, Ms. M. Hunter, Mr. Y. Naqvi and Mr. Y. Baker.

Item Number: 01

Ministry: Energy

Title: Asset Council Report on Hydro One

Type of Item: General

Approved the Ministry's use of \$2,600,000,000 in operating expense, in Strategic Asset Management and Transformation (Vote/Item 2906-1), to make a loan, advance or other form of investment for the purposes of completing the planned capital contribution to Hydro One, pursuant to subsection 11.5(2) of the Financial Administration Act and on the recommendation of the President of the Treasury Board.

Secretary, Treasury Board and
Management Board of Cabinet

Distribution

Mr. S. Imbrogno
Mr. R. Burns

8 - Assessment Note - FN Participation in H1 Ownership v9 Revised Minute.pdf

TREASURY BOARD / MANAGEMENT BOARD OF CABINET REQUEST ASSESSMENT NOTE



Ministry:	Energy
Meeting Date:	January 12, 2016
Agenda Class:	Discussion (In Camera)
Last reviewed by: TB/MBC August 25, 2015	Tracking to: Cabinet January 14, 2016

SUBMISSION TITLE: First Nation Participation in the Ownership Of Hydro One

I. DECISION BEFORE THE BOARD

- The Ministry of Energy is seeking approval for a negotiating mandate for a sale of up to 3% of Hydro One shares to First Nations at the initial public offering (IPO) price or the then prevailing market price less an appropriate discount, whichever is lower, under terms and conditions that replicate the Power Workers' Union (PWU) and Society of Energy Professionals (Society) share purchase and loan agreements.

II. RECOMMENDATIONS:

- Approve a negotiating mandate for the Ministry of Energy, including: - Sale of up to 3% of Hydro One shares to First Nations, with flexibility on timing of offering(s) between 1 and 5 years, at the initial public offering (IPO) price or the then prevailing market price less an appropriate discount, whichever is lower, under terms and conditions that replicate the Power Workers' Union (PWU) and Society of Energy Professionals (Society) share purchase and loan agreements. - An agreement that does not directly impact the Province's fiscal position.	<i>Approve</i>
Note the Ministry of Energy to ensure any future agreements with Métis Nation of Ontario would be at a level proportionately lower than First Nations: in no case would the combination of First Nations and Métis agreements be more than 4%.	<i>Note</i>
Direct the Ministry of Energy report back to Treasury Board/Management Board of Cabinet for approval prior to finalizing the term sheet, including direct and indirect fiscal plan implications.	<i>Direct</i>

III. FINANCIAL SUMMARY

\$ Millions	2015-16	2016-17	2017-18
Initiative cost requested	N/A	TBD	TBD
Initiative cost recommended	N/A	TBD	TBD
Recommended program base	N/A	TBD	TBD
Offset Recommended (Specify Ministry/Program)	N/A	TBD	TBD
Total Fiscal Impact	N/A	TBD	TBD

IV. KEY COMMENTS AND CONSIDERATIONS

The Chiefs of Ontario (COO) expressed interest in its letter to the Minister of Energy (July 13, 2015), to own 10% of Hydro One, and to work with the Ministry of Energy (ENERGY) to explore opportunities available for First Nation (FN) participation in the process of broadening Hydro One's ownership. COO is seeking a similar arrangement that the Province provided to the PWU and Society, in their trusts' share purchases of Hydro One.

- o Separate trusts were established by each of the unions and provided with Provincial loans totalling \$111 million to purchase shares in Hydro One. The interest on the loans is paid from dividends on the shares, with the shares acting as security on the loans.

In addition, the unions purchased \$8 million in shares. The total share ownership in respect of the unions was approximately 0.95% of Hydro One common shares.

According to ENERGY, including the FNs in this process of broadening the ownership of Hydro One would strengthen relationships between the Province and Aboriginal communities and create direct economic benefits to the FN. The Métis Nation of Ontario (MNO) has also written requesting discussions regarding the Hydro One sale. The Hydro One prospectus mentioned potential for equity participation by FN and MNO. This was flagged as part of ENERGY's original August 2015 Hydro One IPO Treasury Board submission.

ENERGY proposes to negotiate on the basis of the following objectives:

- o An agreement that does not directly impact the Province's fiscal position
- o One agreement that can include all First Nations
- o An agreement that can be used as a model for potential negotiations with Métis
- o An agreement that does not impede the Province from meeting its objectives to sell additional shares of Hydro One during negotiations and after agreement has been reached and to realize from those other sales, sufficient proceeds to meet fiscal objectives
- o An overall commercial agreement which does not impact past-grievance claims relating to any impacts of Hydro One's transmission or distribution operations on Aboriginal or treaty rights
- o An agreement which contributes to an overall economic development strategy for First Nations by providing short-term cash flows and long-term value

Appendix C details Energy's proposed negotiating mandate and further supporting details approach/timing, benefits, and potential financial implications.

Expert Investment Advisory Committee's Feedback

The Expert Investment Advisory Committee was established to support the Minister of Energy in his governance and investment responsibilities with respect to Hydro One. The Committee was asked to provide analysis on the market implications of a union type arrangement with the FNs at various ownership levels.

The Committee concluded that the optimal FN's Hydro One ownership level would be less than 5%, among other findings. The Committee concluded that a stake larger than 5% and/or a transaction on non-commercial terms may be perceived negatively by the market and therefore affect Hydro One's value. Maintaining the confidence of the markets is critical to ensuring the Province is able to capture maximum market value.

Potential for Fiscal Implications

Setting an upper limit at 3% ownership stake is proposed by ENERGY to be the best option to ensure considerable benefits to FN communities (see Appendix C), while not anticipated to have a negative impact on Hydro One value.

A 3% stake at the IPO price of \$20.50 would require a loan of about \$366M. Based on ENERGY's analysis, at the end of the term of the loan the FNs would be able to sell enough shares to repay the principal on the loan, and keep the remaining balance of shares, estimated to be worth \$243M, which

would represent about 1.8% of the value of Hydro One as of December 31, 2015.

ENERGY'S requested mandate includes ensuring an agreement has no direct fiscal impact. Since the Ministry is looking to replicate the union share purchase and loan agreements, the Province would be providing a loan at an interest rate higher than Ontario's borrowing rate with the principal due at the end of the loan term.

The 2015 Budget Fiscal Plan assumed certain amounts of revenue from the secondary share sales of Hydro One in 2016-17, 2017-18 and 2018-19, as part of the overall asset optimization targets. A decision to transact with FNs with the IPO price as a ceiling would result in a transaction that would generate lower revenues than in the fiscal plan. To achieve the same net fiscal results from Hydro One share sales, the other share sales would have to be sold at higher than assumed prices. Also, OPCD would need to be consulted on how the Province would have to report on shares sales that are considered to be done below fair-market-value (FMV). Secondary offerings would likely be sold at a 3-5 percent discount to the trading price, regardless of the buyer.

The Ministry also acknowledges that there are indirect fiscal considerations, as noted with the union agreements. If structured similar to the PWU and Society trusts arrangements, increases in operating assets and expenditures will to be needed to provide the loan to FN. Appendix E discusses direct fiscal implications in more detail, and potential for indirect fiscal implications, which depend on the final agreement reached as well as changes in market prices for Hydro One shares.

Also, since loan security and any recourse is effectively limited to the pledged shares, there is some fiscal risk that the Province will not receive the full loan principal at the end of the term of the loan, should the value of the remaining pledged shares not be sufficient to cover the outstanding loan balance.

Market Impacts

Providing FNs with a share of 3% may be the largest or one of the largest non-government Hydro One shareholdings, and market perception on potential differential shareholder interests could negatively affect the market price, as suggested by the Expert Advisory Committee.

- o The market could view this transaction as a policy use of Hydro One shares at a discounted price, and, therefore, discount the market price of Hydro One.
- o Assuming that the price granted to the COO would be public, the government may be subject to criticisms or calls by other stakeholders for preferential, non-market price deals.

Name of analyst:	James Strang, Wentao Shi	Phone number:	416-327,2071 416-325-0902
Date:	January 5, 2016	Log number:	
Branch / Division:	General Government, Planning and Resources Branch, PEMD, TBS Strategic Investment & Finance Branch, CEFD, MOF		

APPENDIX A: PROPOSED MINUTE

Approve a negotiating mandate for the Ministry of Energy, including:

- i. Sale of up to 3 percent of Hydro One shares to First Nations at the IPO price or the then prevailing market price less an appropriate discount **not to exceed 3%**, whichever is lower
 - a) Flexibility on timing of offering(s) between 1 and 5 years
- ii. Terms and conditions that replicate the union share purchase and loan agreements, including:
 - a) Up to a 15 year loan
 - b) Interest Rate equal to the Government of Ontario's borrowing rate plus 15 bps spread
 - c) Interest payments made only from dividends on the shares and are otherwise deferred
 - d) Recourse and security effectively limited to the pledged shares
- iii. One agreement that can include all First Nations**
- iv. No voting rights until loans are repaid in full
- v. An agreement that does not impact the Province's fiscal position
- vi. An agreement that does not impede the Province from meeting its objectives to sell additional shares of Hydro One during negotiations and after agreement has been reached and to realize from those other sales, sufficient proceeds to meet fiscal objectives

Direct the Ministry of Energy:

- i. To report back to Treasury Board/Management Board of Cabinet for approval prior to finalization of the term sheet, including any direct and/or indirect fiscal plan implications, such as changes in revenues already in the fiscal plan forecast for future share sales
- i. And the Ministry of Aboriginal Affairs to work with ministries as appropriate to develop an inventory of both current and planned supports for First Nations in order to inform negotiations
- ii. To work with the Ministry of Finance and the Ontario Financing Authority on the loan agreements and fiscal plan implications.
- iii. To work with Cabinet Office, Premier's Office, Ministry of Aboriginal Affairs, Ministry of Finance and Treasury Board Secretariat on a communications plan

Note:

- i. Any future agreements with Métis Nation of Ontario would be at a level proportionately lower than First Nations; and in no case would the combination of First Nations and Métis agreements be more than 4%
- ii. The Ministry will work with Chiefs of Ontario in developing a communications protocol in order to enable effective negotiations, including appropriate media blackout

APPENDIX C: NEGOTIATING MANDATE AND SUPPORTING INFORMATION

Energy's Proposed Negotiating Mandate

Informed by the advice from the Expert Investment Advisory Committee and the unions' trust share purchase arrangements, ENERGY's proposed negotiating mandate includes the following terms:

Energy's Proposed Negotiating Mandate (First Nations)	Same as Union Agreements
o Sale of up to 3% of Hydro One shares to FNs at the IPO price or the then prevailing market price less an appropriate discount, whichever is lower	~1%
o Flexibility on timing of offering(s) between 1 and 5 years	IPO only
o Up to a 15 year loan, provincially financed	Yes
o Interest rate equal to the Government of Ontario's borrowing rate plus 15 basis points spread	Yes
o Interest payments made only from dividends on the shares and are otherwise deferred	Yes
o Recourse and security effectively limited to the pledged shares	Yes
o No voting rights until loans are repaid in full	Yes
o An agreement that does not directly impact the Province's fiscal position	Yes
o An agreement that does not impede the Province from meeting its objectives to sell additional shares of Hydro One during negotiations and after agreement has been reached and to realize from those other sales, sufficient proceeds to meet fiscal objectives	Yes

Benefits to First Nations and to the Province

The main objective of negotiating the transfer of Hydro One shares to Chiefs of Ontario (COO) is to provide mutual benefits to First Nations and the Province.

From a First Nation's perspective, an equity ownership in Hydro One will provide:

- Direct economic benefit and long-term value to improve quality of life;
- Control over cash flow and assets with the ability to reinvest proceeds as they deem appropriate;
- Access to a direct non-governmental revenue stream in the form of dividends;
- An opportunity to become active participants in capital markets;
- Ownership of an asset that accumulates value and could be used as collateral to finance economic development projects once the loan is repaid; and
- Maintain the protections provided to Aboriginal and Treaty rights pursuant to section 35 of the Constitution are not diminished.

From the Province's perspective, reaching an agreement with COO on behalf of Ontario's First Nations will:

- Demonstrate Ontario's commitment to First Nations economic development and support of First Nations' participation in the energy sector;
- Reduce the risk of intervention by First Nations in future Hydro One share offerings;
- Help improve relations and align interests between First Nations and Hydro One;

- Help improve relations with First Nations in Ontario and advance a government to government relationship; and
- Create a vested interest for First Nations as equity shareholders in the growth of Hydro One's share value.

Proposed Approach

At an October 2015 meeting with Chiefs of Ontario (COO), the Minister of Energy outlined the formation of three new tables under the COO-Ontario Political Accord was discussed in an effort to keep commercial discussions separate from historical grievances and other energy policy concerns. The three tables will be:

- Hydro One Negotiating Table: focus on the analysis and consideration of opportunities to enable First Nation participation in a broadened Hydro One ownership.
- Energy Table: the principal forum for discussion on broader energy policy issues like energy affordability, major infrastructure, and economic development.
- Grievances Table: forum for the discussion of ongoing energy-related grievances (e.g., OPG and Hydro One) irrespective of what ownership stake First Nations take in Hydro One. Given Hydro One's independence from the Province, it would presumably be invited and separately represented at this table.

ENERGY proposes negotiating through the Hydro One Negotiating Table and targets the conclusion of negotiations by the end of 2016. However, ENERGY acknowledges if key milestones in the process are not met, negotiations will continue into 2017. The key milestones and target negotiating timeline is as follows:

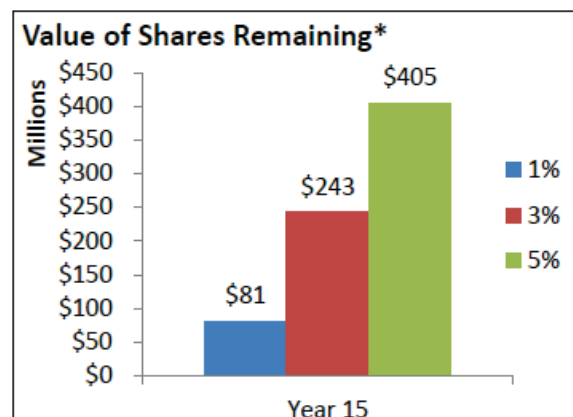
- Finalize the negotiating table's terms of reference following Cabinet in January/February 2016;
- Develop and negotiate a term sheet to be presented to decision makers in March-May 2016;
- Seek approval of the term sheet by the Chiefs In Assembly and TB/MBC and Cabinet in June 2016;
- Negotiate draft agreement through the Hydro One Negotiating Table and COO to determine the legal structure for share holdings in July-September 2016;
- The near final commercial agreement is presented to decision makers in October 2016;
- Government approval is sought of the final commercial agreement in November 2016;
- COO establishes the legal structure for share holdings in November/December 2016 prior to the transaction closing; and
- The transaction closes in December 2016.

If negotiations are delayed into 2017, there is minimal risk as the Province has multiple opportunities in the future to pursue Hydro One share offerings. There are a number of options ENERGY can pursue to finalize the transfer of shares to COO on behalf of First Nations when negotiations conclude.

Financial Analysis

Setting an upper limit at 3% ownership stake is proposed by ENERGY to be the best option to ensure considerable benefit to FN communities, while not anticipated to have a negative impact on Hydro One value.

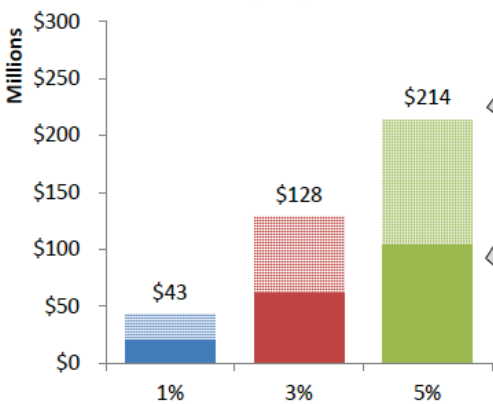
A 3% stake at the IPO price of \$20.50 would require a loan of about \$366M. Based on ENERGY's analysis, at the end of the term of the loan the FNs would be able to sell enough shares to repay the principal on the loan, and keep the remaining balance of shares, estimated to be worth



\$243M, which would represent about 1.8% of the value of Hydro One as of December 31, 2015.

Energy estimates the transaction would generate approximately an all-in value of \$128M for the FNs, covering the 15 year loan period. The FNs would also benefit as they would be receiving the shares at the lower of the IPO price or a discount to the then prevailing market price. This value will depend on the share price at that time and is not included in the \$128M figure. This analysis also does not include any benefits of ownership after the 15 year loan period since at that point the loan would be repaid and they would be like any other shareholder in the marketplace.

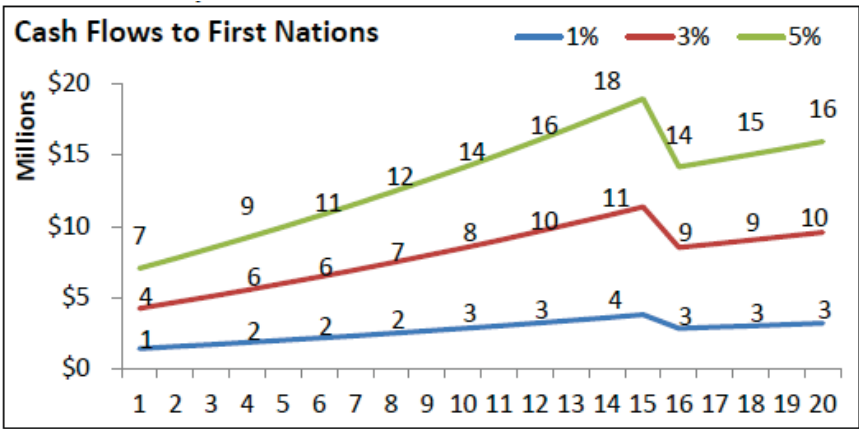
Value to First Nations (\$M)



PV Cash Flows: Value of annual cash flows (dividends less interest costs), which could be used to repay the loan, or deployed by communities to fund other priorities

Option Value: Value of the option at the end of the term of the loan (dependent on the share price at that time) either to pay off the loan and keep the shares or default on the loan and forego the shares

The following chart shows cash flows to First Nations, which represents the difference between dividends received and interest payments made during the period of the loan. At a 3% level, cash flows represent approximately \$113.5M over 15 years to COO, averaging \$7.6M per year. In year 15, some shares are sold to repay the loan principal.



Expert Investment Advisory Committee

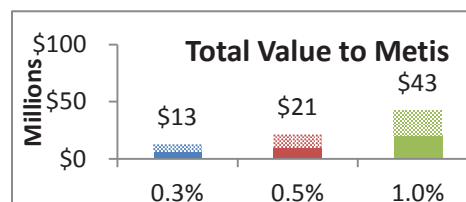
As part of the government's decision to sell down 60% of its shares in Hydro One, the Committee was established to support the Minister of Energy. The Committee is chaired by Ed Clark and its duties involve:

- o Developing an annual share sale plan and executing future offerings as approved,
- o Providing advice to the Minister on current market conditions in support of share sale plans, and
- o Acting as needed as pricing committee in order to provide advice to the Minister regarding appropriate share sale price ranges, fee structures and other transaction related activities.

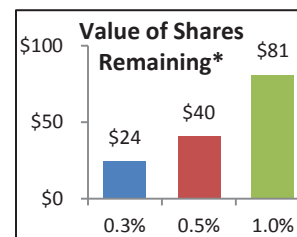
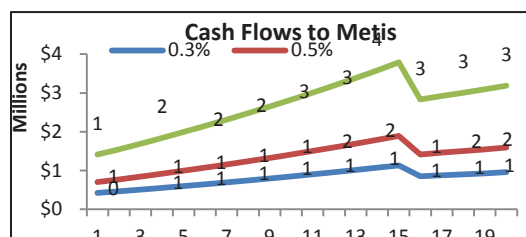
APPENDIX D: MINISTRY RESPONSES TO QUESTIONS ON THE RATIONALE AND IMPLICATIONS OF A 3:1 SHARE SALE RATIO BETWEEN FIRST NATIONS AND METIS NATION OF ONTARIO

1. Can ENERGY please provide more of a rationale on why 3% is chosen as the specific ceiling share transfer to COO?
 - Providing First Nations – Chiefs of Ontario (COO) with a similar deal to the Union model at or less than 1% ownership is unlikely a viable option, since their initial ask was 10% in working toward a negotiated commercial arrangement.
 - However, there have been some indications that suggest COO advanced a 10% request based on publicly available information that no entity could hold more than 10% of Hydro One shares.
 - Communications at a staff level suggested that COO was not fixed at 10% and there was opportunity for discussions at lower levels of equity ownership.
 - The 3% mandate recognizes a middle ground of the advice from the Expert Advisory Committee to be less than 5% and recognizes the uniqueness of First Nations to have a better deal than what was obtained by the Union as well as their willingness to work with the Province to accept a negotiated process outside of the IPO.
 - While the Ministry is requesting a negotiating mandate of 3%, negotiations would not start at 3%, rather this represents the upper limit.
 - The 3% mandate also recognizes that these negotiations and potential transaction does not attempt to settle any longstanding grievances advanced by COO and its member First Nations nor will it relieve the Province of any responsibilities related to outstanding grievances.
 - Providing 3% of Hydro One to First Nations will continue to support their participation in the energy sector and provide an opportunity for sustainable economic development on a commercial basis.
2. Please provide an explanation of the approximate 1% cap expected for MNO (i.e., if COO gets the ceiling of 3%, MNO would be capped at 1%) including:
 - a) How does this relative share between COO and MNO compare to previous transfers/agreements or negotiations?
 - o The MNO have requested a consultation process to address potential impacts from the sale of Hydro One.
 - o Meetings have been offered to MNO to discuss their interest but they have not provided a positive response.
 - o Keeping a 1% contingency within the 4% envelope provides the opportunity to have commercial discussions with MNO should they advance a request for equity ownership in Hydro One.
 - o In the case of Resource Benefits Sharing discussions that took place in 2011, Ontario undertook parallel negotiation processes with First Nations and the Métis Nation of Ontario, which yielded two different outcomes – an offer of 5.5% of provincial resource revenues with a \$30M/year guaranteed floor to First Nations, and a \$3M/year over a 10 year period funding arrangement with the MNO, to capitalize the Métis Voyageur Development Fund (MVDF) (an Aboriginal Financial Institution) to support Métis business development in resource sectors. The offer of \$3M/year was based on examples of Aboriginal economic development corporations in other jurisdictions, which received around \$3 million annually in funding at that time. First Nations rejected the offer while the MVDF was launched in August 2012.
 - b) What is the ratio of 3:1 based on?
 - o The MNO have not communicated a request for equity participation, or a specific ownership level on Hydro One.

- o In the event an agreement is negotiated, the 1% ceiling aligns with the 2/3 to 1/3 First Nation to Métis ratio for capacity set asides established in the Feed-in Tariff program.
 - o The 2011 Resource Benefits Sharing (RBS) discussions represented a 10:1 First Nation to Métis ratio (at least for the 10 years of funding for the Métis Voyageur Development Fund).
 - o It would be difficult to base the ratio on population due to differences in population data. According to AANDC, the registered First Nations population in Ontario is 199,069 (as of 2013). Métis peoples are not able to register with AANDC, thus it is difficult to find a comparable statistic. The Métis Nation of Ontario website notes a registry of “over 18,000 members”. This would represent a First Nation to Métis registered population ratio of 11:1. However the MNO registry does not capture individuals still in the process of applying for membership and individuals who self-identify as Métis but are not registered MNO members. The 2011 National Household Survey recorded a self-identified Métis population of 86,105 in Ontario versus 201,100 for First Nations. This represents a First Nation to Métis population ratio of 2.3:1. Given these data caveats, it would be difficult to use population statistics as a basis for negotiations.
 - o It would also be difficult to use geography as a basis for the ratio, as Métis do not have reserve land to use for comparison to First Nation reserve land.
- c) What would the impact to MNO be of receiving 1% ownership?
- o Under a union-type arrangement, Métis would be expected to receive an all-in value of approximately \$13M to \$43M (as shown below) over 15 years from the purchase of ~1.8M – 6M shares (representing 0.3 - 1% of Hydro One) requiring a loan of \$61M – \$122M



- o Cash Flows (Years 1-15): The chart below (left) depicts expected cash flows to Métis, which represents the difference between dividends received and interest payments made during the period of the loan. At a 0.5% level cash flows represent ~18.9M over 15 years to COO, averaging \$1.3M per year
- o Share Value (Year 15): The chart below (right) shows the value of shares remaining at the end of the term of the loan, assuming that the Métis sell sufficient shares to repay the principle on the loan, and keep the remaining balance of shares



COMPARISON AT 3:1 RATIO	First Nations (at 3%)	Métis Nation (at 1%)
Loan Amount (15 Years)	\$366M	\$122M
Cash Flows (Year 1 to 15)	\$7.6M/Year	\$2.5M/Year
Share Value (Year 15) (sell shares to pay off loan)	\$243M	\$81M
All-in Value	\$128M	\$43M

APPENDIX E: POTENTIAL FOR FISCAL IMPLICATIONS

ENERGY'S requested mandate includes ensuring an agreement has no direct fiscal impact. Since the Ministry is looking to replicate the union share purchase and loan agreements, the Province would be providing a loan at an interest rate higher than Ontario's borrowing rate with the principal due at the end of the loan term.

Direct fiscal Implications

Regarding no direct fiscal impact from the union share agreements, Energy provided the following:

- o Proceeds from the loans provided by the Province through MOF were used to pay for the shares purchased by the PWU and Society trusts from the Province (as represented by Energy). From an accounting perspective, the shares sold to the unions were treated in the same manner as shares sold through the IPO.
- o The loans themselves are considered assets to the Province. No provision for loss was taken as they are considered high quality assets, secured by the shares, with all dividends to be first directed to interest payments on the loans, with the interest paid by the unions trusts at a spread above Ontario's cost of funds (if Hydro One Limited share value declines, and for a sustained period, this accounting treatment may need to be reviewed).
- o While there was a cash expenditure amount required to fund the loan, this expenditure is offset by the value of the loans on the balance sheet.
- o While there are a number of accounting entries required to record the loan transactions, they are, on net, fiscally neutral at the outset, with a small net Interest on Debt benefit over time.
- o Note that the other side of the transaction – the share purchase agreement – was not fiscally neutral. The cash from the sale offset on the balance sheet first the reduction in the equity ownership in Hydro One for the book value of the shares, with cash proceeds in excess of the book value resulting in a gain on the sale of the shares themselves.

Indirect Fiscal Implications

The Ministry's submission acknowledges that there are indirect fiscal considerations, as noted with the union agreements. If structured similar to the PWU and Society arrangements, increases in operating assets and expenditures will to be needed to provide the loan to FN.

If the Province provides a loan to FN to purchase shares, no incremental cash from the share sale would be received upon purchase of the shares by FNs. As a result, the Province would incur incremental interest costs on debt that would otherwise have been paid through other market share sales (since they result in new revenues).

- o At the 1%, 3%, and 5% FN ownership levels, the Province would provide loans of about \$122M, \$366M, and \$610M respectively, assuming a transaction at the IPO price.

As of December 31, 2015, Hydro One shares have appreciated by about 9% since the IPO.

- o If at the time of the transaction the market price remains at these levels, the Province could be seen as foregoing up to [\$11M, \$32M, and \$53M] in gross proceeds at the 1%, 3%, and 5% ownership levels respectively, if the transaction occurs at the IPO price, or \$5M, \$16M, and \$27M if a 4% discount is assumed for an institutional investor transaction as described below.
- o An alternative approach would apply an appropriate discount to the then prevailing market price.
 - Typically institutional investors would seek a discount on the market price for a share purchase of this size (approximately 3-5%). However, if the shares are sold at the IPO price, the discount may be higher than typical, depending on Hydro One's market price at the time of term finalization.

- o Preliminary discussions with the Office of the Provincial Controller (OPCD) regarding their policy of being as transparent as possible to the public would mean the public should see an expense amount equal to the discount below fair market value the shares were sold at. So long as the share sale price is above book value of the shares, there would still be a fiscal plan gain due to sales proceeds, but reduced by the amount of the price discount. The expense would require an appropriation. A potential fiscal impact results if the lower gain in sales proceeds results in missing the overall forecast of share sale proceeds for the fiscal year already built into the province's fiscal plan.

The 2015 Budget Fiscal Plan assumed certain amounts of revenue from the secondary sales of Hydro One in 2016-17, 2017-18 and 2018-19 as part of the overall asset optimization targets. The estimated proceeds were based on analysis provided by the Premier's Advisory Council Secretariat, which assumed appreciation of the Hydro One share price over time.

- o A decision to transact with FNs at lower than assumed prices would mean that to achieve the same fiscal results, the other share sales would have to be sold at a higher than assumed price.
- o Additionally, if the timing for the offerings were to occur in the latter half of the proposed 1 to 5 years period, it would not be consistent with the Province's timing to complete all share sales by 2018-19 as assumed in the fiscal plan.

Since loan security and any recourse is effectively limited to the pledged shares, there is a fiscal risk that the Province will not receive the full loan principal at the end of the term of the loan, should the value of the shares not be sufficient to cover the outstanding loan balance.

8 - Cabinet Submission - FN Participation in the Ownership of Hyd....pdf



First Nation Participation in the Ownership of Hydro One

Ministry of Energy
Cabinet

Date: January 14, 2016



Minister



Deputy Minister

Overview

- The following presentation sets out a proposed mandate for the Ministry of Energy to negotiate with the Chiefs of Ontario (COO) for sale of Hydro One shares to First Nations in Ontario
- Key presentation elements include:
 - Request by COO and rationale for broadening of ownership of Hydro One to include First Nation ownership
 - Highlights of the Hydro One initial public offering (IPO) and provincial commitments to proceed with additional share sales
 - Negotiating process and structure
 - Preliminary considerations around analysis of alternative mechanisms to support purchases by First Nations and Métis
 - Recommended mandate and path forward

First Nations and the Hydro One Initial Public Offering

- The Chiefs of Ontario (COO) wrote to Minister Chiarelli on July 13, 2015 advising that First Nations recognize the partial sale of Hydro One as a “significant opportunity...to move past historic grievances and to...share resources and the benefits of the lands.”
 - COO stated an expectation to own 10% of Hydro One and to work with the Minister and the Ministry to ensure that ownership of shares is transferred outside of the Initial Public Offering (IPO)
- The Minister has also received correspondence from Métis Nation of Ontario (MNO) requesting discussions regarding the Hydro One sale
- The Minister met with Ontario Regional Chief Day in Thunder Bay on August 26th and committed to providing capacity funding to assist COO exploring opportunities for First Nation participation in the broadening of the ownership of Hydro One, post IPO
- Following the meeting in Thunder Bay, COO has retained the services of Dickinson Wright LLP and Crosbie & Company to provide it with expert legal and financial advice and options
 - COO has indicated that the total budget for financial analysis to date to support commercial discussions is \$352,000.00, which ENERGY will provide through its own existing allocation
 - COO will require additional funding for commercial negotiations and for any discussions required to determine the optimal structure for holding Hydro One shares
- At a subsequent meeting in October with COO representatives, the Minister discussed the formation of three new tables, further detailed on slide 8, in an effort to keep commercial discussions separate from historical grievances and other policy concerns

Provincial Relationship with First Nations

- On August 24, 2015, the Chiefs of Ontario and Ontario signed a historic Political Accord which sets the path toward further reconciliation between First Nations and Ontario
- The Accord recognizes the importance of strong First Nations governments in achieving a better quality of life for First Nations and creating a better future for First Nation children and youth
- Ontario has recognized that Aboriginal participation in the energy sector is one of the keys to the economic development of First Nation communities and has made important progress through enabling policies that has resulted in meaningful benefits to communities
- First Nations continue to advocate for more meaningful involvement in resource development projects and greater benefits from economic activity on their traditional territories
- From a First Nations perspective, progress on resource benefit sharing has been limited. Expectations continue to be high and First Nation leaders continue to call for government action in a variety of forums, including the Leaders in the Legislature
- Successfully navigating complex and long-standing policy issues while progressing on discussions regarding the opportunity for First Nations to benefit from the broadening of Hydro One ownership requires a multi-pronged effort
 - This multi-pronged effort can provide an appropriate forum for issues to be discussed while seeking to prevent decision-making paralysis given the complexity and inter-linkages of issues
 - Inter-linkages can be addressed more fruitfully when approached with strategic intent as opposed to letting ‘spillover’ conversations paralyze decision makers
 - This multi-pronged effort was discussed by Ontario Regional Chief Day and Minister Chiarelli most recently in Thunder Bay on October 27

Energy Relationship with First Nations

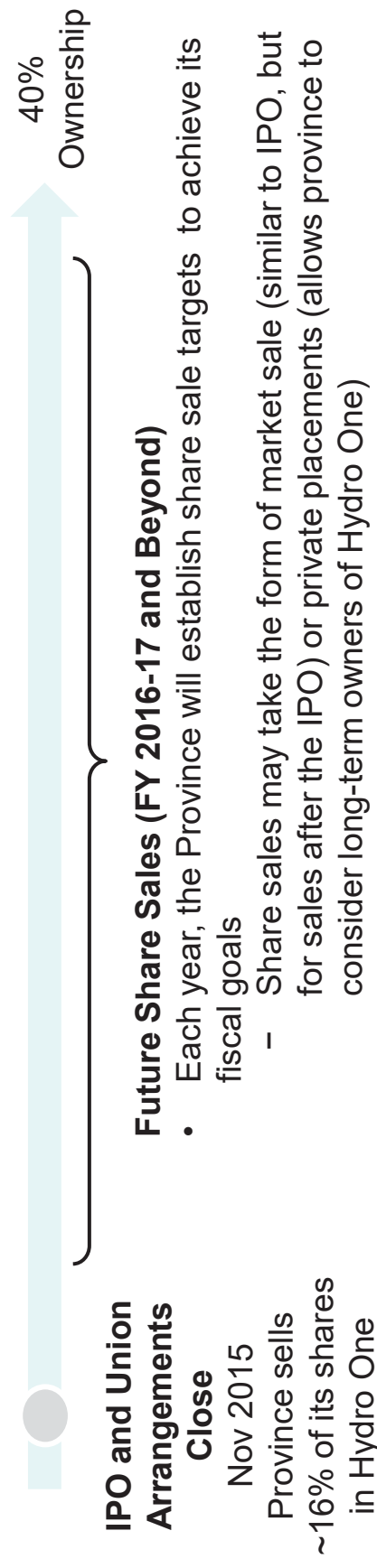
- The Ministry of Energy's Mandate Letter recognizes that "Aboriginal participation in the energy sector is one of the keys to the economic development of First Nation and Métis communities."
- The Ministry of Energy has made significant progress in facilitating opportunities for economic development in Aboriginal communities through its Aboriginal Energy Policy Framework
- One of the cornerstones of the policy framework is supporting and encouraging First Nation and Métis community participation in the energy sector through business partnerships and job creation as a driver for sustainable economic development
- ENERGY's leadership in implementing an Aboriginal participation policy has and continues to be demonstrated by various Aboriginal-specific incentives
 - This includes programs such as the Feed-in Tariff and Aboriginal Renewable Energy Fund (see slide 28 for full list)
- Building relationships with Aboriginal Leadership continues to be a vital component in facilitating the economic development of Aboriginal communities and ENERGY has established or participates in the multiple processes to support
 - This includes participation in the First Nations Ontario Energy Table, and Chiefs of Ontario Annual Assembly (see slide 28 for full list)
- ENERGY continues to review existing programs and initiatives with input from First Nation and Métis communities to adapt to the evolving nature of the energy sector to ensure alignment with ENERGY's Aboriginal community participation policy

Hydro One IPO

- The IPO was the first step in the process to broaden ownership, with approximately 15% of the common shares now trading on the Toronto Stock Exchange under the symbol “H”
 - The initial stages of the IPO closed on November 5th and November 12th with 89,250,000 shares, or 15% of Hydro One, offered at a share price of \$20.50, for total gross proceeds of approximately \$1.83 billion
- The Province also sold, by way of private placements, an additional aggregate amount of approximately 0.95% of Hydro One shares to the Power Workers Union (PWU) and the Society of Energy Professionals (Society)
 - This arrangement was provided to unions in an effort to align Hydro One and union interests moving forward
 - Detailed terms are described on Slide 23
 - COO has expressed an interest in a similar arrangement

Future opportunities for Hydro One Ownership

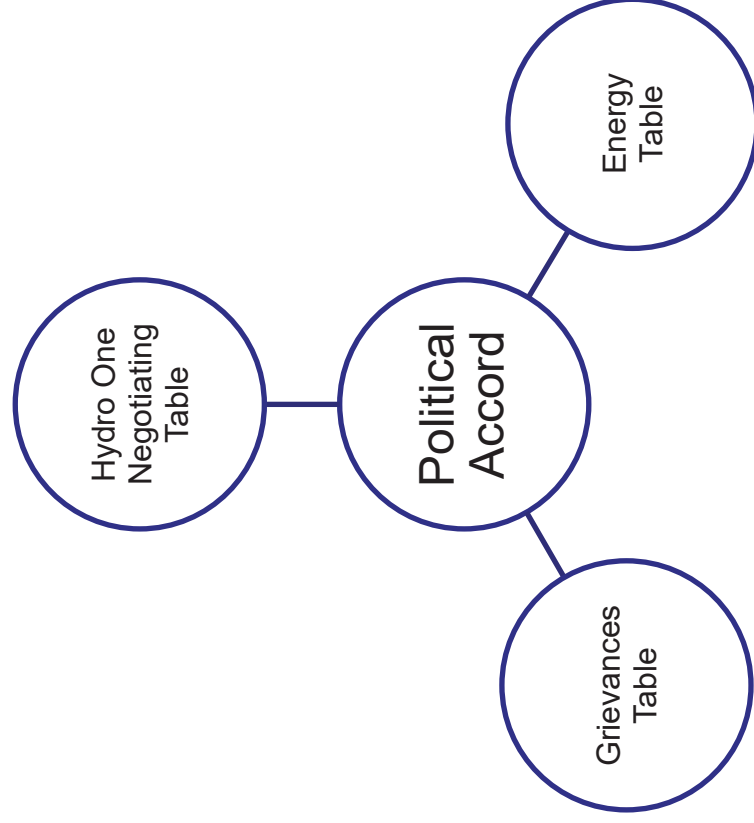
- The IPO is the first step, but the Province has also announced its intention to move forward with additional share offerings in subsequent years, over time totalling up to 60% of the Province's interest in Hydro One
 - Various options exist to facilitate future divestment by the Province in order to reduce its ownership to 40% over time
 - Due to market capacity and fiscal goals, the Province will likely need to access the market at least once annually for the next several years
- This will provide time for negotiations with the Chiefs of Ontario (COO) and opportunities for share sale(s) to First Nations



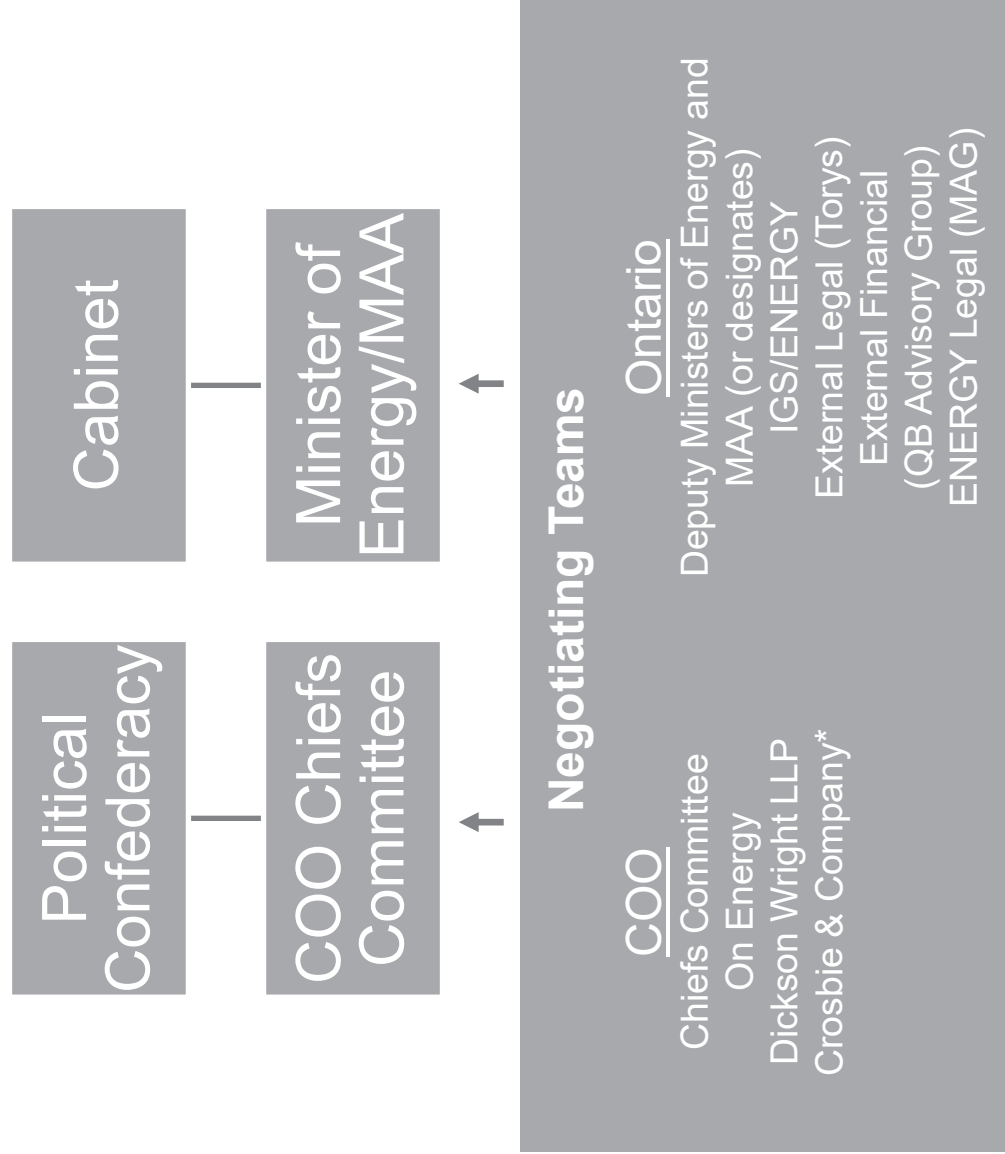
Proposed Path Forward with COO

- On October 27th, Minister Chiarelli met with COO in Thunder Bay to provide more detail on the Hydro One IPO process, the process for potential future share sales, and a plan to create three new tables as outlined below

- The effort builds upon the commitment to a positive working relationship, and the recognition of the importance of strong First Nations governments in achieving a better quality of life for First Nations, set out in the Political Accord
- The Hydro One Negotiating Table would be the focus for analysis and consideration of the opportunities to enable First Nation participation in a broadened Hydro One ownership (see next slide for the proposed structure of the negotiating table)
- The Energy Table would continue to be the principal forum for discussion on broader energy policy issues like energy affordability, major infrastructure, and economic development
- A Grievances Table would be created to provide a forum for the discussion of ongoing energy-related grievances (OPG, Hydro One) irrespective of what ownership stake First Nations take in Hydro One. Given Hydro One's independence from the Province, it would presumably be invited and separately represented at this table

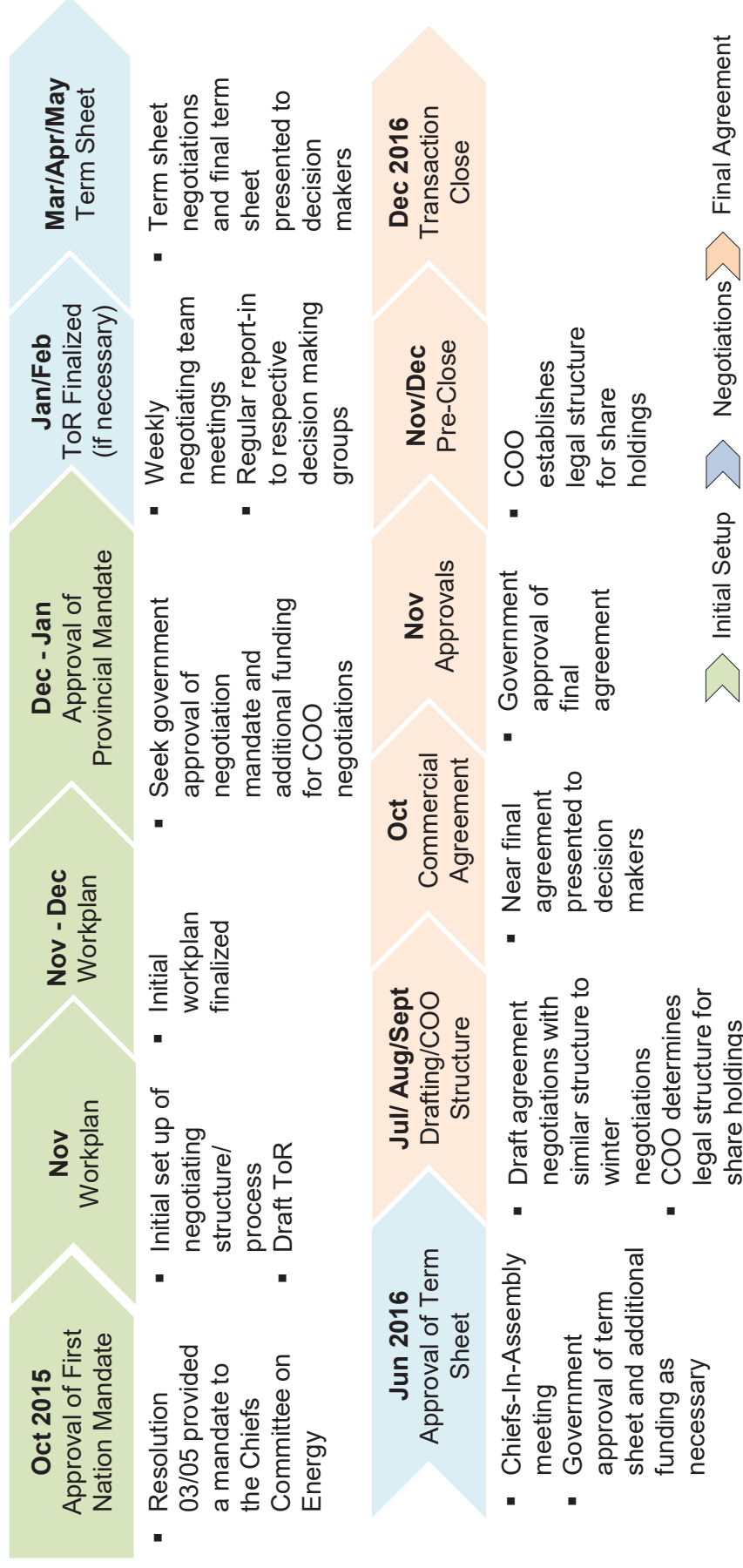


Structure for Hydro One Negotiating Table



Target Negotiating Timeline / Process

- The following diagram shows an illustrative process to reach final agreement by the end of 2016
- COO and the Province have agreed in principle to this timeline
- Negotiating teams continue to discuss whether terms of reference is necessary



Proposed Objectives

- The Ministry of Energy proposes to negotiate on the basis of the following objectives:
 - An agreement that does not directly impact the Province's fiscal position
 - One agreement that can include all First Nations
 - An agreement that can be used as a model for potential negotiations with Métis
 - An agreement that does not impede the Province from meeting its objectives to sell additional shares of Hydro One during negotiations and after an agreement has been reached, and to realize from those other sales, sufficient proceeds to meet fiscal objectives
 - An overall commercial agreement which does not impact past-grievance claims relating to any impacts of Hydro One's transmission or distribution operations on Aboriginal or treaty rights
 - An agreement which contributes to an overall economic development strategy for First Nations by providing short-term cash flows and long-term value

Purpose of Share Offerings to First Nations

Benefits to First Nations:

- Direct economic benefit from equity ownership in Hydro One and long-term value to improve quality of life
- Access to a direct non-governmental revenue stream in the form of dividends, which would improve the financial footing of many First Nations
- As Hydro One shareholders, all First Nations would benefit, regardless of size, geography, wealth and access to energy resources
- Become active participants in capital markets
- Own an asset that accumulates value and could be used to collateralize the acquisition of lower-cost debt required to finance economic development projects, once the loan is repaid
- Having an equity stake in Hydro One would not derogate from the protections provided to Aboriginal and Treaty rights pursuant to section 35 of the Constitution

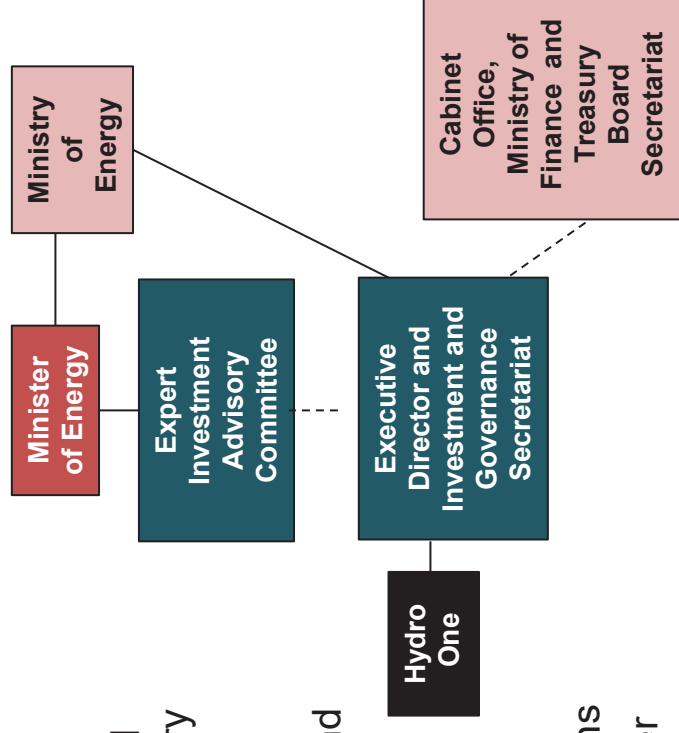
Benefits to the Province:

- Demonstrate Ontario's commitment to First Nations economic development and to supporting First Nations participation in the energy sector
- Reduces risk of intervention by First Nations in future share offerings, in order to help Ontario meet its revenue generation objectives
- Help to improve relations and align interests between First Nations and Hydro One
- Help improve relations with First Nations in Ontario and help to advance a government to government relationship
- With an equity stake in Hydro One, First Nations have a vested interest in seeing growth in the share value. This may translate into increased support for Hydro One

Expert Investment Advisory Committee

- To support the Minister in his role as shareholder an Expert Investment Advisory Committee has been established, consisting of:
 - Ed Clark (Chair), David Leith, Tom Rahilly, Sharon Ranson and Alan Hibben
- The Committee is supported by the Investment and Governance Secretariat, which is part of the Ministry of Energy
- The Committee will support the Minister with both his Governance and Investment responsibilities, and part of this will involve:
 - Developing an annual share sale plan and executing future offerings as approved
 - Providing advice to the Minister on current market conditions in support of share sale plans
 - Acting as needed as pricing committee in order to provide advice to the Minister regarding appropriate share sale price ranges, fee structures and other transaction related activities

Organizational Structure



Market Considerations

- Recently, the Committee was asked to provide market perspectives on the implications of a union type arrangement with First Nations at various ownership levels. Key feedback included:

Ownership Level	- The deal at 10% would have a significant negative impact on value, therefore ownership should be established at an amount less than 5% (eg. 2% or 3%) - A large stake on non-commercial terms may not align with the commitment in the Governance Agreement to engage in the business and affairs of Hydro One as an investor and not as a manager and its stated intention to achieve its policy objectives through legislation and regulation as it would with respect to any other utility operating in Ontario - Given the way in which the IPO proceeded and future offerings are expected to proceed, no single investor is likely to own close to 10% of shares in Hydro One. (Scotiabank is currently the largest institutional investor with approximately 1% of shares in the company). Facilitating a purchase of this scale may result in the largest or one of the largest non-government Hydro One shareholdings and be perceived by the market as a policy use of Hydro One shares, and inconsistent with the province's commitment to broaden ownership - Maintaining the confidence of the markets is critical to ensuring the Province is able to capture maximum market value. If the market concludes that the Province intends to use its investment for non-commercial purposes, including through a transaction with First Nations on non-commercial terms, that may reduce investor confidence and have a negative impact on the market price and the proceeds of future share sales
Governance Rights	- Shares provided should not have voting rights until such time as the loan, which supports the purchase, is repaid - No special governance rights should be provided to First Nations (eg. Board seats)
Timing	- Share sales to First Nations should align with secondary offerings of the Province, which is consistent with sales to unions paralleling timing of the IPO - Given negotiation timelines, there is flexibility to align with secondary offerings in 2017 or 2018

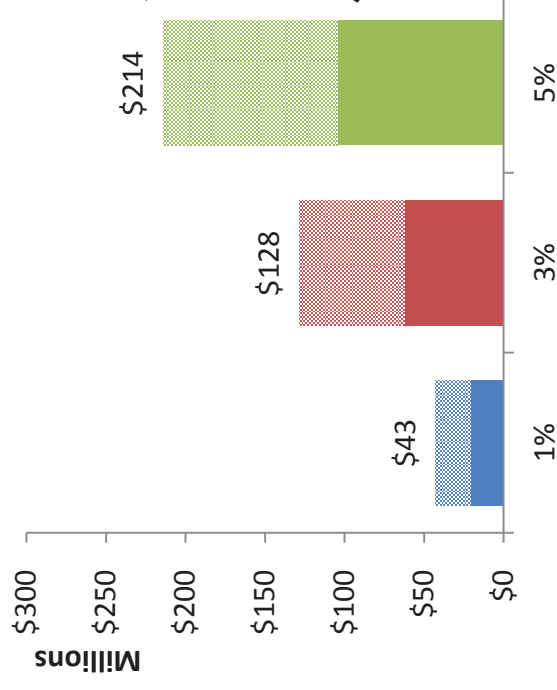
Value Based on Union Model

- The below analysis is based on a model similar to the union share purchase arrangement, but with varying levels of ownership
 - While the Ministry explored arrangements consistent with what a private financier would provide, necessary upfront capital contributions would not be feasible for First Nations
- Under a union-type arrangement, First Nations would be expected to receive an all-in value of approximately \$43M to \$214M (as shown below) over 15 years from the purchase of 6M – 30M shares (representing 1 - 5% of Hydro One) requiring a loan of \$122M – \$610M

Key Terms:

- 15 year loan for 100% of the purchase value
- 15 basis point spread between the interest rate and the Ontario borrowing rate
- Interest and principal payments to be made based on the dividends on the shares
- Shares sold at the IPO price

Value to First Nations (\$M)

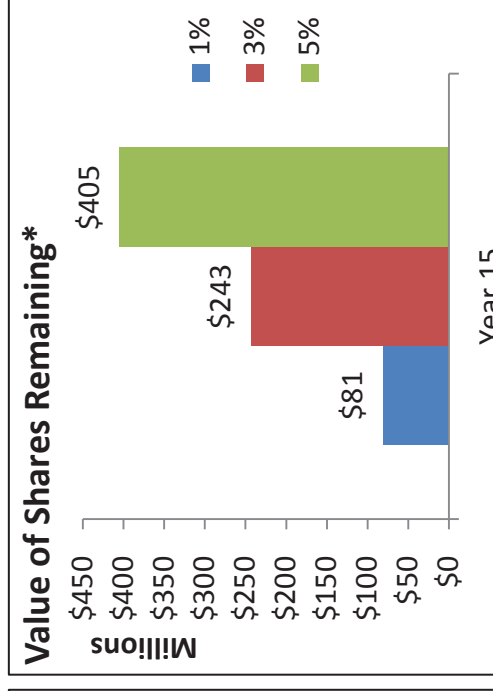
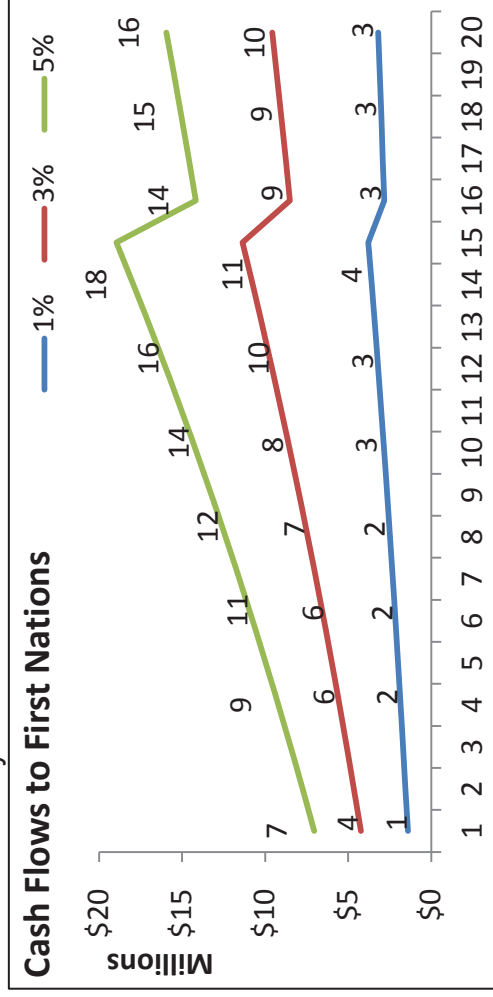


PV Cash Flows: Value of annual cash flows (dividends less interest costs), which could be used to repay the loan, or deployed by communities to fund other priorities

Option Value: Value of the option at the end of the term of the loan (dependent on the share price at that time) either to pay off the loan and keep the shares or default on the loan and forego the shares

Cash Flow and Value of Shares

- Shown below are the different cash flows and share values that are forecasts representing loans equivalent to 1%, 3% and 5% ownership levels.
 - Both charts are based on multiple assumptions (3% growth, 2.65% interest, 3.5% dividend yield). See slides 39 and 40 for analysis of other scenarios
- Cash Flows (Years 1 – 15):** The chart on the bottom left depicts expected cash flows to First Nations, which represents the difference between dividends received and interest payments made during the period of the loan
 - At a 3% level cash flows represent ~113.5M over 15 years to COO, averaging \$7.6M per year
- Share Value (Year 15):** At the end of the term of the loan, First Nations sell sufficient shares to repay the principle on the loan, and keep the remaining balance of shares, as shown in the chart on the bottom right
 - First Nations may also choose to refinance the loan at the end of the 15 year term, rather than sell shares to pay it off
- The initial upfront cost of 3% ownership in Hydro One at the IPO price in year 1 is about \$366M, proposed to be Provincially loan-financed



*Represents 0.4%, 1.2%, 2% of the value of Hydro One today

First Nation Considerations

- As described in the previous slide, First Nations would receive considerable benefit from this sort of transaction (e.g. 3% ownership), including:
 - approximately \$113.5M in cash flows over 15 years, assuming 3% ownership; and
 - shares with an expected value of ~\$243M
- With control over both the cash flow and assets, First Nations would be able to invest the proceeds where they believe it will help the most to improve quality of life
- This would represent a significant investment to enable economic development for First Nations, and would build on other First Nation participation initiatives in the sector
- First Nations have expressed an interest in 10% ownership and may be unwilling to discuss an ownership stake of 3%, however this has yet to be tested
- If First Nations were to seek a legal remedy to delay future offerings this could decrease investor confidence and impact the timing of subsequent share offerings
- With an equity stake in Hydro One, First Nations have a vested interest in seeing growth in the share value. This may translate into increased support for Hydro One

Fiscal Considerations

- The union arrangement did not have a direct fiscal impact, however there are a certain indirect fiscal considerations:
- **Accounting Treatment:**
 - Accounting treatment for the transaction overall would parallel accounting for union agreements
 - Accounting treatment for the share value would depend on the size of the discount to the prevailing market price at the time of the transaction:
 - Typically institutional investors would seek a discount on the market price for a share purchase of this size (approximately 3-5%). However, if sold at the IPO price, the discount may be higher
 - As long as the purchase price is above the book value of the shares, the Province would book a gain on the sale
- **Alignment with Fiscal Plan:**
 - The fiscal plan assumed some growth in the share price overtime, so any transaction would need to be reconciled to these forecasts
 - If at the time of the transaction the market price remains at December 31, 2015 levels (\$22.29), the Province could be seen as providing value of \$5.3M, \$16M, and \$26.7M at the 1%, 3%, and 5% ownership levels respectively (incremental to typical 4% transaction discounts)
 - Since the union arrangement was accounted for in the government's fiscal plan and this transaction is not, a decision to transact at lower than assumed prices (i.e. at IPO price) would mean that to achieve the same fiscal results, the other share sales would have to be sold at higher than currently assumed prices
- **Debt Repayment:**
 - If the Province provides a loan, no cash would be received upon purchase of the shares. As a result, the Province would incur incremental interests costs on debt that would otherwise have been repaid
 - At the 1%, 3%, and 5% ownership levels, the Province would provide loans of about \$122M, \$366M, and \$610M respectively

Proposed Direction

- Ministry of Energy's proposed negotiating mandate anticipates a model similar to the union share purchase arrangement, representing up to 3% of the shares in Hydro One
 - The Province's sale of approximately 0.95% of Hydro One shares to the PWU and the Society serves as a precedent for this structure
 - A loan arrangement that parallels the union agreement would not be expected to have a direct fiscal impact
 - Based on market feedback, 3% is the best option to ensure some benefit to the communities, while not having a negative impact on value therefore enabling Ontario to meet its revenue generation objectives
- Note that the proposed mandate does not represent the Ministry's opening position, rather it would serve as an upper bound for the negotiating team
- The proposed negotiating mandate attempts to balance the fiscal objectives of broadening ownership in Hydro One and generating revenue for infrastructure with the Province's desire to support First Nation economic development and participation in the energy sector and mitigate the risk of potential intervention by First Nations in future share offerings by the Province

Communications

- The Hydro One prospectus (p.108) discloses that the Province is in discussions regarding potential equity participation by the First Nations. The prospectus also states that the Province is also prepared to engage in a dialogue with the Métis in relation to broadened ownership of Hydro One
- COO has agreed to collaborate with the Ministry of Energy on any future communications regarding this initiative in order to enable effective negotiations
- It will be important for the Province to respect the negotiation process. The Province will also have to honour its disclosure obligations and limitations. These imperatives will have to balance with the need for transparency and the expectations of market participants
- The Ministry of Energy intends to work with COO, the Premier's Office, and other ministries, as required, to develop a communications protocol for parties during negotiations
- This protocol will be informed by both legal recommendations as well as financial and market implications as suggested by the Expert Investment Advisory Committee

Proposed Minute

1. APPROVE a negotiating mandate for the Ministry of Energy, including:
 - a) Sale of up to 3 percent of Hydro One shares to First Nations at the IPO price or the then prevailing market price less an appropriate discount, whichever is lower
 - i. Flexibility on timing of offering(s) between 1 and 5 years
 - b) Terms and conditions that replicate the union share purchase and loan agreements, including:
 - i. Up to a 15 year loan
 - ii. Interest rate equal to the Government of Ontario's borrowing rate plus 15 bps spread
 - iii. Interest payments made only from dividends on the shares and are otherwise deferred
 - iv. Recourse and security effectively limited to the pledged shares
 - c) No voting rights until loans are repaid in full
 - d) An agreement that does not directly impact the Province's fiscal position
 - e) An agreement that does not impede the Province from meeting its objectives to sell additional shares of Hydro One during negotiations and after agreement has been reached and to realize from those other sales, sufficient proceeds to meet fiscal objectives
2. DIRECT the Ministry of Energy to report back to Treasury Board/Management Board of Cabinet for approval prior to finalization of the term sheet

Proposed Minute cont'd

3. NOTE that any future agreements with Métis Nation of Ontario would be at a level proportionately lower than First Nations; in no case would the combination of First Nations and Métis agreements be more than 4%
4. NOTE the Ministry will work with COO in developing a communications protocol in order to enable effective negotiations, including appropriate media blackout
5. NOTE that funding for negotiations would be sourced from existing allocations for future share offerings of Hydro One
6. DIRECT the Ministry of Energy and Ministry of Aboriginal Affairs to work with other ministries as appropriate to develop an inventory of both current and planned supports for First Nations in order to inform negotiations
7. DIRECT the Ministry of Energy to work with the Ministry of Finance and the Ontario Financing Authority on the loan agreements
8. DIRECT the Ministry of Energy to work with Cabinet Office, Premier's Office, Ministry of Aboriginal Affairs, Ministry of Finance and Treasury Board Secretariat on a communications plan

Appendix

Union Share Purchases as a Model

- The government extended a \$75 million loan to a trust established for the benefit of the Power Workers Union (PWU) and a \$36 million loan to a trust established for the benefit of the Society of Energy Professionals (SEP) to purchase shares in Hydro One, based on the following conditions
 - Combined Amount: \$111M, which represents less than 1% of Hydro One
 - Term: the loans mature and become repayable in full 15 years from the initial advance
 - Interest Rate: the Government of Ontario's borrowing rate for a term equal to the selected interest period, plus 15 basis points
 - Interest payments: are made only from dividends on the shares and are otherwise deferred
 - Recourse and Security: recourse to the shares effectively be limited to the pledged Shares, including dividends received on the Shares because the loan is to a Trust and the unions are not a party and the shares may be released from the security to the extent that the value-to-loan ratio exceeds 200%

Union Model Paralleled

- This option mirrors the union share purchase model described on slide 13, assuming 1,3 and 5 percent ownership and an equity value of \$13.26B (as of December 31st), based on a sale at the IPO price

Value to First Nations	1%	3%	5%	Description
Call Option (M)	~\$21	~\$63	~\$104	First Nations would receive the equivalent of a free call option on Hydro One shares. Investors in this arrangement have the option at the end of the term of the loan to either pay off the loan and keep the shares or default on the loan and forego the shares. First Nations would not incur any cost today and at the end of the loan term, would either benefit from the difference in the value of its holdings in Hydro One and the loan principal, or earn no benefit nor incur any loss
PV Dividend / Interest Cash Flows (M)	~\$22	~\$66	~\$110	First Nations would receive dividend payment from holdings in Hydro One shares, which are expected to be greater than interest expenses on the loan at the Province's cost of funds + a 15 basis point (bps) spread. This could be used to pay down principle on the loan, or received as an ongoing benefit to communities
Discount on Market Price	TBD	TBD	TBD	Institutional investors will seek a discount on the market price for a share purchase of this size. However, if sold at the IPO price, the discount may be higher than typical. This will depend on the market price at the time of the sale (~11% at December 1, 2015), conversely, if sold at the same price as a concurrent "bought deal" the discount is likely to be 3 – 5 %.
Total Benefit (M)	~\$43	~\$128	~\$214	

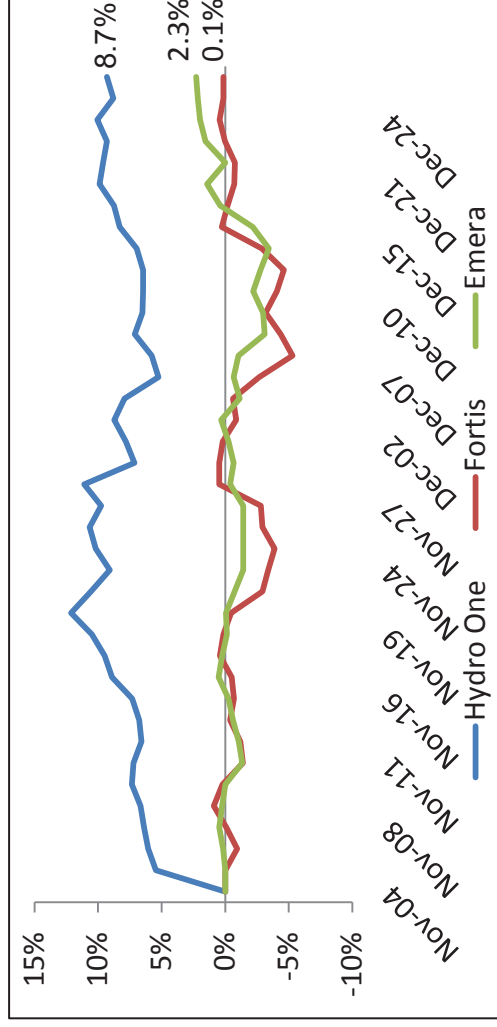
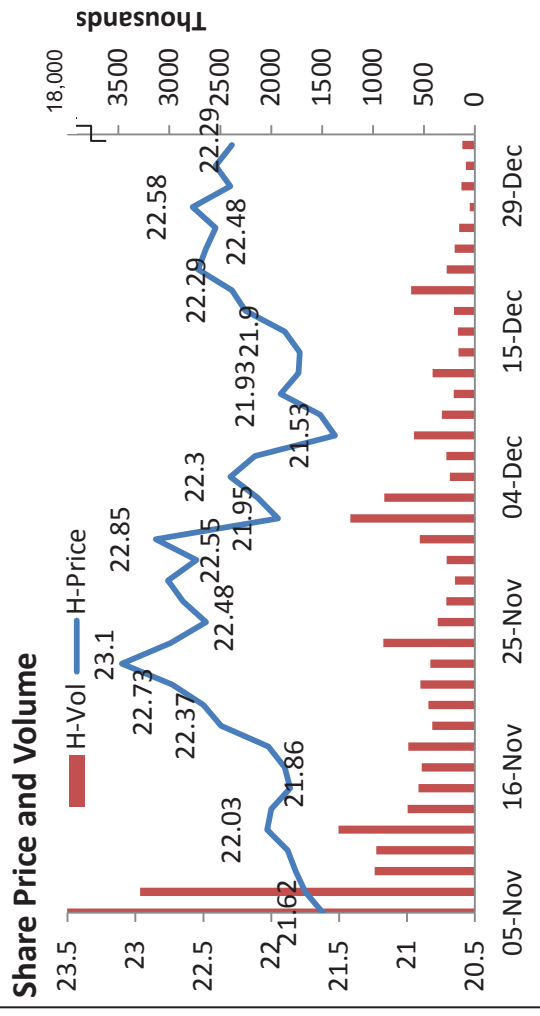
COO Correspondence Details

- The Chiefs of Ontario (COO) wrote to Minister Chiarelli on July 13, 2015 advising that First Nations recognize the partial sale of Hydro One as a “significant opportunity...to move past historic grievances and to...share resources and the benefits of the lands.”
 - COO stated an expectation to own 10% of Hydro One and to work with the Minister and the Ministry to ensure that ownership of shares is transferred outside of the Initial Public Offering (IPO)
 - The July correspondence from COO follows earlier media reports that concerns were being raised by Aboriginal leaders regarding the Hydro One IPO. For example, Chief Isadore Day (Serpent River First Nation and Ontario Regional Chief of COO) noted: “its critical that Ontario Premier Kathleen Wynne consider First Nations a vital partner in decisions related to this sale.”
 - The Ministry met on June 4, 2015 with Ogichidaa White (Grand Council Treaty 3), Chief Klyne (Seine River) and Chief Fobister (Grassy Narrows) who similarly indicated a need to include First Nations in discussion around the Hydro One IPO

Share Trading Data (As of December 31, 2015)

- On Hydro One's first day of trading the stock price increased 5.5%
 - Since the IPO, Hydro One shares have traded up ~8.7% and outperformed peers
- Approximately 31.5 million shares traded on day one
 - Trading volume has tapered off with average daily trading volumes of ~450,000

Company	EPS	P/E Ratio	Mkt Cap (B)
Hydro One	1.28	17.30	13.18
Fortis	2.55	14.42	10.32
Emera	2.43	17.61	6.22



Aboriginal Participation Projects (FIT)

Fuel	Under Development		Commercial Operation		Grand Total	
	No. of Contracts	Contract Capacity (MW)	No. of Contracts	Contract Capacity (MW)	No. of Contracts	Contract Capacity (MW)
Hydroelectricity	9	63.3	3	16.5	12	79.8
Solar	426	98.4	57	38.9	483	137.3
Wind	4	460.0	5	139.0	9	599.0
Total	439	621.7	65	194.4	504	861.1

IESO Progress Report on Contracted Supply – all Aboriginal participation project as of Q2 2015

Energy Programs and Partnerships

- ENERGY's leadership in implementing an Aboriginal participation policy has and continues to be demonstrated by the following Aboriginal-specific incentives, such as the Aboriginal Conservation Program and Ontario Electricity Support Program
 - Large Renewable Procurement
 - Aboriginal Loan Guarantee Program
 - Feed-in Tariff Program
 - Energy Partnerships Program
 - Aboriginal Conservation Program
 - Aboriginal Community Energy Plan Program
 - Aboriginal Conservation Program
- Ontario Electricity Support Program
- Building relationships with Aboriginal Leadership continues to be a vital component in facilitating the economic development of Aboriginal communities and ENERGY has established or participates in the following processes to support this:
 - First Nations – Ontario Energy Table
 - Grand Council Treaty 3 Energy Table
 - Anishinabek Nation Bi-lateral Table
 - Chiefs of Ontario Annual Assembly
 - Mushkegowuk's Energy Forum
 - Nishnawbe Aski Nation's Economic Development Forum
 - Meetings with individual communities as appropriate
- Reducing the reliance on diesel in the remote First Nation communities is a priority for the Province. ENERGY has developed approaches to address the barriers to the remote community connection project while W-Power's consortium of 20 First Nation communities continues to advance its proposal
- ENERGY is having discussions with MOECC to advance diesel reduction initiatives i.e. micro-grids, in remote First Nation communities through funding opportunities in the new Green Investment Fund. These initiatives will support Ontario's participation in the Pan-Canadian Task Force as it moves forward to develop a report on approaches to reduce diesel use in remote communities
- ENERGY continues to review existing programs and initiatives with input from First Nation and Métis communities to adapt to the evolving nature of the energy sector to ensure alignment with ENERGY's Aboriginal community participation policy

Program Results To Date

TOTAL		
INITIATIVE	UPTAKE	TOTAL
Aboriginal Renewable Energy Fund (IESO) <i>program now closed with Energy Partnerships Program being developed to replace AREF</i>	45 First Nation and Métis communities have been approved for funding	\$8.5 million (since start of program in 2010)
Aboriginal Community Energy Plan Program (IESO)	78 First Nation communities have been approved for funding to-date.	Nearly \$7 million
Aboriginal Loan Guarantee Program (Ontario Financing Authority)	6 renewable energy generation projects have been approved for guarantees, totaling 557 MW	~\$210 million in guarantees approved
In addition to the above approved loan guarantees, the OFA currently has 11 active requests for loan guarantees, for about \$300 million, in various stages of the application and review process. Of these, Orders in Council have been approved for 2 generation projects, authorizing the Minister of Finance to enter into guarantees totaling up to \$31.2 million		
Aboriginal Conservation Program (IESO) <i>Phasing into an LDC-delivered program with Hydro One having the largest service territory with First Nation customers</i>	46 communities are participating in the Aboriginal Conservation Program	

Energy Resource Revenue Sharing in Canada

Jurisdiction	Hydro RRS between Government & First Nations	Policy/Model
BC	Yes: project-by-project basis	Province and FN negotiate RRS agreements for clean energy projects on traditional territories.
AB	No	
SK	No	Crown electric utility and FN partner on projects.
MB	No	Possibly exploring RRS options. Crown hydro utility partners with FN on projects.
ON	No	Province supports FN participation in electricity and renewable energy projects.
QC	Yes: provincial RRS agreement	Province makes annual payments based on indexed value of hydroelectric, forestry and mining production on Cree territory.
NS	No	Province encourages industry to consult with FN.
NB	No	Province facilitates opportunities and set asides for FN to participate in renewable energy projects.
PEI	No	
NL	Yes, but no formal policy	Revenue sharing between province and Innu Nation identified on one project. No provincial RRS policy for hydro projects.
YT	No	RRS in other sectors.
NWT	YES: provincial RRS agreement	Share 25% of revenue from mineral, oil and gas, and water royalties with Aboriginal organizations.

Examples of Successful Equity/Revenue Sharing

Manitoba: Keeyask Infrastructure and Generating Station Projects

- Collaborative effort between MB Hydro and four Keeyask Cree Nations (KCN) working together under as the Keeyask Hydropower Limited Partnership (KHLP).
 - KCN have the right to own up to 25% of the KHLP through individual investment entities.
 - MB Hydro owns 75% of the KHLP through a wholly-owned General Partner.
 - KCN have the right to have nominees appointed to the Board of Directors of the General Partner.
- 25% of the capital requirements for the KHLP are provided by subscribing and paying for units.
 - As long as a partner holds at least one unit, it will be entitled to vote at any meeting. Voting is proportional to percentage share of units owned.
- MB Hydro provides loans to the KCN investment entities through credit facilities to provide cash flow and fund cash calls. If the KCN Investment Entities hold preferred units (rather than common units) they will not have to repay these loans.
- Cash distributions can be used by the KCN for:
 - Measures to support increased viability of traditional and commercial resource pursuits
 - Initiatives to support Aboriginal or treaty rights
 - Cultural support and social development initiatives
 - Business and employment development undertakings
 - Local community infrastructure and housing development
 - Construction, operation, and maintenance of capital projects
 - Technical and legal services

Examples of Successful Equity/Revenue Sharing

Ontario First Nations Limited Partnership

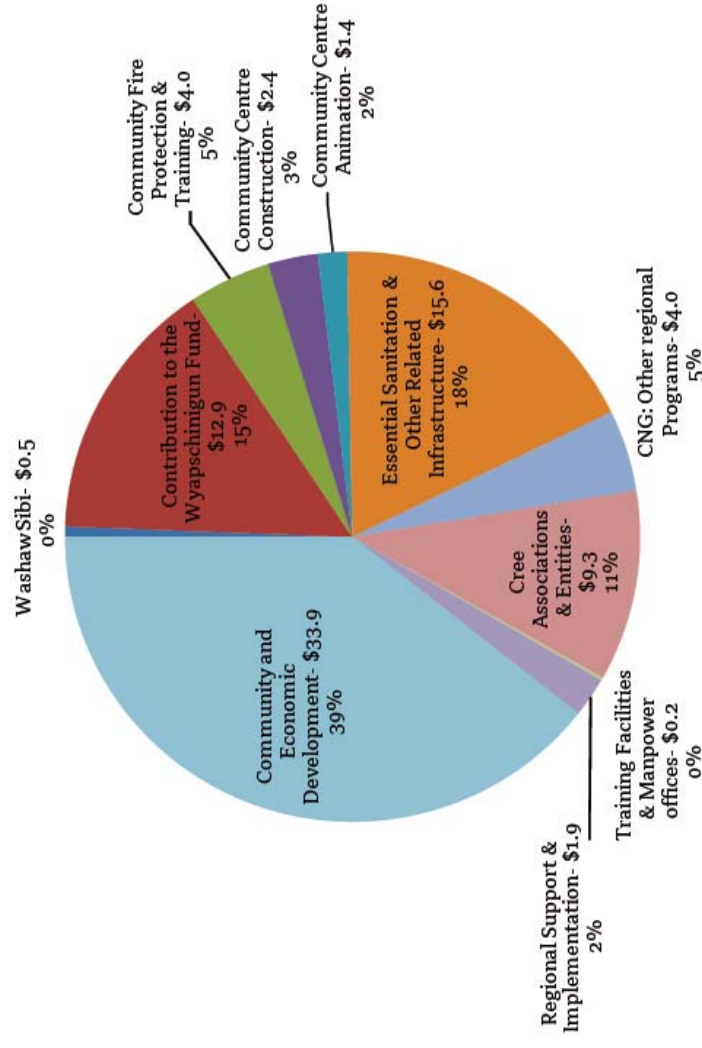
- Gaming revenue sharing agreements have helped to build stronger relationships with First Nations partners and provide stable, long-term funding to improve the quality of life in First Nation communities.
 - The Ontario First Nations Limited Partnership (OFNLP) was established in 2008 to distribute funds from the *Gaming Revenue Sharing and Financial Agreement (GRSFA)* to the 132 First Nations that have signed the gaming agreement as limited partners. (Rama First Nation is not a party to the 2008 Agreement.)
- The GRSFA provided a one-time payment of **\$201 million** to Ontario First Nations in 2008 to address urgent community needs. Since 2011, First Nations have received regular payments equivalent to **1.7% of all Ontario Lottery and Gaming gross revenues**.
- First Nation revenues under GRSFA are estimated to be worth over \$3 billion over 25 years, and will more than triple First Nations' annual revenue share to about \$120 million per year.
- As outlined in the GRSFA, First Nations can spend revenues on five approved purposes: economic development, community development, cultural development, health and education.

Québec RRS Model

- Nation-to-nation agreement (*La paix des braves*) signed in 2002 between the Province and the Crees of Québec established a resource revenue sharing model.
- Commits the Government of Québec to make annual payments to the Grand Council of the Crees that are indexed according to the value of hydroelectric, forestry and mining production within the Cree territory.
- In the first 3 years of the agreement, Crees were paid \$23 million, \$46 million and \$70 million.
- For the subsequent years (2005 to 2052), the annual payment will be the greater of:
 - o \$70 million; or
 - o An amount determined by indexing the \$70 million base amount in accordance with a formula that reflects the growth (since 2005-06) of the value of hydroelectric, mineral development, and forestry harvest production in the territory.
- Over a period of 50 years, the estimated value of the agreement is **\$3.5-\$5 billion** in revenues coming from the territory that be shared with the Crees directly from the Québec government, rather than from the companies involved in the territory.
- The Grand Council of the Crees is planning to unify the various Cree economic organizations under the Cree Development Corporation that will centralize economic power, promote investment and business growth in the region, and represent the Cree voice in business transactions.

Distribution of RRS Funds in Québec

New Relationship Agreement QUEBEC Funding Allocation 2014-15 by Program \$86.6 Million



*From the Grand Council of the Crees
2014-15 Annual Report:*

- Totally funds received under the RRS agreement: **\$86.6 million**
- **39%** used for community and economic development
- **18%** used for infrastructure projects
- **15%** put towards a heritage fund

British Columbia

- Provincial policies / legislative frameworks are in place for sector-specific revenue sharing agreements
- Section 20 of B.C.'s Clean Energy Act establishes the First Nations Clean Energy Business Fund and informs the negotiation of revenue-sharing agreements between B.C. and First Nations to provide revenue sharing opportunities for clean energy projects
- Revenue sharing under these agreements is based on new, net, incremental revenues to government derived from water rentals, land rents and wind participation rents government derives from clean energy projects in First Nation traditional territories and treaty areas. First Nations continue to receive a prescribed percentage of these revenues over the life of the project unless the agreement is terminated
- No partnership, joint venture, agency, fiduciary or employment relationship is created by these Agreements
- There are currently 34 clean energy revenue sharing agreements across B.C.
- In addition to revenue sharing agreements with the B.C. government, there are a multitude of agreements between B.C. Hydro and First Nations to compensate for damages, settle lawsuits and address socio-economic impacts of clean energy projects. Agreements may include one-time and/or annual payments, and the provision of economic development and training funds

Ontario's Aboriginal Economic Development Initiatives

Business & Community Development

- Aboriginal Economic Development Fund (launched 2014)
- Aboriginal Community Capital Grants Program (ACCGP) (2003)
- Aboriginal Business Development Toolkit (launched 2011)
- Métis Voyageur Development Fund (established 2011)
- *Forest Tenure Modernization* Act (2011) initiatives
- Broadband Connectivity funding (2007-2014)
- Aboriginal Procurement pilot (February 2012)

Partnership and Relationship Building

- New Relationship Fund (NRF) (2008)
- Resource Benefits Sharing (2013)
- First Nations Gaming Revenue Sharing Agreements (2008, 2011)
- *Mining Act* modernization (2009)
- *Far North Act* (2010) and Far North Land Use planning
- Ontario First Nations Economic Forum (2010)
- Aboriginal Affairs' Advisory Council on Aboriginal Economic Development (2010)
- Growth Plan for Northern Ontario (2011)
- MAA-AANDC MOU Concerning Aboriginal Economic Development (2011)
- Saugeen Ojibway Nation Capacity and Economic Development Working Group
- Nishnawbe Aski Nation Regional Economic Development Planning
- Akwesasne Economic Recovery plan discussions

Employment & Skills Training

- Aboriginal Economic Development Fund (2014)
- New Relationship Fund (NRF) (2008)
- Northern Training Partnership Fund (launched 2010)
- Aboriginal Postsecondary Education and Training Policy Framework (2011)
- First Nation Economic Development Officers - economic capacity building workshops – COO/AANDC/MAA partnership (2012)

Outreach and Information Sharing

- Aboriginal Business Directory (launched 2010)
- Aboriginal Affairs Working Group (Aboriginal Economic Development success stories website launched 2010)
- Online Aboriginal Economic Development Information Centre (MAA webpage launched 2011)
- Small Business Enterprise Centres' "Aboriginal Business Day" workshops (on-going since 2011)
- Ontario First Nations Economic Developers Association - Economic Development Officers (EDOs) Information Sessions (February 2010 & 2011); Annual Conference (August 2011)
- First Nation Community Economic Profile Guide and Template (2012)
- First Nation Community Economic Development Readiness Questionnaire (February 2012)
- First Nations EDOs Economic Capacity Building Workshops (4 Regional workshops March 2012)

Assumptions

- Annual market growth: 3%
- Dividend yield: 3.5%
- Discount Rate: 6.5%
- Maturity: 15 year loan
- Repayment Method: Loan repaid in full at maturity by selling portion of shares
- Ownership Level: 1, 3 and 5%
- Price Discount: IPO price
- Interest Rate:
 - Union Deal: 15 Year Ontario Bond Rate + 15 basis point spread
- Market Price: \$22.29 (December 31, 2015)

Comparable Dividend Yield Growth

Hydro One Comparables Dividend Growth 2006 - 2015

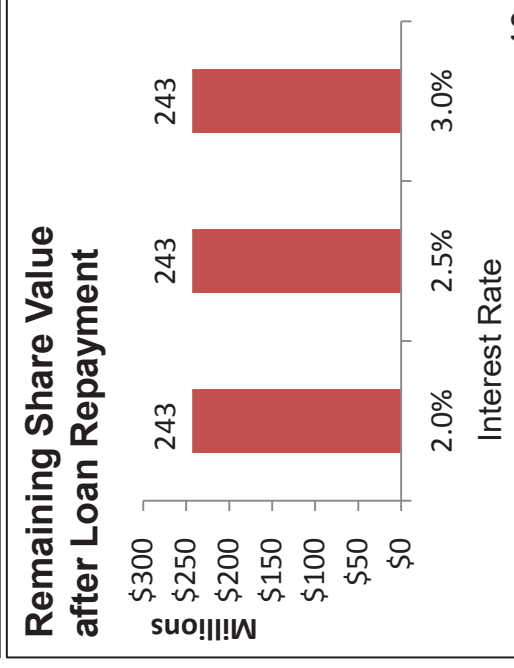
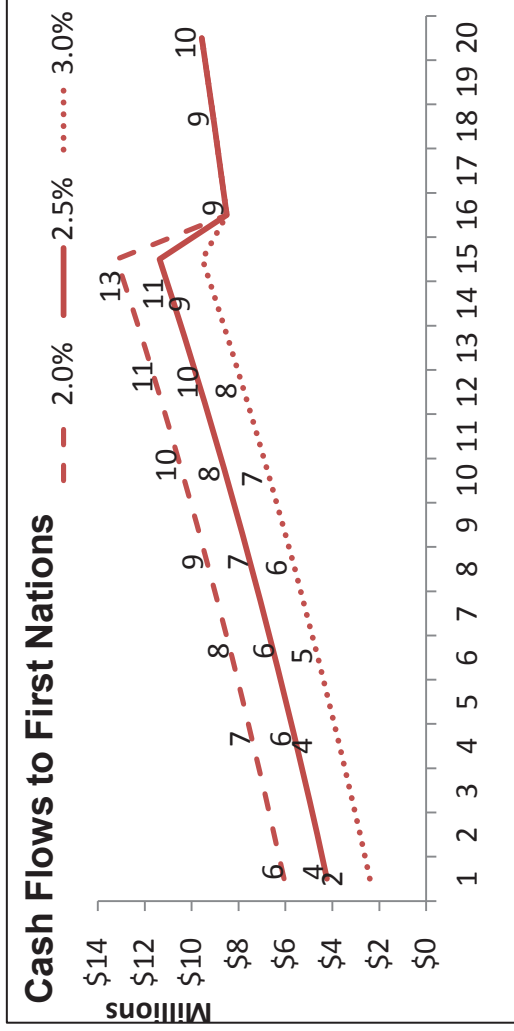
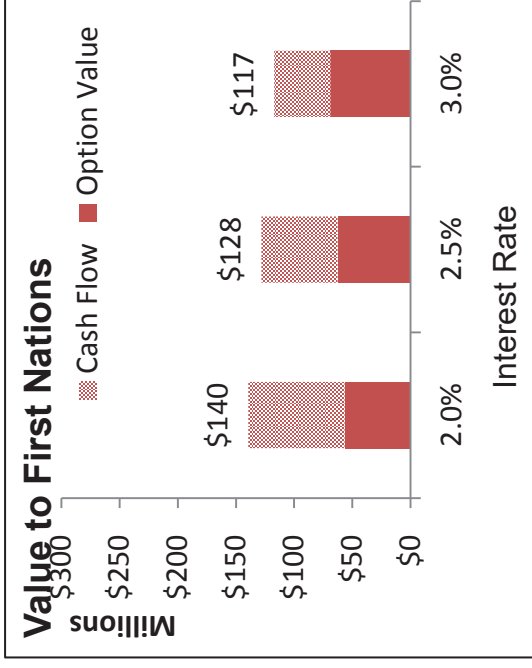
	Avg. Annual Growth (10 year period)
Canadian Utilities	7.00%
Emera Inc.	6.50%
Enbridge Inc. ⁽¹⁾	65.00%
Fortis Inc.	9.30%
TransCanada Corp.	5.44%

⁽¹⁾ in 2011 ENB had a dividend increase of 640%.

Removing this outlier and calculating over 9 years revised avg. growth rate to 17.6%. Additionally, ENB had a 62% jump in 2006.

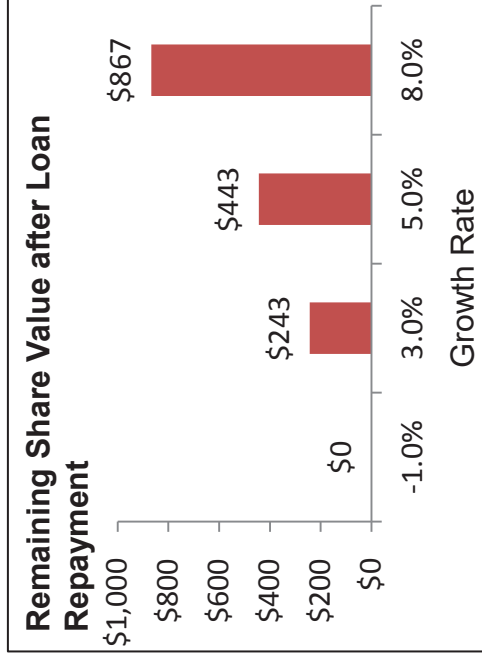
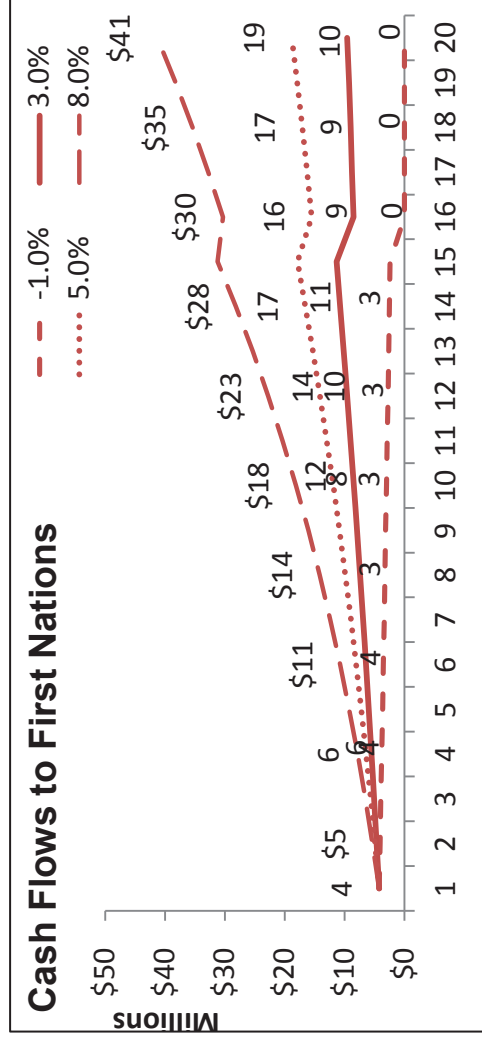
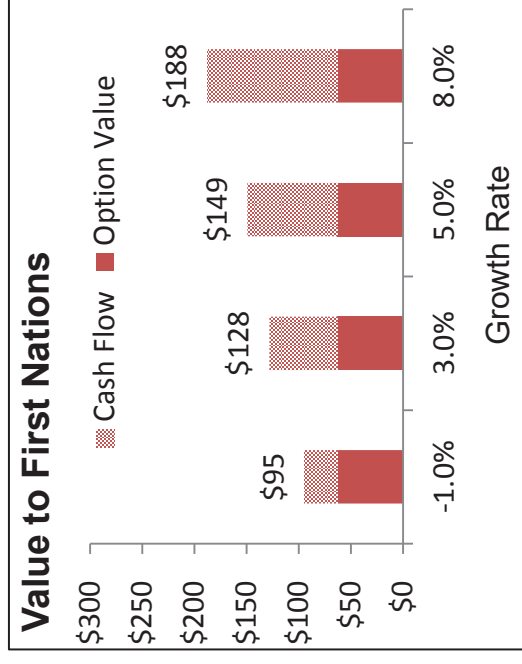
Cash Flow to First Nations – Varying Interest Rates

- The following charts show the cash flows and corresponding value to First Nations at the 3% ownership level associated with different interest rates
- As shown, varying interest rates will not impact the value that First Nations retain after repaying the loan, but will impact the cash flows received from years 1-15
 - In each year, increasing/decreasing interest rates by 50 basis points results in a decrease/increase of cash flows of about \$1.8M



Cash Flow to First Nations – Varying Growth Rates

- The following charts show the cash flows and corresponding value to First Nations at the 3% ownership level associated with different growth rates
- As shown, varying growth rates will impact, cash flows from years 1-15, the decision of whether to repay the loan in year 15 as well as the value that First Nations retain if they repay the loan
 - With negative growth over the next 15 years, First Nations would not repay the loan and would be left with no equity ownership. Cash flows in years 1 – 15 would also be reduced



8 - January 12, 2016 - First Nations Participation in the Ownership of Hydro One.pdf



TREASURY BOARD/MANAGEMENT BOARD OF CABINET

TB/MBC Date: January 12, 2016, held in the Chair's Boardroom, 1st Floor, Frost Building South, at 2:00 pm.

Attendees: Ms. D. Matthews (Chair), Mr. C. Sousa, Mr. B. Chiarelli, Ms. M. Hunter, Ms. M. Meilleur, Mr. Y. Naqvi, Ms. L. Sandals and Mr. Y. Baker.

Item Number: 02

Ministry: Energy

Title: First Nations Participation in the Ownership of Hydro One

Type of Item: General

Approved a negotiating mandate for the Ministry to negotiate the sale of Hydro One shares with the Chiefs of Ontario, including:

- i) Sale of up to three per cent of Hydro One shares to First Nations at the Initial Public Offering price or the then prevailing market price less an appropriate discount not to exceed three per cent, whichever is lower, with flexibility on timing of offering(s) between one and five years.
- ii) Terms and conditions that replicate the Power Workers' Union and the Society of Energy Professionals share purchase and loan agreements, including:
 - a) Up to a 15-year loan.
 - b) Interest rate equal to the Government of Ontario's borrowing rate plus a 15 basis point spread.
 - c) Interest payments made only from dividends on the shares and are otherwise deferred.
 - d) Recourse and security effectively limited to the pledged shares.
- iii) One agreement that can include all First Nations.
- iv) No voting rights until loans are repaid in full.

- v) An agreement that does not:
 - a) Impact the Province's fiscal position.
 - b) Impede the Province from meeting its objectives to sell additional shares of Hydro One during negotiations and after an agreement has been reached and to realize from those other sales, sufficient proceeds to meet fiscal objectives.

In this regard, the Board:

- i) Directed the Ministry:
 - a) To report back to Treasury Board/Management Board of Cabinet for approval prior to finalization of the term sheet, including any direct and/or indirect fiscal plan implications, such as changes in revenues already in the fiscal plan forecast for future share sales.
 - b) And the Ministry of Aboriginal Affairs (MAA) to work with ministries, as appropriate, to develop an inventory of both current and planned supports for First Nations in order to inform negotiations.
 - c) To work with the:
 - 1) Ministry of Finance (MOF) and the Ontario Financing Authority on the loan agreements and fiscal plan implications.
 - 2) Office of the Premier, Cabinet Office, MAA, MOF, and Treasury Board Secretariat on a communications plan.
- ii) Noted that:
 - a) Any future agreements with the Métis Nation of Ontario will be at a level proportionately lower than First Nations, and in no case will the combination of First Nations and Métis agreements be more than four per cent.
 - b) The Ministry will work with Chiefs of Ontario in developing a communications protocol in order to enable effective negotiations, including appropriate media blackouts.

January 12, 2016

- c) Funding for negotiations will be sourced from existing allocations for future share offerings of Hydro One.

Secretary, Treasury Board and
Management Board of Cabinet

Distribution

Mr. S. Imbrogno
Ms. D. Richardson
Mr. S. Thomspen
Mr. R. Burns
Ms. P. Reid
Mr. H. Zisser

9 - Assessment Note - ENE v7b Post Chair H1 Share Sale Strategy Energy Final Edits.pdf

REVISED TAB 2

**TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE**

Ministry:	Energy
Meeting Date:	March 22, 2016
Agenda Class:	(In Camera)
Last reviewed by: TB/MBC (August 2015)	Tracking to: Cabinet (March 30, 2016)

SUBMISSION TITLE: Hydro One Report Back, Secondary Share Sale Strategy

Information in this note contains confidential and commercially sensitive information and may have an impact on market expectations and / or assessment of share value. Securities laws impose restrictions on the manner in which a prospective issuer and/or selling security holder with a controlling share block communicates with the investing public. Any communication on these matters should be restricted to publicly available information.

I. DECISION BEFORE THE BOARD

- Approval of a proposed approach for secondary share sales in 2016-17 including size, price, timing and mechanisms

II. RECOMMENDATIONS:

• Receive report back on results of the Hydro One Initial Public Offering • Approval of the Ministry's proposed approach for secondary share sales in 2016-17	<i>Approve</i>

III. FINANCIAL SUMMARY – N/A

\$ Millions	2015-16	2016-17	2017-18
Initiative cost requested	0.0	0.0	0.0
Initiative cost recommended	0.0	0.0	0.0
Recommended program base:	0.0	0.0	0.0
Offset Recommended:	0.0	0.0	0.0
Total Fiscal Impact	0.0	0.0	0.0

IV. KEY COMMENTS AND CONSIDERATIONS

In August 2015, the Ministry received TB/MBC approval of an implementation plan for the initial public offering (IPO) of Hydro One. At that time, it was requested that the Ministry of Energy report back to the Board with:

- Results of the IPO
- Secondary Share Sale Strategy

Results of the IPO (Appendix C provides more on IPO results):

The Ministry indicates the Hydro One Initial Public Offering (IPO) closed in November, and approximately 15% of Hydro One common shares are now trading on the Toronto Stock Exchange.

- 89,250,000 shares, or 15% of Hydro One, was offered at a share price of \$20.50, for total gross proceeds

IV. KEY COMMENTS AND CONSIDERATIONS (CONTINUED ...)

of approximately \$1.83 billion.

Energy estimates an implied 5.5 per cent IPO share price discount based on the stock price on the first day of trading. Since then, the stock price has traded up an additional 11.2%, to March 15, 2016. The Province also sold, by way of private placements, an additional aggregate amount of approximately 0.9% of Hydro One shares to trusts established by the Power Workers Union (PWU) and the Society of Energy Professionals (Society), bringing the Province's current ownership to approximately 84% of Hydro One.

Proposed Secondary Share Sale Strategy (Appendix D provides more on the strategy)

The Province's relationship with the company has changed. Hydro One now operates independent of the Province. Under a Registration Rights Agreement, Hydro One is required to support the Province as it moves forward with the sale of subsequent tranches of shares.

As communicated in the 2016 Ontario Budget, the Province intends to continue to broaden the ownership of Hydro One with an intention of reducing its ownership of Hydro One to 40%. Under the Electricity Act, the Province cannot sell shares such that it falls below 40% ownership. The Ministry indicates this will be carried out in a staged and prudent manner, balancing fiscal requirements and protecting the value of the Province's remaining 40% investment.

- The Minister of Energy will represent the Province as an investor / shareholder of Hydro One Limited shares and will approve, based on the proposed Treasury Board Minute, individual transactions, unless otherwise delegated.
- The Minister is supported by the Expert Investment Advisory Committee of external advisors, and by the Ministry's Investment and Governance Secretariat.

The Ministry is recommending the following for Hydro One secondary offerings in 2016-17 (Aspects may be refined in consultation with the Expert Investment Advisory Committee):

Mechanism	Bought or overnight marketed with a price floor transaction. • Province's securities are purchased by underwriters who in turn sell them to institutional and retail investors • Appendix F explains potential mechanisms
Timing of Offerings	Flexibility to execute throughout the year depending on market conditions, with a transaction as early as Spring if an opportunity arises
Size	Share sales up to approximately \$2B in 2016-17 • Represents up to about 14% of the outstanding shares of Hydro One • While the expectation is a tranche of up to \$2B, or perhaps two smaller tranches (e.g. spring and fall), the Province will want to maintain flexibility in order to accommodate changes as a result of market conditions
Pricing	Proceed with a transaction as long as the market price is at or above \$23.30 or the net price after fees, transaction costs and discount is at or above \$21.70.
Underwriting Fees/Discount	Achieve a combined fee and discount of no more than 7%, comprised of a 1-3% fee and 4-5% discount • 1-3% Fee: Paid to underwriters for executing the transaction and taking on risk. The IPO was sold with fees of 1% for institutional and 3% for retail (~1.8% blended). • 4-5% Discount: Offered to investors in order to incent participation in the offering, rather than buying shares in the market. The IPO did not have a discount set out in advance, the implied discount was ~5.5% based on share movement post-IPO on the initial day of trading post-IPO.

Process	Introduce a process that is transparent, fair and maximizes value to the Province. Where feasible, incent price tension while respecting lock up and timing limitations • Similar to the IPO, several procurements are needed to support the secondary share sale strategy, which the Ministry of Energy will require an exemption, if not already covered by the one provided for the IPO in August 2015.

Fiscal Considerations

The Province has communicated publicly that it will proceed with future offerings in a staged and prudent manner, over time reducing its stake to 40 per cent while remaining the largest shareholder. No official communication has been made by the Province on how much it would divest in 2016-17.

The 2016 Fiscal Plan assumes (not public) that the Province proceeds with share sales of about 14 2/3% in 2016-17, achieving a total gain on sale of about \$490 million in 2016-17.

Hydro One Share Sales Gain Estimates Assumed for Fiscal Plan	(\$billion)	2016-17	2017-18	2018-19
Estimated H1 Gain on Sale		0.49	0.57	0.62

The table above provides a summary of the estimated gain on sale amounts assumed for the 2016 Fiscal Plan (not public). For clarity, the gain on sale reflects total proceeds after any discounts and less transaction costs / fees, and less the book value of the of the equity of the shares sold. Appendix E provides further commentary.

If the Province achieves a gross sale price of \$23.30 before fees, transaction costs, and discounts totalling seven (7) per cent, it would be on track to achieve the gain on sale target built into fiscal plan (based on estimated book value per share, which won't be confirmed until Public Accounts).

- This is equivalent to the Province achieving a \$21.70 sale price net of fees, transaction costs and discounts totalling seven (7) per cent. A net perspective highlights flexibility if the Ministry can shrink fees, transaction costs, or the discount. (e.g., if the Ministry can achieve 6% all-in costs, fees and discount, instead of the 7% above, it could sell at a lower price than \$23.30 while still meeting the necessary gain on sale target).

ENERGY's submission does not explicitly include or mention other transaction costs incurred by the Province as part of its 7% fee/discount structure. If fees, transaction costs and discounts together exceed a total of 7 per cent of the gross price, the Province would need a price higher than \$23.30 to meet the 2016/17 gain on sale target.

Meeting the gain on sale targets are important to ensure that the Province meets its target of \$4 billion in net revenue gains from broadening Hydro One ownership for investments in infrastructure.

There is significant uncertainty with future prices, both positive and negative. While ENERGY could give consideration to not selling the full 14 2/3% amount in 2016-17, if it is able to achieve a price significantly higher than anticipated and retain the additional shares for sales in future years, there is no guarantee that prices will increase and that this flexibility will assist the Province in meeting net fiscal targets in future years. Please see the Appendix E for additional discussion on fiscal considerations.

The Ministry's 2016-17 funding allocation includes \$70M for transactions costs. This amount is split, \$61M for transaction(s) related expenses, including the fees and transactions costs noted above, but not the share price discount; and \$9M for expenses primarily facilitating First Nations / Metis ownership.

Trillium Trust and Debt Pay Down

According to the Ministry of Finance / Ontario Financing Authority, the broadening of ownership of Hydro One is still on track to raise an estimated \$4 B in net revenue gains, which it will reinvest in infrastructure through the Trillium Trust, and \$5 B to reduce debt, based on prices derived from assumed IPO pricing multiples.

- Note that the net revenue gains includes proceeds from a gain on sale of shares as well as the net revenue gain to the Province from the impact of Hydro One's deferred tax benefit as a result of the IPO, the latter of which is a non-cash benefit.
- The cash proceeds just from the sale of the shares is currently estimated by the Ministry of Finance / Ontario Financing Authority to be less than \$9 billion on its own, subject to uncertainty of actual share prices for future secondary share sales. This analysis does not include the \$800 million cash special dividend payment the Province received pre-IPO, or the additional payments-in-lieu of tax of about \$200 million paid after the IPO.

Procurements

In August, 2015, the Ministry received an exemption from the open competitive requirements of the OPS Procurement Directive to acquire active bookrunners and the underwriting syndicate for the IPO. The Ministry indicated that it would be using an invitational procurement, which is only permissible for procurements of up to \$100,000 under the Procurement Directive.

The Ministry is seeking a similar exemption for the acquisition of bookrunners and the underwriting syndicate for secondary share sales. The Ministry proposes to work with the Expert Advisory Committee to determine the procurement process. Depending on the timing, the same bookrunners may be used as were used for the IPO, or an invitational process may be undertaken, or some other process used.

The Ministry indicates that it will endeavour to abide by the principles of the Directive (value for money, vendor access, transparency and fairness, and responsible management)

Similar to the approach taken for the IPO, the Ministry wants to retain the flexibility to reimburse the bookrunners for expenses related to the secondary share sales. These expenses will be lower than those for the IPO, as marketing and road shows are not required. All of the types of expenses will be outlined in the underwriting agreement. It is the Ministry's intention to ensure that the underwriters pay their own legal fees. However given this Agreement is not finalized the Ministry is seeking flexibility to reimburse these costs if necessary.

This request has not been reviewed by the Supply Chain Leadership Council.

Risks

First Nations: Potential transactions with First Nations / Metis, in amount and share price, would affect the price that the Ministry would need to receive in a secondary offering in order to achieve the overall Hydro One 2016-17 gain on sale / net fiscal targets. No decisions on the First Nations / Metis transaction, including timing have been made at this time.

If any transactions with First Nations / Metis are negotiated at prices below the proposed \$23.30 gross floor price, to still meet the fiscal plan overall gain on sale target, the Ministry would need to make up that difference with its share sales to the market, likely requiring a price to market above the \$23.30 gross floor price, if a transaction with First Nation / Metis occurred in 2016/17.

An early and large 2016-17 secondary sale tranche may also affect discussions with the Chief of Ontario with respect to the First Nations desire to acquire an ownership stake in Hydro One.

Market Conditions and Timing: The share price may weaken between the current mid-March price and when a transaction may occur, or market capacity may be insufficient to take a full about \$2 billion in shares in one tranche in the spring, at least without a significant share price discount, which could hurt the ability to achieve the targeted gain on sale.

- Even if the share price and market capacity is high enough in the spring, the government may face criticism over a share sale in early 2016-17 if the share price were to further increase in 2016-17.
- Even if the net price is achieved to meet the gain on sale target, if the price discount to achieve a sale of all about 14% in one tranche is very large, the government may face criticism.

Name of analyst:	James Strang	Phone number:	7-2071
Date:	March 22, 2016	Log number:	
Branch / Division:	General Government, Planning and Resources Branch, PEMD		

APPENDIX A: PROPOSED MINUTE

Approve a secondary share sale strategy for 2016-17 for the Ministry of Energy, including:

- i. Sale(s) of up to approximately \$2,000,000,000 in 2016-17, subject to the advice of the Expert Investment Advisory Committee, of the Province's interest in Hydro One voting securities, through a bought deal, or overnight marketed, with a price floor transaction, and subject to sales of no more than 14 2/3% of the current number of Hydro One voting securities of 595 million.
- ii. Flexibility on the number of and timing of offering(s) depending on market conditions.
- iii. The secondary offering shares will also be listed on the Toronto Stock Exchange.
- iv. The price of the offering will be approved by the Ministry of Energy working together with the Expert Investment Advisory Committee in consultation with the active bookrunners and underwriters, and working with the Ministry of Finance / Ontario Financing Authority and Cabinet Office.
- v. The combined fee, transaction cost and discount total will be no more than 7%, comprised of a 1-3% fee / transaction cost amount and 4-5% discount.
- vi. As long as the gross price is at or above \$23.30 or the price net of fees, transaction costs and discount is at or above \$21.70, the Minister of Energy would have the authority to execute the transaction.

Approve an exemption from the open competitive requirements of the OPS Procurement Directive to allow the Ministry to undertake a procurement to acquire active book runners and the underwriting syndicate for the 2016-17 secondary share sale(s), and in this regard:

- i. Approve an exemption from the mandatory requirements of the OPS Procurement Directive in respect of the procurement documents for this procurement.
- ii. Approve the reimbursement of expenses for active book runners.

Authorize the Minister of Energy to sign the prospectus supplement, underwriting agreement, lock up agreement, and other ancillary agreements necessary to complete secondary offerings in 2016-17.

Direct the Ministry of Energy to work with Ministry of Finance / Ontario Financing Authority on implementing any transaction, including analysis and development of fiscal impacts.

Direct the Ministry of Energy to continue to work with Cabinet Office, Premier's Office, Ministry of Finance / Ontario Financing Authority on a communications plan.

Direct the Ministry of Energy to provide necessary information to the Ministry of Finance (Ontario Financing Authority), and Treasury Board Secretariat to develop regulations under the *Trillium Trust Act, 2014*, associated with any shares sold.

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE – N/A
TABLE B1
*Appropriations
Basis*
Fiscal Plan Basis

\$ Millions	2015-16	2016-17	2017-18	2015-16
Initiative cost recommended	0.0000	0.0000	0.000	
<i>Expense changes:</i>				
Total Fiscal Impact (draw from c-funds)	0.0000	0.0000	0.0000	0.0000

APPENDIX C: RESULTS OF THE HYDRO ONE INITIAL PUBLIC OFFERING

The Ministry provided the following information in its submission:

- Analyst research from various dealers signals positive valuation for Hydro One.

Terms of the Offering	
Issue Size	\$1.83B or 89,250,000 shares (including over-allotment option)
Issue Price	\$20.50
Over-Allotment Option	10% of base offering
Dividend	\$0.84 per common share annually
Lock-Up	180 days (ends May 3/2016 unless waived)
Exchange/Ticker	TSX: H
Inst./Retail	60/40

↓Red denotes negative change. ↑Green denotes positive change

Valuation					
Dealer	Target ('17)	Multiple ('17)	EPS 2016E	EPS 2017E	Rating
National Bank	\$26.00	18.3x	\$1.22	\$1.27	Sector Perform
RBC	\$26.00	21.0x	\$1.17	\$1.26	Outperform
BMO	\$23.50	18.2x	\$1.17	\$1.22	Market Perform
Scotia*	\$23.00	18.7x	\$1.13	\$1.23	Sector Perform
IA Securities	\$23.00	17.0x	\$1.12	\$1.20	Hold
CIBC	\$24.00	17.8x	\$1.17	\$1.25	Sector Perform
Credit Suisse	\$22.00	18.3x	\$1.15	\$1.20	Underperform

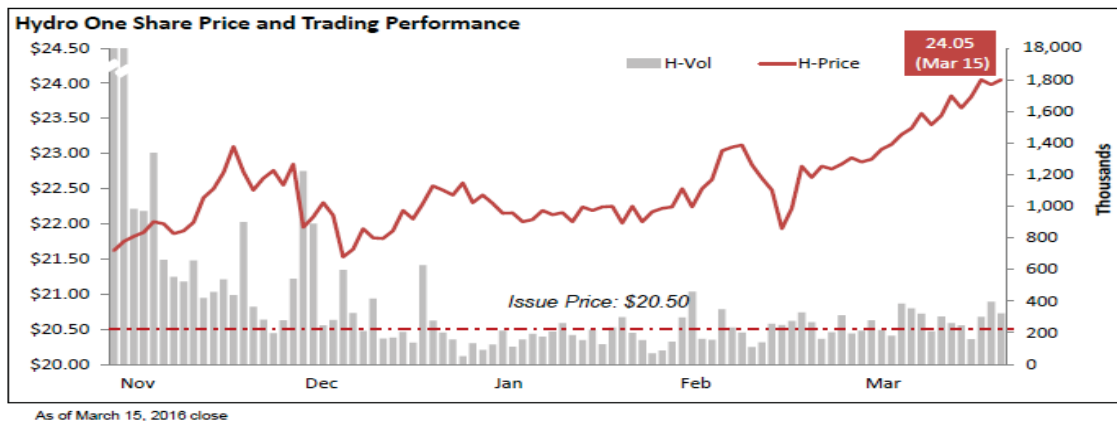
Key Findings

- Stable Cash Flows:** Resulting from stable regulated environment
- Steady Growth:** Hydro One is undertaking a five-year capex program of \$7.7B (~\$1.5B per year)
- Potential Consolidation:** given push by government and current market activity

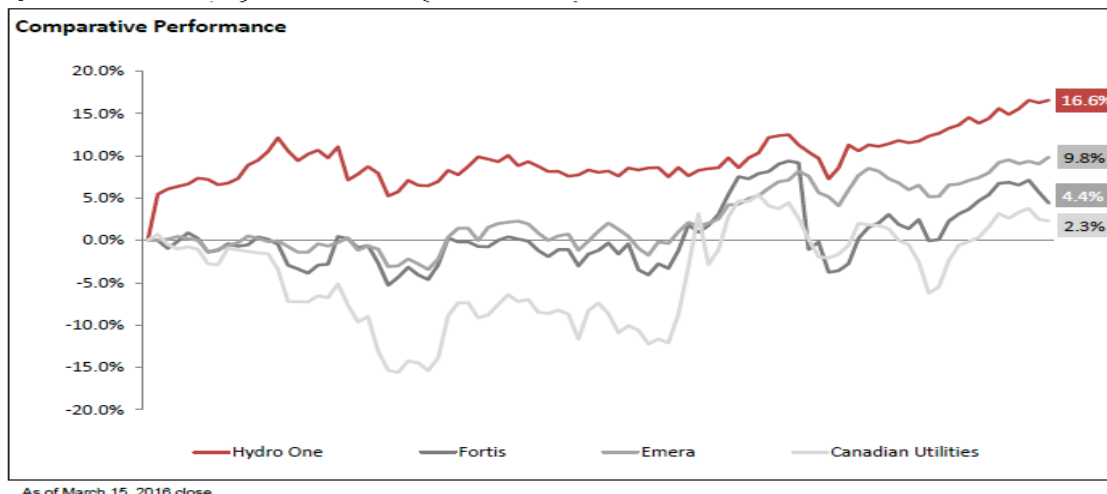
Risks Identified

- Regulatory risks:** Potentially adverse regulatory decisions, including: lower allowed ROEs, rate decisions etc.
- Political risk:** While a governance agreement exists, a change in government policy could impact Province's future share sales; the Province's role; PILs regime etc.
- Economic growth:** Economic downturn
- Competitive risk:** There is no guarantee that Hydro One will be awarded future major transmission projects

- Share trading volume has tapered off, averaging about 300,000 shares trading per day. On day one, 31.5 million shares traded, stock price increased 5.5%. March 2, 2016 price of \$23.36 is above the floor price of \$23.30 (key share price to generate target gross revenues).



- Hydro One has outperformed its peers since the IPO.

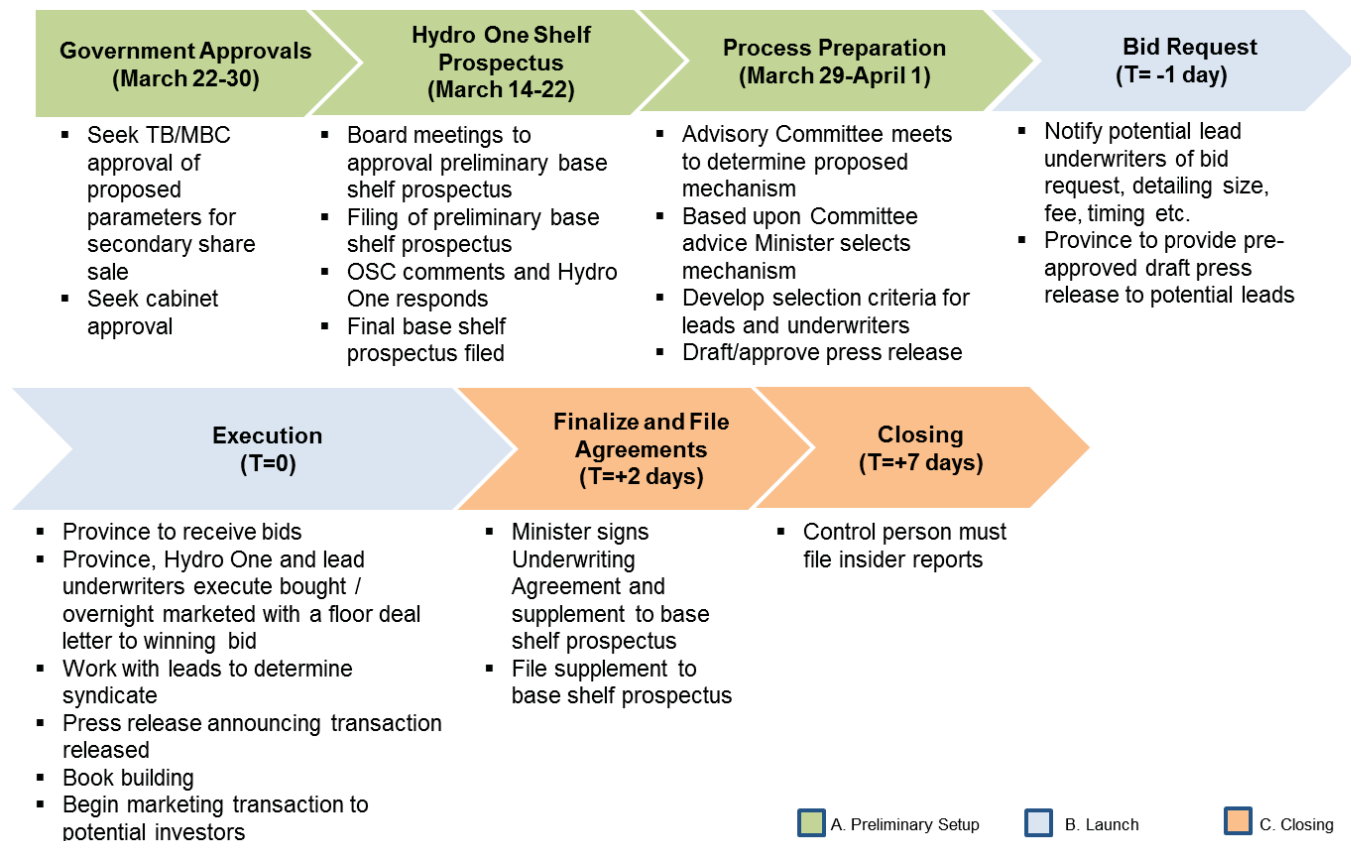


APPENDIX D: SECONDARY SHARE SALE STRATEGY

The table below is an expanded version of the one in the main body of the note. Key to ensuring the province meets revenue targets for 2016-17 is achieving at least the floor share price

Mechanism	Bought or overnight marketed with a price floor transaction. - Province's securities are purchased by underwriters who in turn sell them to institutional and retail investors. - The Province would be presented with a binding bid letter which contains the terms of the offering, including the purchase price. Once accepted, the underwriters "own" the shares, the deal is announced and marketing begins.
Timing of Offerings	Flexibility to execute throughout the year depending on market conditions, with a transaction as early as Spring if an opportunity arises. - There may be opportunities to align with Hydro One related events (earnings releases, index inclusion, etc.). - Market timing risk (if the market is receptive in spring, the Province will need to consider whether to expect even better pricing in fall or winter). - Size of offering (if price net of fees and discount materially change as the size of the offering increases, consider a smaller offering with intent for a second in the fall) - Interest rate increases negatively impact price.
Size	Share sales up to approximately \$2B in 2016-17 - Represents up to about 14% of the outstanding shares of Hydro One. - While the expectation is a tranche of up to \$2B, or perhaps two smaller tranches (e.g. spring and fall), the Province will want to maintain flexibility in order to accommodate changes as a result of market conditions.
Pricing	Proceed with a transaction as long as the market price is at or above \$23.30 or the net price after fees, transaction costs and discount is at or above \$21.70 Any sale price would be approved by the Minister of Energy, in consultation with the Expert Investment Advisory Committee, which will act as the Pricing Committee during implementation.
Underwriting Fees/Discount	Achieve a combined fee and discount of no more than 7%, comprised of a 1-3% fee and 4-5% discount. 1-3% Fee: Paid to underwriters for executing the transaction and taking on risk. The IPO was sold with fees of 1% for institutional and 3% for retail (~1.8% blended). 4-5% Discount: Offered to investors in order to incent participation in the offering, rather than buying shares in the market. The IPO did not have a discount set out in advance, the implied discount was ~5.5% based on share movement post-IPO.
Process	Introduce a process that is transparent, fair and maximizes value to the Province. Where feasible, incent price tension while respecting lock up and timing limitations. Similar to the IPO, several procurements are needed to support the secondary share sale strategy, which the Ministry of Energy will require an exemption, if not already covered by the one provided for the IPO in August 2015.

The following graphic lays out next steps



APPENDIX E: OTHER FISCAL CONSIDERATIONS

The 2016 Fiscal Plan assumes (not public) that the Province proceeds with share sales of about 14 2/3% in 2016-17, achieving a total gain on sale of about \$490 million in 2016-17.

Hydro One Share Sales Gain Estimates Assumed for Fiscal Plan (\$bn)	2016-17	2017-18	2018-19
Estimated H1 Gain on Sale	0.49	0.57	0.62

The table provides a summary of the estimated gain on sale amounts assumed for the 2016 Fiscal Plan (not public). For clarity, the gain on sale reflects total proceeds after any discounts and less transaction costs / fees, and less the book value of the equity of the shares sold.

For a sale of about 14 2/3% of Hydro One shares, the estimated book value of the Province's equity for those shares would be about \$1.4 billion (actual book value will depend on the timing of the sale and finalisation in Public Accounts). For an estimated gain of about \$0.49 billion, the net proceeds after sales discounts, fees and transactions costs would be about \$1.89 billion (i.e., \$1.4 B book value + \$0.49 B gain on sale). If fees, discounts and transactions costs are capped at seven (7) per cent, that would be about \$0.14 billion, while the "discount" compared to the market trading price of the shares is not paid to the Province, the total value related to the proposed secondary shares to be sold in 2016-17, across the book value, gain on sale, and fees, transactions costs and discount, would be about \$2 billion.

The sale of Hydro One shares will also have ongoing fiscal implications.

The timing and prices received for any 2016-17 Hydro One share sales will also have other associated fiscal impacts, notably the Province's forgone net income from Hydro One, partially offset by interest on debt savings (from avoided borrowing from the cash proceeds received), with a small net negative fiscal impact from a sale early in the fiscal year.

While broadening of ownership of Hydro One results in significant upfront cash proceeds and non-cash revenue impacts for the Province, forgone Provincial revenues going-forward is also an implication of broadening of ownership.

- For example, the Financial Accountability Office released an assessment of the financial impact of the partial sale of Hydro One on October 29, 2015, where it noted the ongoing revenue impacts from the sale of Hydro One shares. It stated that in the years following the sale of 60 per cent of Hydro One, the Province's budget balance would be worse than it would have been without the sale, as the forgone Hydro One net income related to the 60% sold, and forgone payments-in-lieu of taxes (PILs), would be in the range of about \$600 - \$800 million per year, and outweighing any interest on debt savings.
 - o Note that much of the forgone income happened with the IPO in 2015, with the forgoing of about 16 per cent of Hydro One net income and 100 per cent of the PILs.
 - o The incremental impact of forgone Provincial revenue from Hydro One from each subsequent sale tranche, net of IOD savings, is estimated to be relatively small.
- Note that the FAO analysis did not account for potential improvements in Hydro One performance resulting from the partial sale. Note as well that Hydro One returns on its

regulated Ontario businesses is constrained over time by the Ontario Energy Board's regulatory process and decisions, protecting Ontario ratepayers.

Achieving the gain on sale target is subject to the book value of the Province's equity in Hydro One at the time of the transaction. The Province's book value of equity per share would change over time, based on Hydro One's financial performance over time. A sale later in the fiscal year (e.g., Fall 2016 vs. Spring 2016) could result in a different book value amount and a different share price needed to meet fiscal targets; however, the impact on the book value change in-year is expected to be very small.

Broadening Hydro One ownership is also part of a broader Asset Optimization initiative of the Province. This initiative includes the sale of certain Provincial real estate assets (e.g., OPG Headquarters, LCBO head office lands). The timing of these transactions will affect when the Province records the associated fiscal gains, which may also impact the desired timing for subsequent Hydro One share sales in order to meet fiscal targets.

- Also, if market conditions are not supportive of selling about 14% of Hydro One in 2016-17, the asset optimisation targets in the fiscal plan for 2016-17 could potentially be met by the timing and gain on sale from real estate transactions, depending on real estate market conditions.

APPENDIX F: SECONDARY SHARE SALE – POTENTIAL MECHANISMS

The Province can consider several potential mechanisms for future share sale offerings. The Ministry is proposing to retain the flexibility to go with either Bought or Overnight Marketed, in consultation with the Expert Investment Advisory Committee.

	1. Bought	2. Overnight Marketed	3. Marketed
Description	Underwriters provide the Province with an offer to purchase shares at a specified price, taking on risk to place shares with investors	A variant on the traditional bought deal structure, where the deal is marketed and priced prior to a commitment from the underwriters. A price floor prior to marketing can provide certainty	Similar to IPO process. Hydro One management required to market to investors. Strategy generally employed in secondary offerings where there is news to disseminate (e.g., large acquisition)
Marketing Timing	(<1day)	(<1day)	Varies from about 10 days to as long as the IPO process
Rationale	• Risk transferred to investment dealers • Certainty of size and price	• Allows for larger pool of investors than bought • Allows price discovery	• Affords broadest investor distribution • Opportunity to update investors
Considerations	• Eliminates market risk for issuer • Ability to act opportunistically • Minimal management time • Requires pragmatic pricing	• Risk retained by issuer, although possible to mitigate using a price floor from underwriters • Generally for an offering where demand is uncertain • Engages US and international institutions more than a bought deal • Shortens market risk vs. marketed offering • Potential risk from overnight events • Institutions drive pricing	• No price or size certainty • Maximum ability to cover the Hydro One story to build demand • Would require management's participation • Inconsistent with market practice in normal circumstances • Depending on timing, roadshow may be too recent to have new story to deliver

9 - March 22, 2016 - Hydro One Secondary Share Sale Strategy Report Back.pdf



TREASURY BOARD/MANAGEMENT BOARD OF CABINET

TB/MBC Date: March 22, 2016, held in the Chair's Boardroom, 1st Floor, Frost Building South, at 3:00 pm.

Attendees: Ms. D. Matthews (Chair), Mr. S. Del Duca, Mr. K. Flynn, Mr. J. Leal, Mr. B. Mauro, Mr. Y. Naqvi, and Ms. L. Sandals.

Item Number: 12

Ministry: Energy

Title: Hydro One Secondary Share Sale Strategy Report Back

Type of Item: General

Received a report on the Hydro One Secondary Share Sale Strategy.

In this regard, the Board:

- i) Approved a secondary Hydro One share sale strategy for 2016-17, including:
 - a) Sale(s) of up to approximately \$2,000,000,000 in 2016-17, subject to the advice of the Expert Investment Advisory Committee, of the Province's interest in Hydro One voting securities, through a bought deal, or overnight marketed, with a price floor transaction, and subject to sales of no more than 14 2/3 per cent of the current number of Hydro One voting securities of 595 million.
 - b) Flexibility on the number of and timing of offering(s) depending on market conditions.
 - c) The secondary offering shares will also be listed on the Toronto Stock Exchange.
 - d) The price of the offering will be approved by the Ministry of Energy working together with the Expert Investment Advisory Committee in consultation with the active bookrunners and underwriters, and working with the Ontario Financing Authority (OFA) and Cabinet Office (CO).
 - e) The combined fee, transaction cost and discount total will be no more than 7 per cent, comprised of a 1-3 per cent fee / transaction cost amount and 4-5 per cent discount.

March 22, 2016

- f) As long as the gross price is at or above \$23.30 or the price net of fees, transaction costs and discount is at or above \$21.70, the Minister of Energy would have the authority to execute the transaction.
- ii) Approved an exemption from the open competitive requirements of the OPS Procurement Directive to allow the Ministry to undertake a procurement to acquire active book runners and the underwriting syndicate for the 2016-17 secondary share sale(s), and in this regard approved:
 - a) An exemption from the mandatory requirements of the OPS Procurement Directive in respect of the procurement documents for this procurement.
 - b) The reimbursement of expenses for active book runners.
- iii) Authorized the Minister of Energy to sign the prospectus supplement, underwriting agreement, lock up agreement, and other ancillary agreements necessary to complete secondary offerings in 2016-17.
- iv) Directed the Ministry to:
 - a) Work with the OFA on implementing any transaction, including analysis and development of fiscal impacts.
 - b) Continue to work with the Office of the Premier, CO, and the OFA on a communications plan.
 - c) Provide necessary information to the OFA, and Treasury Board Secretariat to develop regulations under the Trillium Trust Act, 2014, associated with any shares sold.

Secretary, Treasury Board and
Management Board of Cabinet

Distribution

Mr. S. Imbrogno
Mr. S. Thompson
Mr. R. Burns
Mr. H. Zisser

Energy-Assets-Council-Note_vFinal.doc



TAB 1

TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	April 15, 2015
Agenda Class:	Major Item (In Camera)
Last reviewed by: Cabinet, February 4, 2015	Tracking to: Cabinet, April 15, 2015

SUBMISSION TITLE:	Hydro One Initial Public Offering and merger of Hydro One Brampton with local distribution companies

I. DECISION BEFORE THE BOARD

- Approve the announcement and terms for an Initial Public Offering (IPO) process for Hydro One, and an intended merger of Hydro One Brampton with other local distribution companies.

II. RECOMMENDATIONS:

• Direct the Ministry to work with CO, MOF (Ontario Financing Authority), and TBS on the development of an IPO implementation plan for Hydro One.	<i>Direct</i>
• Approve that the IPO will include the divestment of approximately 15% of the Province's interest in Hydro One in 2015-16.	<i>Approve</i>
• Note that the Province would provide to Hydro One a financial benefit, such as a capital contribution, up to the amount of departure tax paid to the Ontario Electricity Financial Corporation by Hydro One.	<i>Note</i>
• Recommend legislative amendments that would enable the Province to provide a financial benefit to the OEFC equivalent to the net IPO proceeds, less certain prescribed deductions.	<i>Recommend</i>
• Approve the development of a Governance Agreement that would lay out the ongoing obligations of both the Province and Hydro One.	<i>Approve</i>
• Recommend legislative and regulatory amendments that would allow Hydro One to operate on a level playing field with other publicly-traded companies and to maximize proceeds.	<i>Recommend</i>
• Approve an exemption from the open competitive requirements of the OPS Procurement Directive for Hydro One to acquire book runners for the IPO through an invitational procurement	<i>Approve</i>
• Approve an exemption from the open competitive requirements of the OPS procurement directive to conduct non-competitive procurement processes for Hydro One to acquire executive recruitment services to identify nominees for the Hydro One Board of Directors, the Hydro One Chief Financial Officer, the Board of Directors for the Hydro One Brampton combined entity, the Hydro One Chief Financial Officer, and other select Hydro One senior management positions.	<i>Approve</i>
• Approve an exemption from the open competitive requirements of the OPS	<i>Approve</i>

Procurement Directive for the Ministry to acquire a financial expert to provide advice on the IPO process.	
Approve the Minister of Energy to direct Hydro One to immediately enter into negotiations to combine Hydro One Brampton with one or more urban local distribution companies (LDCs).	<i>Approve</i>
Recommend that the Ministry will introduce of a number of changes to ensure on-going effective Ontario Energy Board oversight, including including adding consumer protection and education to the OEB's objects.	<i>Approve</i>
Direct the Ministry to report back to TB/MBC with a completed Governance Agreement with Hydro One prior to execution.	<i>Direct</i>
Direct the Ministry to report back to TB/MBC with a detailed IPO implementation plan by Summer 2015.	<i>Direct</i>
Direct the Ministry of Energy to report back to Treasury Board/Management Board of Cabinet with details on the final Brampton transaction results.	<i>Direct</i>
Direct the Ministry to report back to TB/MBC prior to selling any additional subsequent shares of Hydro One, after the IPO.	<i>Direct</i>
Note that the Ministries will report back with proposed regulations to designate Hydro One shares as qualifying assets for the purposes of the Trillium Trust.	<i>Note</i>

III. FINANCIAL SUMMARY*

\$ Millions	2015-16	2016-17	2017-18
Initiative cost requested	0.0	0.0	0.0
Initiative cost recommended	0.0	0.0	0.0
Recommended program base	0.0	0.0	0.0
Offset Recommended	0.0	0.0	0.0
Total Fiscal Impact	0.0	0.0	0.0

*All procurement, due diligence, legal, and transaction costs during 2015-16 would be offset from the proceeds resulting from the proposed IPO.

IV. KEY COMMENTS AND CONSIDERATIONS

Note: all transaction amounts presented are based on Council estimates and are subject to change based on actual market estimates.

On April 1, 2014, Cabinet Office received approval from TB/MBC to establish the Premier's Advisory Council on Government Assets (the Council), to provide analysis, advice and recommendations on how best to maximize value of a number of key government assets, including Hydro One.

In November 2014, the Council released a report on its initial findings entitled *Retain and Gain: Making Ontario's Assets Work Better for Taxpayers and Consumers*, and the Council was directed by Cabinet to proceed with Phase 2.

In January 2015, Cabinet Office reported back to TB/MBC with an updated Terms of Reference

for Phase 2, including:

- Developing implementation planning associated with the separation of the distribution and transmission businesses that are currently integrated in Hydro One; and
- Developing implementation planning and options such as a sale, merger, or amalgamation of Hydro One Brampton.

IPO Process

Through its work, the Council's due diligence and on-going work with the government and other stakeholders has concluded that the Province should proceed with an Initial Public Offering of Hydro One, without separating the distribution and transmission businesses, because:

- there would be costs to separating Hydro One's distribution and transmission businesses, and that the process of separation would take considerable time during a period when the market is particularly attractive;
- all provincial distribution or transmission public policy objectives can be achieved through regulatory oversight;
- an IPO would allow for the company to be widely-held; and
- There is a potential for accelerated Local Distribution Company (LDC) consolidation from merging Hydro One Brampton with other Greater Toronto and Hamilton Area (GTHA) LDCs to drive efficiencies and benefit ratepayers.

As a result, the Ministry is proposing that, based on the Council's recommendations:

- it proceed with an IPO for approximately 15 percent of Hydro One targeted in Fall 2015/Winter 2016;
- the IPO documents indicate that the Province intends to participate in subsequent secondary offerings such that it would retain not less than 40 percent of its Hydro One common shares;
- an allocation of approximately 25-30 percent of the shares in the IPO be targeted for the retail market;
- that, aside from the Province, no single entity be allowed to own more than 10 percent of the voting shares of the new Hydro One (this restriction would also be included in proposed legislation).

Prior to the IPO, the Minister of Energy would issue to Hydro One one or more unanimous shareholder declarations and/or resolutions, to assume decision making from the Board of Directors for all decisions, direction, and instructions related to the IPO of Hydro One.

In addition, the Minister of Energy would appoint a new Chair to the Board of Directors of Hydro One, and the Minister of Energy would appoint a new Board of Directors for Hydro One, based on the recommendation of the new Chair.

Fiscal Considerations

1. Departure Tax/Capital Contribution

With a sale of greater than 10 percent, Hydro One will become taxable, and as it leaves the payments-in-lieu of tax (PILs) regime it will have to pay an estimated \$2.6B in departure tax to the Ontario Electricity Financial Corporation (OEFC).

- Departure Tax is not an eligible expense that Hydro One can recover from ratepayers, and must be expensed in the year it is incurred.
- As Hydro One's net income would decline by the amount of the tax, the departure tax would not reduce stranded debt (since the Province dedicates an amount to OEFC in respect of Hydro One's net income).

To maintain the capital structure of Hydro One, the Ministry of Finance is assessing different options that would allow Hydro One to fulfil its departure tax obligation to the OEFC. The Ministry of Finance is currently recommending, based on the Council's advice, that the Province enter into an agreement with Hydro One whereby the Province would agree to make a capital contribution to Hydro One, up to the amount of the departure tax, to coincide with Hydro One's payment of the departure tax.

- While the transactions (the Province providing capital to Hydro One and Hydro One paying the departure tax to the Province) would be simultaneous and fiscally neutral on a net basis, the Province's capital contribution would need to be recorded as an expense through a voted appropriation.
- It may be possible to offset a portion of the appropriation requirement by reducing the allocation of the Ministry of Finance's Electricity Sector Provision.

Due to the large size of the appropriation requirement, the Province's provision of the capital contribution would result in the need to table Supplementary Estimates in the days immediately preceding the IPO once a final valuation has been determined, or agreed to for departure tax purposes.

- The final value of the departure tax and capital contribution to be made will not be known until there is a better understanding of the final valuation for Hydro One.

Other options being considered by the Ministry include a net payment in cash, or a remission to the departure tax. A remission of departure tax would eliminate the need to table Supplementary Estimates, but raises a complication in the provision of shares to the OEFC.

The Ministry of Finance/Ontario Financing Authority will report back to TB/MBC with details on the

proposed capital contribution, cash transaction or remission to the departure tax, and for approval of supplementary estimates, if required, prior to implementation.

2. IPO Proceeds

The Initial IPO of 15 percent of Hydro One is estimated by the Council to result in net proceeds of \$760M in 2015-16. A more refined estimate will be available in the days leading up to the IPO, based on current market conditions at the time (see table on page 6 for additional detail, which is based on a scenario that assumes 60 percent of Hydro One's equity is sold over four years).

- The Province is also projected by the Council to receive an additional fiscal benefit of \$770M in 2015-16 due to "tax goodwill", a one-time accounting gain that provides a fiscal benefit; and \$40M in interest savings in 2015-16.
- Note that with an IPO of greater than 10 percent, the Province would lose a proportionate share of Hydro One's net income going forward, and also lose all PILs revenues from Hydro One going-forward, as Hydro One would exit the PILs regime and become federally and provincially taxable. The total loss for these items is estimated at \$140M in 2015-16.

Under the *Electricity Act, 1998* proceeds from any Hydro One divestment, less transaction costs and any amounts determined by the Minister of Finance in connection with the Province's acquisition costs and obligations in Hydro One and transaction costs are to be paid to the OEFC.

The Ministry of Finance is proposing instead that the *Electricity Act, 1998* be amended as part of the proposed legislation to allow the net proceeds from the Hydro One IPO and subsequent share sales to fund the Trillium Trust, while also allowing for the OEFC to reduce the stranded debt (See Appendix C for additional details).

Subject to legislative approval, the Ministry of Finance proposes that the net proceeds (estimated at \$760M in 2015-16) and an amount equivalent to the fiscal benefit resulting from "tax goodwill" would go to the Trillium Trust and that the Province provides a financial benefit to the OEFC of approximately \$660M (estimated proceeds less the amounts prescribed under the *Electricity Act*) to reduce the OEFC's stranded debt.

The transaction with the OEFC would be fiscally neutral as the OEFC is consolidated on the Province's books. The proposed legislation will provide for a statutory appropriation authorizing the Minister to pay the required amount out of the Consolidated Revenue Fund, but may require an appropriation increase of \$660M (however, the proposed legislative changes would allow for the payment to the OEFC to be accomplished by granting a remission of OEFC debt, issuing securities or debt obligations to the OEFC, set off, or any other form determined by the Minister of Finance).

The Ministry will report back to TB/MBC in Summer 2015 with a detailed IPO implementation plan, including the financial details. The Ministry will also report back to TB/MBC prior to participating in any secondary offerings, which would be included in future announcements.

The Ministry of Finance/Ontario Financing Authority will also report back to TB/MBC with details on the financial benefit to be provided to the OEFC prior to implementation.

3. Ongoing Fiscal Impacts

As noted above, the Province will be foregoing annual PILs and net income revenue from Hydro One, estimated at about \$740M in 2019-20 and ongoing, assuming the Province's share ownership decreases to 40 percent.

Interest savings from debt paydown from upfront cash proceeds could partially offset the annual loss to approximately \$350M starting in 2019-20, after accounting for potential interest savings once the Province decreases its holdings to 40 percent. However, once the government starts investing amounts credited into the Trillium Trust in infrastructure, the interest savings will start winding down, resulting in a higher ongoing loss.

Fiscal Benefit (\$M)*		2015-16	2016-17	2017-18	2018-19	2019-20/ Ongoing
Proceeds from H1 IPO (cash)	a	\$1,970	\$2,230	\$2,340	\$2,480	
Less: Book Value of Equity	b	\$1,210	\$1,240	\$1,300	\$1,350	
Gain on Sale: Upfront Impact from Transaction (Before Tax Goodwill)	c = a-b	\$760	\$990	\$1,040	\$1,130	-
Tax Goodwill**	d	\$770	-	-	-	-
Loss of Net Income/PILs/Indemnity Payments	e	(\$140)	(\$350)	(\$480)	(\$640)	(\$740)
Estimated Fiscal Contribution	f = c+d+e	\$1,390	\$640	\$570	\$500	(\$740)
Potential Interest Savings**	g	\$40	\$130	\$220	\$330	\$390
Total	f+g	\$1,430	\$770	\$790	\$820	(\$350)

*Based on PAC information as of February 20, 2015 and includes only Hydro One IPO figures. Numbers are based on Council analysis, and subject to change arising from new options. Numbers rounded to the nearest \$10M. Numbers may not add due to rounding. On-going amounts forgone would change over time, depending on amount of forgone H1 growth and other changes in market conditions. Assumes mid-fiscal year transactions.

**Tax Goodwill based on fair value on entire H1 less Brampton, arising from H1 partial IPO transaction

**Potential IOD savings would decrease and effectively be eliminated over the long-term as infrastructure projects materialize. Up-front proceeds provide immediate IOD savings, and above assumes that IOD expenditure related to investment projects is capitalized until projects are finalized and in-service.

The initial estimated fiscal benefits are based on continuing the current accounting treatment for Hydro One, reflecting a proportionate share of the entity's net income until a subsequent change to dividends occurs. The fiscal benefits have not been adjusted to reflect potential operational efficiencies that may occur following the sale.

Governance

The current structure of Hydro One is that it is a corporation established under both the *Electricity Act, 1998* and the *Business Corporations Act*, with a single shareholder (the Province), and subject to many accountability and oversight provisions that reflect that ownership.

To enable the IPO and reflect the Province's revised relationship with Hydro One as a result of the IPO, the Ministry is proposing a number of governance changes, including:

- Changes to the role of the Province in appointing the Board of Directors:
 - o To oversee the IPO and other changes, the Minister would appoint a new Chair and new Board of Directors;
 - o Subsequently, the Province would be entitled to nominate directors up to a maximum of 40 percent of the Board.

- o The Province and the Board would have the ability to reject nominees that do not meet qualifications to be set out in the Governance Agreement, but that the Province would be required to vote in favour of the Board's appointments unless it decides to remove all members of the Board, except, at the Province's discretion, the Chair.
 - o No government employee or person employed by the Province within the last three years would be eligible for election to the Board.
 - o The Minister of Energy would no longer be able to issue sole shareholder declarations and resolutions allowing the Minister to assume powers of the Board of Directors.
- The development of a Governance Agreement that would establish the obligations of both the Province and Hydro One (some of which would also be included in the proposed legislation), including:
 - o Hydro One would be required to maintain a substantial presence in Ontario, including: its principal executive head office; executives with strategic decision-making authority; its grid control functions for the Province; ownership of its regulated Ontario-based transmission and distribution businesses.
 - o Hydro One would be required to follow Ontario Securities Commission requirements, including: publicly disclosing the compensation levels of CEO, CFO and the three other most highly compensated executive; publicly disclosing the annual remuneration for each member of the Board of Directors; publicly disclose perquisites (e.g., cars, car leases and car allowances, club memberships, parking, personal travel, reimbursements) that in aggregate are worth \$50,000 or more, or are worth 10 percent or more of the salary of the CEO, CFO and the top three most highly compensated executive officers for each year as well as all perquisites paid to directors.
 - o Hydro One would list its common shares on the Toronto Stock Exchange.
 - o Hydro One would no longer be required to submit annual business plans to the ministries of Energy and Finance for concurrence, nor would the Province receive, for Budget planning purposes, the business plans from Hydro One.
 - The introduction of legislation that would allow Hydro One to operate in the same way as other publicly-traded companies (and so create a level playing field with them) and to maximize proceeds, including:
 - o Allowing it to own or operate transmission and distribution systems or other businesses outside of Ontario.
 - o Limiting the Province from selling or divesting more than its base level of 40 percent interest in Hydro One (note that while the Province could not sell or divest its ownership below 40 percent, the Province's common share ownership could be diluted below 40 percent though, for example new share issuances by Hydro One);.
 - o Allowing the net proceeds to flow to the Consolidated Revenue Fund and Trillium Trust by amending the *Electricity Act, 1998* to allow the Province to meet its obligations under the Act towards the OEFC and stranded debt in different ways, e.g., debt remission or issuance, or another form, instead of cash payments. The legislative amendment would also specify as a cost to be deducted from proceeds the past allocations already made to OEFC in respect of Hydro One net income.
 - o Enabling the Hydro One board of directors to authorize the issuance of shares of Hydro One to employees of Hydro One or any of its subsidiaries or affiliates, or for

- their benefit or on their behalf, for no consideration or for such consideration as the board of directors may approve and enable.
- o Removing Hydro One and its subsidiaries from TB/MBC Directives under the *Management Board of Cabinet Act*.
 - o Removing Hydro One from the *Ombudsman Act* (with provision for transitional matters) and instead, requiring the creation of a new ombudsman within Hydro One to provide oversight of the company and its customer interactions.
 - o Removing Hydro One from the requirements of the *Public Sector Salary Disclosure Act*.
 - o Removing Hydro One from the parameters of the *Financial Administration Act*, but retain the right to request information from Hydro One and the administrator of any pension plan sponsored by it that is necessary and relevant for the sole purposes of preparing the consolidated financial statements of the Province.
 - o Removing Hydro One from the oversight of the Auditor General of Ontario, while providing the Auditor with six months to complete any open special audits or special assignments commenced before Royal Assent. Create new right of the Auditor General to access information from Hydro One and its auditors that is necessary and relevant to enable the Auditor General to prepare his or her report, for inclusion in the Public Accounts, on the consolidated financial statements of the Province. However, Hydro One and its auditors are not required to provide information for a period for which Hydro One has not yet disclosed to the public its audited or unaudited financial statements.
 - o Removing Hydro One from the *Freedom of Information and the Protection of Privacy Act* and the *Municipal Freedom of Information and the Protection of Privacy Act* (with a six-month transition for both).
 - o Removing Hydro One from the requirements of the *Public Sector Expenses Review Act* (with a six-month transition)
 - o Excluding Hydro One from the application of the *Broader Public Sector Executive Compensation Act, 2014*.
 - o Removing the freeze on executive compensation for Hydro One through changes to the *Broader Public Sector Accountability Act, 2010*.
 - o Removing Hydro One from the requirements of the *Financial Accountability Officer Act* (with a six month transition).

In addition, to provide certainty, the Ministry is seeking approval for Hydro One to be exempt from any Treasury Board/Management Board of Cabinet directives that currently apply to.

The Ministry will report back to TB/MBC with the proposed governance agreement prior to implementation. This is necessary to ensure the appropriate accounting treatment for the entity.

Procurement

To assist with the IPO process, Hydro One will conduct, at the request of the Province, the following procurements:

- An invitational competitive process to acquire one or two active bookrunners. Due to the value of the procurement, this requires an exemption from the open competitive

requirements of the OPS Procurement Directive. The Ministry indicates that due to the time required to undertake a competitive procurement, the need to issue the IPO in the Fall of 2015, and the fee structure that it is proposing for the lead bookrunner, that an invitational procurement is recommended.

- o Qualified firms (in this case, the five Canadian chartered banks as the Ministry has assessed that they have the footprint required to run this IPO, and, if there is a decision to have a global offering of shares, one or two global firms) would be invited to express an interest to serve as active bookrunner. One or two firms would then be selected to serve as the active bookrunner. The selection would be based on advice from a panel of senior staff or Board members from, for example, the Ontario Financing Authority, Hydro One, and Infrastructure Ontario and who have direct experience in capital markets. This panel will consider experience, expertise, resources, and access to retail markets of the proposing firms. The bookrunners, would then be selected with input from the Panel.
 - o Evaluation criteria will include presence, experience and understanding of and in Ontario / Canada; ability to reach retail investors; financial scale and resources; previous experience as active bookrunner of large initial equity / debt public offerings on Canadian exchanges and internationally, as well as secondary equity / debt public offerings on Canadian exchanges and internationally; demonstrated ability and experience providing advice and services with regard to debt offerings, preferred share offerings, and financial capital structures; and experience with infrastructure finance.
 - o The active bookrunner(s) is responsible for organizing investor roadshows, marketing and managing the underwriter syndicate that purchases and resells shares to investors through brokers and dealers.
 - o It is expected that the total fee paid to the bookrunner and the accompanying underwriting syndicate would be approximately 1.8 percent of the transaction value (about \$35M-\$45M, with \$50M as a ceiling), which the Council indicates is considerably lower than the industry average of 4-5 percent (\$100M).
- A non-competitive procurement process requiring an exemption to the open competitive requirements of the OPS Procurement Directive and from the use of the mandatory Vendor of Record (VOR) arrangement to acquire an executive recruitment firm to identify candidates for the new Hydro One Board of Directors, CEO of Hydro One, and if necessary, the Board of Directors for the Hydro One Brampton combined entity (see below).
- A non-competitive procurement process requiring an exemption to the open competitive requirements of the OPS Procurement Directive and from the use of the mandatory VOR arrangement to acquire an executive recruitment firm to identify candidates for the Hydro One Chief Financial Officer position.
- An invitational procurement process requiring an exemption to the open competitive requirements of the OPS Procurement Directive and from the use of the mandatory VOR arrangement to acquire an executive recruitment firm to identify candidates for Hydro One senior management positions.

In addition, the Ministry is seeking approval to conduct a non-competitive procurement process to acquire the consulting services of a financial expert on a retainer basis in order to provide advice

as needed and help ensure that the IPO process is run appropriately and in a transparent manner.

As the financial expert would be providing advice on a multi-billion dollar initiative, the Ministry is seeking approval of a liability framework (see Appendix D) that would protect the individual from any liability they may face as a result of their work, and that this framework be used instead of the standard liability/indemnity provisions for OPS procurements as outlined in the Form of Agreement.

- The proposed liability framework is based on the standard Ministry of Finance liability framework.
- Following approval of the liability framework, the Ministry will be required to seek approval of the liability agreements for the advisor as per section 28 of the *Financial Administration Act*.

These procurements have not been reviewed by the Supply Chain Leadership Council.

Brampton Merger

The Ministry is also seeking approval to direct Hydro One to proceed with an immediate transaction that would result in the merger of Hydro One Brampton with three LDCs.

The transaction would be based on a non-binding letter of intent (LOI) that the Council has negotiated that would merge Hydro One Brampton with the holding corporations for PowerStream, Enersource, and Horizon.

- Details of the LOI have been reviewed and approved by the holding company boards of the LDCs, which include their respective City Council representatives.

As a part of the proposed transaction, the Province would receive 17 percent of the shares in the new company, or, at the option of the LDCs, the equity value of Hydro One Brampton based on an enterprise value of \$607M. The LDCs will determine this by July 31, 2015.

- The Province's fiscal benefit from the transaction would be approximately \$175M-\$220M in 2015-16, depending on whether the Province receives equity (Scenario 1: MergeCo) or cash (Scenario 2: Buyout) (see table below).

Fiscal Benefit (\$M)*		2015-16	2016-17	2017-18	2018-19	2019-20 / Ongoing
Scenario 1: MergeCo**	Asset Revaluation & Share of Net Income/PILs in MergeCo	\$174	(\$3)	(\$0)	\$1	(\$1)
Scenario 2: Buyout	Up-front Gain & on-going revenue impacts	\$216	(\$18)	(\$17)	(\$17)	(\$20)
	Potential Interest Savings for Scenario 2***	\$5	\$18	\$19	\$20	\$21
	Total	\$221	\$0	\$2	\$3	\$1

*Based on PAC / KPMG information as of April 1, 2015. Numbers are based on Council analysis, and subject to change arising from new options. On-going amounts forgone would change over time, depending on amount of forgone growth and other changes in market conditions. Assumes Jan. 1 2016 transaction date.

**Assumes that Province is able to account for its share of MergeCo income under modified equity accounting. There are risks that this method of accounting for share of income would be disallowed given Province would only have about 17% of MergeCo. This would reduce annual revenue by about \$8-10M [TBC]

***Potential IOD savings would decrease and effectively be eliminated over the long-term as infrastructure projects materialize

Subject to approval, Minister of Energy would issue a sole shareholder declaration and resolution

to Hydro One to require the Chair and CEO of Hydro One Brampton to sign the LOI with the LDC partners, based on the above noted terms, and to enable Hydro One's interest in Hydro One Brampton be transferred directly to the Province in order to separate the IPO from this merger.

Further review of the proposed transaction details will be necessary in order to determine/ensure that there is no exit from the PILs regime as a result of the transaction

The details of the agreement are expected to be finalized in Spring 2015. The agreement would also then require OEB approval before the financial close for the transaction could be completed.

A merger of the four companies would create the second largest LDC in Ontario by customer size that would serve as a platform for further LDC consolidation.

- In 2012, the Ontario Distribution Sector Review Panel estimated that net cost savings from LDC consolidation would be \$1.2B over ten years in present value terms.

The Ministry of Finance is also proposing, based on the Council's advice, time-limited changes effective for a three year period beginning after January 1, 2016 and ending December 31, 2018 to the existing transfer tax regime to provide a further incentive to spur further LDC consolidation with these rules to remain in effect for any utility with a related Merger, Acquisition, Amalgamation and Divestiture application before the OEB:

- A transfer tax, paid towards stranded debt, is currently 33 percent of the fair market value of any LDC assets sold to the private sector. The Council is recommending that the transfer tax rate be reduced to 22 percent for all LDCs, as well as a complete exemption for small LDCs with fewer than 30,000 customers.
- Hydro One and its subsidiaries are not subject to transfer taxes and, thus, a sale of its subsidiaries would not incur the 33 percent tax.
- Capital gains (with an exception for goodwill) would also be exempt arising under the PILs departure tax rules.

Ontario Energy Board (OEB) Changes

In order to ensure that there is no loss of consumer protections from the changes to Hydro One's governance and provincial oversight, the Ministry will be proposing (later in the spring for introduction during the 2015-16 fiscal year) a number of administrative, legislative, and regulatory changes that would further strengthen the powers and processes of the OEB. These changes will include a change to the OEB's objectives to ensure the OEB has a role in consumer education. These changes will need to be reflected in the Memorandum of Understanding between the Ministry and the OEB.

One of the proposed changes is to amend legislation to allow the OEB to appoint a consumer advocate(s), or where the OEB has not already done so, allow the appointment of a consumer advocate(s) through an Order-in-Council. As the possible rate of remuneration for such an appointment is not known at this time, the Ministry will report back to TB/MBC with that

information at a later date.

Risks

There are a number of different risks to the proposed approach, including financial, governance, and legal risks.

There is a financial risk on actual proceeds of the IPO from the market. The valuation and expected fiscal gains presented by the Council are estimates, with actual market value subject to market volatility including interest rates as well as to changes in Hydro One business plan future performance projections.

- Negative changes on actual proceeds could reduce the Province's fiscal gains compared to estimated amounts, affecting the Fiscal Plan.

There is a potential risk to the fiscal plan if there is a decision to end the Debt Retirement Charge (DRC) earlier than currently planned given incremental upfront revenue from asset sales (which is offset by revenue losses to OEFC over time)

- MOF has included DRC revenues of about \$620M/year in the fiscal plan going forward to 2018.

As the Province dilutes its ownership (e.g. below 50 percent), the accounting control assessment could lead to a determination that the Province no longer controls Hydro One. This would mean the entity's net income would no longer be consolidated, and that only dividends received from Hydro One would be included in the Province's financial statements. Dividends recognized by the Province would likely be less than the Province's proportionate share of net income, and therefore, could result in a larger negative fiscal impact than is currently projected. The Auditor General will need to review and confirm the appropriate accounting treatment on an annual basis, beginning with her audit of the 2015 Public Accounts. To help mitigate this risk, an independent accounting analysis will help ensure the government's position is well supported

In the specific case of Brampton/MergeCo and if the buyout provision is not exercised by the other parties, there is a risk that the Province would not be allowed to consolidate its proportionate share of net income of MergeCo. In such case the Province would only be able to recognize dividends from MergeCo with the consequent immaterial negative fiscal impact.

In terms of the oversight of Hydro One, in the medium-term (e.g., while the Province retains 85 percent ownership), there are risks in respect of loss of oversight. These include the perceived imbalance during the period where the Province would own 85 per cent of the shares but only nominate 40 percent of Board members, and the loss of oversight currently stipulated by various Acts and TB/MBC Directives.

- The Ministry indicates these risks will be mitigated by the Governance Agreement between the Ministry and Hydro One, which will be reviewed by TB/MBC prior to execution, and the fiduciary responsibilities of the new Hydro One Board of Directors. As a publicly-traded company, all Board members – appointed by the Province or by other shareholders – will have a fiduciary duty to act in the best interest of the Corporation, and, therefore, provide

adequate oversight to the management team.

There may also be risks of public perception in respect of an in-house ombudsman not having sufficient independence in review of issues. The Ministry notes that an in-house Ombudsman is a feature of other service-based organizations e.g., banks.

There is also a risk that the proposed six-month transition may not be sufficient for completion of on-going work required on existing issues by independent officers of the Legislature. Concerns of this nature would likely be raised by the officers themselves.

There are potential legal risks on limiting the participation in the procurement for the lead active book runner to the five Canadian chartered banks and likely two global banks. Courts have indicated that judicial review of procurement decisions may be appropriate where there is a broad public interest in doing so, which may include procurements where there are significant expenditures of public money. There is a risk that an interested party may seek judicial review of the decision not to run an open competitive procurement. Additionally there are potential trade risks from limiting the invitation to the five Canadian chartered banks and likely two global banks. The Ministry has indicated that it accepts these risks.

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Date:	April 15, 2015	Log number:	
Branch / Division:	General Government, Planning and Resources/Planning and Expenditure Management Division		

APPENDIX A: PROPOSED MINUTE

Approve the intention to proceed with an Initial Public Offering process for Hydro One Inc. (Hydro One), and the intended merger of Hydro One Brampton with local distribution companies.

In this regard, the Board

Initial Public Offering process

- i. Direct the Ministry of Energy to work with the Cabinet Office, Ministry of Finance, the Ontario Financing Authority, Treasury Board Secretariat, and Hydro One on the development of an Initial Public Offering (IPO) process for Hydro One.
- ii. Approve the Minister of Energy to direct Hydro One to proceed with an IPO of Hydro One including all of its subsidiaries at the time of the IPO, consisting of approximately 15 per cent of the Province's interest in Hydro One, during the 2015-16 fiscal year.
- iii. Approve the following specific elements to be included as part of the proposed Initial Public Offering process and that these elements may be included in any of the constating documents of Hydro One including revised Articles of Incorporation and/or by-laws, a Governance Agreement to be executed between the Minister of Energy on behalf of the Crown, proposed legislation, and an underwriting agreement:
 - a) that there will be an issuance of common shares only;
 - b) that at least 25-30 per cent of the total shares in the IPO will be targeted to retail investors, with the remaining shares to be allocated to institutional investors;
 - c) that the Province may sell subsequent tranches of shares that would, once complete, reduce the province's ownership position of Hydro One to not less than 40 per cent of the number of Hydro One's common shares outstanding on the date of the closing of the IPO;
 - d) that, with the exception of the Province, no single person, corporation, or group of persons acting jointly or in concert may own more than 10 per cent of any class or series of Hydro One's voting shares; and
 - e) that the Province would be restricted from reducing its ownership position in Hydro One to less than 40 per cent of the number of Hydro One's common shares outstanding on the day of the closing of the IPO.
- iv. Note that the Province would make a payment to the OEFC which may be satisfied by issuance of debt, remission of debt or another form as determined by the Minister of Finance, equivalent to the net IPO proceeds, less certain deductions prescribed under the Electricity Act, to reduce the OEFC's stranded debt.
- v. Note that Hydro One would pay departure tax to the OEFC.
- vi. Note that the Province would provide to Hydro One a financial benefit, such as a capital contribution, up to the amount of departure tax paid to the Ontario Electricity Financial Corporation by Hydro One.

Governance

- vii. Approve the development of a Governance Agreement that would include the following key elements, some of which may alternatively or supplementally be included in the proposed legislation or in Hydro One's constating documents::
- a) that Hydro One would be prohibited from doing any of the following:
 - 1) selling, leasing, divesting or otherwise disposing of all or substantially all of the business, property or assets related to the transmission system of Hydro One regulated by the Ontario Energy Board;
 - 2) selling leasing, divesting or otherwise disposing of all or substantially all of the business property or assets related to the distribution system of Hydro One regulated by the Ontario Energy Board; or
 - 3) continuing under the laws of a jurisdiction other than Ontario.
 - b) that if the Province's ownership is reduced to 10 percent or less, the Province shall be restricted to acquiring shares in excess of 10 percent in the same manner as other shareholders, the Governance Agreement would no longer apply, but all other statutory restrictions would remain in place;
 - c) that Hydro One would be required to:
 - 1) maintain its principal executive head office in the Province of Ontario;
 - 2) ensure that substantially all of its executives with strategic decision-making or management authority reside in the Province of Ontario;
 - 3) subject to meeting ongoing listing requirements, maintain a listing of its common shares on the Toronto Stock Exchange;
 - 4) maintain the location of its transmission and distribution grid control functions for Ontario operations, in the Province of Ontario;
 - 5) set the initial number of directors on Hydro One's Board of Directors;
 - 6) follow Ontario Securities Commission requirements, including:
 - a. publicly disclosing the total compensation levels of the CEO, CFO and the three other highest paid executives of the corporation each year; and
 - b. publicly disclosing the annual remuneration for each member of the Board of Directors.
 - 7) establish an Office of the Ombudsman to act as a liaison with customers and report to the Hydro One Board of Directors on matters raised with the Ombudsman by or on behalf of customers of Hydro One including with regard to services provided to customers of Hydro One and ensure that this Office is functional prior to end of the six month transition from the requirement of the Ombudsman Act.
 - d) that ongoing obligations of both Hydro One and the Province would include:
 - 1) that, after the appointment of the initial Board of Directors, the Province would be entitled to nominate directors equal to its percentage equity interest, to a maximum of 40 percent, with the balance to be nominated by a nomination and governance committee of the Board;
 - 2) that the Province and nomination and governance committee of the Board would each have the right to reject nominees in writing, if either determines that nominees do not meet qualifications as set out in the governance agreement;
 - 3) that the Province would be required to vote in favour of the directors nominated by the nomination and governance committee unless it votes to

- remove all, but not less than all, of the members of the Board, with the exception, at the Province's discretion, of the Chair,
- 4) that no government employee or persons employed by the Province within a three year period from the date of their proposed election/appointment would be eligible for election to the Hydro One Board of Directors;
 - 5) that no directors, officers or employees of the following organizations or their affiliates would be eligible for election to the Hydro One Board of Directors:
 - i. The Ontario Financing Authority;
 - ii. The Independent Electricity System Operator;
 - iii. Ontario Power Generation Inc.;
 - iv. The Electrical Safety Authority;
 - v. The Ontario Electricity Financial Corporation;
 - vi. Ontario Infrastructure and Lands Corporation;
 - vii. The Ontario Energy Board;
 - viii. Hydro One (with the exception of the Chief Executive Officer and any current directors the Province wishes to remain on the Board of Directors post-IPO).
 - 6) that all of the Province's remaining rights as shareholder would be preserved.
- viii. Recommend legislative amendments and regulatory amendments as follows:
- a) Amendments to the *Electricity Act, 1998*, in order to:
 - 1) remove a prohibition that precludes Hydro One Inc. from owning or operating transmission and distribution systems outside of Ontario;
 - 2) require Hydro One to establish an Office of the Ombudsman to act as a liaison with customers and report to the Hydro One Board of Directors on matters raised with the Ombudsman by or on behalf of customers of Hydro One;
 - 3) require Hydro One to maintain its principal executive head office in the Province of Ontario;
 - 4) ensure that substantially all of the executives of Hydro One with strategic decision-making and management authority reside in the Province of Ontario;
 - 5) prohibit Hydro One from selling, leasing, divesting or otherwise disposing of all or substantially all of the business property or assets related to the transmission system of Hydro One regulated by the Ontario Energy Board;
 - 6) prohibit Hydro One from selling, leasing, divesting or otherwise disposing of all or substantially all of the business, property or assets related to the distribution system of Hydro One regulated by the Ontario Energy Board;
 - 7) with the exception of the Province, limiting any single person, corporation, or group of person acting jointly or in concert, from owning more than 10 percent of any class or series of voting shares of the company;
 - 8) restricting the Province from reducing its ownership position in Hydro One to less than 40 percent of the number of Hydro One's common shares it immediately held prior to the IPO;
 - 9) enable the Hydro One board of directors, despite the limitations in sections 23 and 24 of the Business Corporation Act (Ontario), to authorize the issuance of shares of Hydro One to employees of Hydro One or any of its subsidiaries, or for their benefit or on their behalf, for no

consideration or for such consideration as the board of directors may approve and enable Hydro One to add to the appropriate stated capital account for the shares issued, the amounts received by Hydro One for those shares;

- 10) restrict the Province to acquiring shares in the same manner as other shareholders if the Province's ownership is reduced to 10 percent or less of the common shares;
- 11) Recommend an amendment to section 50.3 of the Electricity Act, 1998 so that the Province will be required to pay to the OEFC a financial benefit equivalent to the adjusted net proceeds and the payment may be satisfied by payment of cash, granting a remission of OEFC debt, issuing securities or debt obligations to OEFC, set off or another form as determined by the Minister of Finance. Recommend that the amendment also specify that the Province's costs to be deducted include the Province's allocations for Hydro One income made to OEFC;
- 12) amend the transfer tax and payments-in-lieu of tax (PILs) rules as follows, effective for a three year period beginning on January 1, 2016 and ending December 31, 2018, with these rules to remain in effect for any utility with a related Merger, Acquisition, Amalgamation and Divestiture application before the OEB before January 1, 2019, and a written agreement completed before January 1, 2019 provided the agreement is not materially changed thereafter.:
 - i. Reduce the transfer tax rate from 33 per cent to 22 per cent;
 - ii. Reduce the transfer tax rate from 33 per cent to 0 per cent for municipal electric utilities with less than 30,000 customers; and
 - iii. Exempt capital gains arising under the PILs departure tax rules.
- b) Amendments to the *Management Board of Cabinet Act* to remove Hydro One and its subsidiaries from being considered part of the "public service" under the Management Board of Cabinet Act so that the Act, including policies and directives made under it, could no longer apply to Hydro One and its subsidiaries.
- c) Amendments to the *Lobbyist Registration Act, 1998* to remove the reference to Hydro One and its subsidiaries from the definition of "public office holder" in subsection 1(1) of the Lobbyists Registration Act; and remove three unproclaimed references to Hydro One and its subsidiaries from subsections 4(4), 5(3) and 6(3) of the Act.
- d) Amendments to the *Public Sector Salary Disclosure Act, 1996* to remove Hydro One and its employees from salary disclosure requirements in respect of salaries and benefits paid after December 31, 2014.
- e) Amendments to the *Financial Administration Act* to remove Hydro One and its subsidiaries from oversight of the Act. However, retain the right to request information from Hydro One and the administrator of any pension plan sponsored by it for the sole purpose of preparing the consolidated financial statements of the Province (annual and quarterly). Hydro One and the pension plan administrator are not required to provide any information that relates to a period for which Hydro One has not yet disclosed to the public its audited or unaudited financial statements.
- f) Amendments to the *Auditor General Act* to exclude Hydro One and its subsidiaries from the purview of the Auditor General and provide the Auditor General with 6 months to complete any open special audits or special

- assignments commenced before Royal Assent. Create new right of the Auditor General to access information from Hydro One and its auditors that is necessary and relevant to enable the Auditor General to prepare his or her report, for inclusion in the Public Accounts, on the consolidated financial statements of the Province. However, Hydro One and its auditors are not required to provide information for a period for which Hydro One has not yet disclosed to the public its audited or unaudited financial statements.
- g) Amendments to the *Ombudsman Act* to exclude Hydro One and its subsidiaries from the purview of the Ombudsman, with provision for transitional matters.
 - 1) For transition purposes, the Ombudsman may continue to exercise his or her powers for six months after Royal Assent with respect to investigations started prior to Royal Assent, but is prohibited from starting any new investigation of Hydro One and its subsidiaries.
 - 2) An investigation of Hydro One and its subsidiaries taking place during the six month transition period may be reported on after that period.
 - h) Amendments to the *Freedom of Information and Protection of Privacy Act* to exclude Hydro One and its subsidiaries from that Act.
 - 1) As of the date of Royal Assent, provide that no new access to information requests be made to Hydro One and its subsidiaries, but allow for the completion of existing requests and any related appeals.
 - 2) Provide the Information and Privacy Commissioner with six months to complete all outstanding appeals and privacy investigations after the date of Royal Assent.
 - 3) Amend the schedule of institutions in Ontario Regulation 460 under FIPPA to remove Hydro One and its subsidiaries.
 - i) Amendments to the *Municipal Freedom of Information and Protection of Privacy Act* to exclude Hydro One Inc. and its subsidiaries from that Act.
 - 1) As of the date of Royal Assent, provide that no new access to information requests be made to Hydro One and its subsidiaries, but allow for the completion of existing requests and any related appeals.
 - 2) Provide the Information and Privacy Commissioner with six months to complete all outstanding appeals and privacy investigations after the date of Royal Assent.
 - 3) Amend Ontario Regulation 372/91 under MFIPPA to clarify that MFIPPA does not apply to any Hydro One subsidiaries.
 - j) Amendments to the *Public Sector Expenses Review Act* to exclude Hydro One and its subsidiaries from being considered “public entities” under the Public Sector Expenses Review Act, but provide for a six month transition period during which the Integrity Commissioner can continue to exercise her powers in respect of expense claims made before April 1, 2015 and Hydro One and its expense officers continue to have duties in respect of those expenses.
 - k) Amendments to the *Broader Public Sector Executive Compensation Act, 2014* to exclude Hydro One from application of the Act.
 - l) Amendments to the *Broader Public Sector Accountability Act, 2010* in order to:
 - 1) Create an exception in section 3 of the Broader Public Sector Accountability Act so that Hydro One and its subsidiaries could not be prescribed by regulation to be “designated broader public sector organizations” or “publicly funded organizations” for the purposes of the Act; and remove the reference to Hydro One and its subsidiaries in section

4 of the Act so that they would no longer be prohibited from paying lobbyists to lobby government and create an exception so that they could not be prescribed for the purpose of that prohibition by regulation from the time of the IPO.

- 2) Create an exception in section 7.5 of the Broader Public Sector Accountability Act, 2010 to end the compensation restraint measures applicable to Hydro One and its subsidiaries, designated executives and designated office holders and amend section 7.13 to ensure that certain limits on restructuring do not apply to Hydro One and its subsidiaries; create an exception to exclude Hydro One and its subsidiaries from the requirement to conduct compensation studies if required by Management Board of Cabinet directive
- m) Amendments to the *Financial Accountability Officer Act, 2013* to exclude Hydro One and its subsidiaries from obligation to provide information to the Financial Accountability Officer, but include a transition period of six months with respect to research commenced before Royal Assent.
- ix. Approve exempting Hydro One from any Treasury Board/Management Board of Cabinet directives that currently apply to Hydro One.
- x. Note that the Minister of Energy would issue to Hydro One one or more unanimous shareholder declarations and/or resolutions, to assume decision making from the Board of Directors for all decisions, direction, and instructions related to the IPO of Hydro One, and the divestment and merger of Hydro One Brampton.
- xi. Note that prior to the IPO for Hydro One:
 - a) that the Minister of Energy would appoint a new Chair to the Board of Directors of Hydro One;
 - b) that the Minister of Energy would appoint a new Board of Directors (Board) for Hydro One, based on the recommendation of the new Chair; and
 - c) that the Board of Directors of Hydro One would then be authorized to make a determination as to whether to appoint new or additional senior management of Hydro One including but not limited to the Chief Executive Officer, Chief Financial Officer, and Chief Regulatory Officer.

Initial Public Offering procurements

- xii. Approve an exemption from the open competitive requirements of the OPS Procurement Directive to allow Hydro One to use an invitational competitive process for a procurement of over \$100,000 to acquire active book runner(s) for the IPO, and in this regard:
 - a. Note that an evaluation process including the involvement of representatives from the Ministry of Energy, Infrastructure Ontario, Ministry of Finance (Ontario Financing Authority), and Hydro One will be used.
 - b. Approve a rate of remuneration for active book runners at an estimated 3 percent of proceeds for retail investors and estimated at 1 percent for institutional investors, with a total procurement value estimated at \$50,000,000 over nine months.
- xiii. Approve Hydro One to use a non-competitive procurement process requiring an exemption to the open competitive requirements of the OPS Procurement Directive and from the use of the mandatory Vendor of Record (VOR) arrangement to acquire an

executive recruitment firm to identify candidates for the Hydro One Board of Directors, CEO of Hydro One and if necessary, the Board of Directors for the Hydro One Brampton combined entity, in the estimated amount of \$1,700,000 over four months, and in this regard:

- a. Approve an exemption from the Advance Contract Award Notification Process for this procurement.
- xiv. Approve Hydro One to use a non-competitive procurement process requiring an exemption to the open competitive requirements of the OPS Procurement Directive and from the use of the mandatory Vendor of Record (VOR) arrangement to modify terms of an existing executive recruitment firm engagement to identify candidates for Hydro One Chief Financial Officer, in the estimated amount of \$350,000 over four months, and in this regard:
 - a. Approve an exemption from the Advance Contract Award Notification Process for this procurement.
- xv. Approve an exemption from the open competitive requirements of the OPS Procurement Directive to allow Hydro One to use an invitational competitive process for a procurement of over \$100,000 and from the use of the mandatory Vendor of Record (VOR) arrangement to acquire an executive recruitment firm to identify candidates for Hydro One senior management positions, in the estimated amount of \$200,000 over four months.
- xvi. Approve an exemption from the open competitive requirements of the OPS Procurement Directive and from the use of the mandatory Management Consulting Services Vendor of Record for a non-competitive consulting contract by the Ministry for consulting services at an estimated value of \$100,000 over 12 months to provide strategic financial advice and to ensure the transparency of the IPO process.
- xvii. Approve a liability framework for the consultant to be acquired to provide strategic financial advice and to ensure the transparency of the IPO process that would protect them from any liability they may face as a result of their work.
- xviii. Note that following approval of the liability framework, the Minister of Energy would be required to seek approval of the liability agreement for the advisor as per section 28 of the Financial Administration Act.
- xix. Note that any procurement costs incurred during the 2015-16 fiscal year that are related to the IPO would be offset from the proceeds resulting from the proposed Initial Public Offering.

Hydro One Brampton

- xx. Approve the Minister of Energy, consistent with previously approved direction, to direct Hydro One to immediately enter into exclusive negotiations to combine its wholly-owned subsidiary Hydro One Brampton with one or more urban local distribution companies in exchange for shares of the combined entity or cash.

Ensuring Regulatory Oversight

- xxi. Recommend the development of a legislative and regulatory package to further strengthen the powers and processes of the Ontario Energy Board (OEB), including

adding consumer education to the OEB's objects, for introduction during the 2015-16 fiscal year. In this regard

- a. Direct the Ministry to amend its Memorandum of Understanding to reflect the changes;
- b. Direct the Ministry to report back to TB/MBC for approval of the rate of remuneration for a consumer advocate appointed by Order-in-Council once this rate is known.

Other Issues

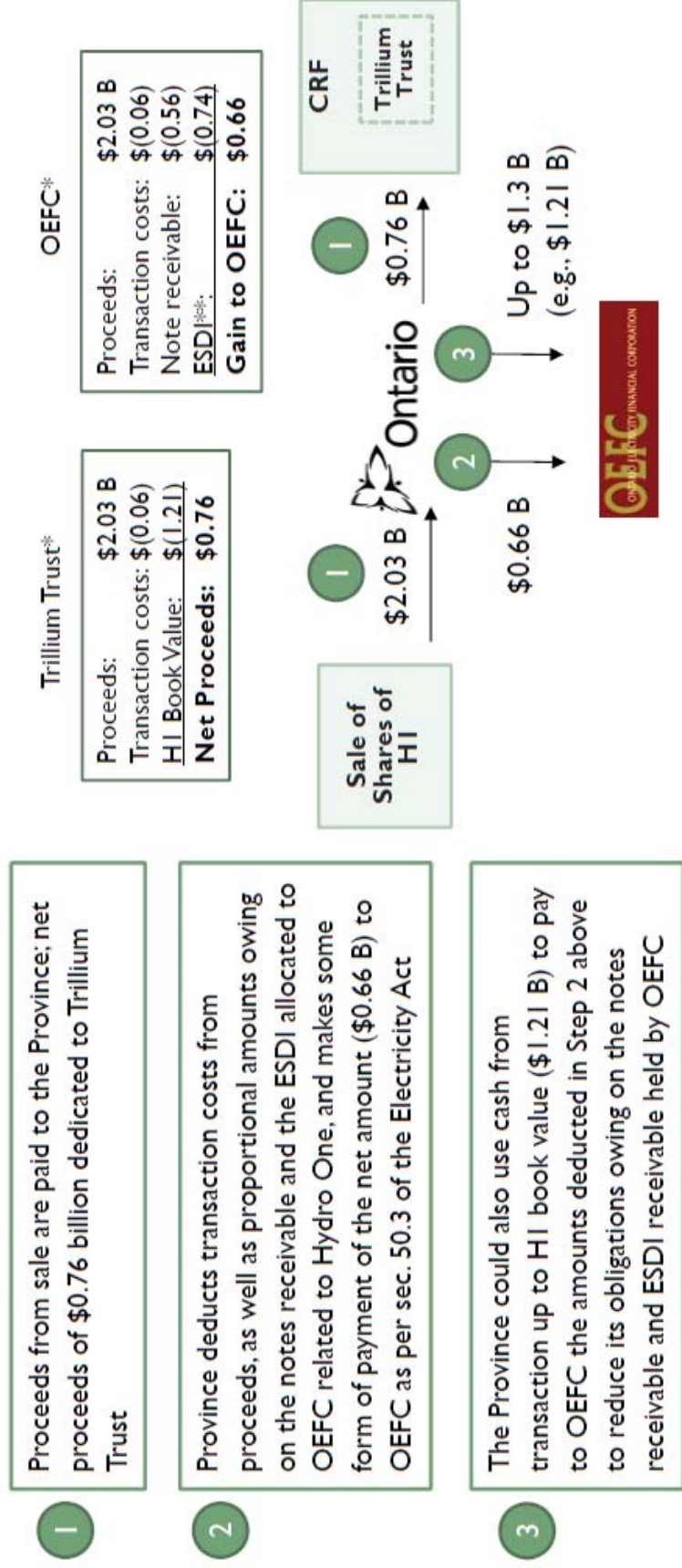
- xxii. Direct the Ministry of Energy to continue to work with Cabinet Office, Premier's Office, Ministry of Finance, and Treasury Board Secretariat on a communications plan.
- xxiii. Direct the Ministry of Energy to report back to Treasury Board/Management Board of Cabinet with the proposed Governance Agreement, prior to implementation.
- xxiv. Direct the Ministry of Energy to report back to Treasury Board/Management Board of Cabinet in the summer of 2015 with a detailed IPO implementation plan, including financial details.
- xxv. Direct the Ministry of Finance (Ontario Financing Authority), working with the Ministry of Energy to report back to Treasury Board/Management Board of Cabinet for approval of supplementary estimates and/or details on the proposed capital contribution, cash transaction or remission to the departure tax, and any related transactions, prior to implementation.
- xxvi. Direct the Ministry of Finance (Ontario Financing Authority), working with the Ministry of Energy to report back to Treasury Board/Management Board of Cabinet with details on the financial benefit to be provided to the OEFC as a result of the IPO, and any related transactions, prior to implementation.
- xxvii. Direct the Ministry of Energy to report back to Treasury Board/Management Board of Cabinet with details on the final Brampton transaction results.
- xxviii. Direct the Ministry of Energy to report back to Treasury Board/Management Board of Cabinet for approval prior to selling any additional shares of Hydro One, after the IPO.
- xxix. Note that the Ministries of Finance and Energy will report back with proposed regulations to designate Hydro One shares as qualifying assets under the *Trillium Trust Act*.

APPENDIX B: FINANCIAL IMPACTS

Financial Impacts: Changes to Expense and Revenue					Table B1
					Appropriations Basis
		Fiscal Plan Basis			
\$ Millions		2015-16	2016-17	2017-18	2015-16
Initiative cost recommended		0.0000	0.0000	0.0000	
Expense changes:					
Operating item	Oper	0.0000	0.0000	0.0000	0.0000
Capital item	Cap	0.0000	0.0000	0.0000	00000
Revenue changes:					
Revenue increase/offset		0.0000	0.0000	0.0000	
Revenue decrease		0.0000	0.0000	0.0000	
Total Fiscal Impact (draw from c-funds)		0.0000	0.0000	0.0000	0.0000

Sample Transaction

- The following diagram illustrates how the proceeds from the sale of a 15% stake in Hydro One would flow.



- In summary, net proceeds would go to Trillium Trust, the Province would provide some form of payment to OEFC (e.g., forgive debt) to OEFC to reduce its unfunded liability, and the Province could also reduce some of its obligations owing on notes receivable to OEFC.

*Numbers may not add due to rounding. Numbers provided are for illustrative purposes only and are subject to change.

**ESDI amount is based on the amount Due from Province of Ontario as per OEFC's financial statements.

APPENDIX D: LIABILITY FRAMEWORK

INDEMNITY

To:

In consideration of your agreement to [insert description of services/role] the Premier's Advisory Council to Provide Advice on Assets (the "Advisory Council"), the undersigned, Her Majesty the Queen in right of Ontario as represented by the Minister of Finance (the "Province") hereby agrees, subject to the terms hereof, to indemnify and hold harmless you and your heirs and legal personal representatives against and from any and all losses, costs, damages, expenses and liabilities of whatsoever kind, including amounts paid to settle an action or to satisfy a judgement and including all legal fees and other expenses (a "Claim" or collectively, the "Claims") which you may sustain or incur or become subject to by reason of your being or having been appointed as a representative of, or seconded to the Advisory Council as described above, but this indemnity does not apply with respect to Claims:

- (a) arising from any circumstances for which coverage is provided under an insurance policy or claims fund to the extent that you are indemnified or covered under such policy or fund;
- (b) arising out of circumstances in which you did not act in the performance or intended performance of your duties on behalf of the Advisory Council or arising from any circumstances for which you have been separately retained to provide professional services including consulting, accounting, financial valuation or legal services; or
- (c) brought about or contributed to by your dishonesty, gross negligence or wilful misconduct.

In order to be entitled to indemnification here under, you must comply with the following terms and conditions:

- (i) if you receive a notice of Claim or Claims, whether actual or threatened, you shall forthwith deliver to the Province (through the Director of Legal Services of the Ministry of Finance) a notice setting forth in reasonable detail all available particulars of the Claim(s);
- (ii) upon the written request of the Province, you shall furnish to the Province copies of all documents and provide any other information relating to the Claim(s) that is in your possession or under your control;
- (iii) you shall take all reasonable steps necessary to secure and preserve your rights in respect of the Claim(s) and, to the extent that you have a right to commence a proceeding against another person (whether for damages or indemnification or otherwise) in respect of a matter for which you claim indemnification from the Province hereunder, you shall assign that right to the Province and subrogate the Province to that right to the extent of the amounts paid by the Province or for which the Province is liable hereunder;
- (iv) you shall not voluntarily assume any liability in respect of or settle or compromise any Claim(s) or any proceeding relating thereto without obtaining the Province's prior written consent;
- (v) the Province shall have the right to participate in or assume control of the negotiation, settlement or defence of the Claim(s) and any proceedings relating thereto or appeal thereof but the Province may not settle any action commenced against you without your written consent;

- (vi) if the Province elects to participate in or assume control of the negotiation, settlement or defence of the Claim(s) and any proceedings relating thereto or appeal thereof, you shall cooperate fully with the Province in connection with the same, and you shall agree to be represented by legal counsel chosen by the Province, unless, in the opinion of such legal counsel, there would arise a conflict of interest preventing such legal counsel from representing you, and, where it is such legal counsel's opinion that a conflict of interest prevents their representing you, you will be entitled, subject to the Province's prior written approval, to retain legal counsel of your choice (it being understood that the Province may withhold its approval in relation to any counsel proposed by you who does not agree to retainer terms, including fees, consistent with the policies of the Ministry of the Attorney General of Ontario), and the fees and expenses of your counsel incurred in your representation shall be costs to which this indemnity extends;
- (vii) if the Province is not also a party to the Claim, you shall consent to any order or leave that may be required for the Province to be added as a party or to be allowed to make representations on its own behalf without being a party;
- (viii) the expenses incurred by you in investigating, defending or appealing any Claim(s) shall, at your request, be paid by the Province as may be appropriate to enable you to properly investigate, defend or appeal such Claims(s), with the understanding that if it is ultimately determined that you are not entitled to be indemnified hereunder, you shall immediately repay such amount(s) so paid, which shall become payable as a debt due to the Crown; and
- (ix) you agree to pay to the Province all amounts you receive as a recovery or reimbursement of any Claim which has been previously indemnified by the Province hereunder.

For greater clarity, this indemnity shall apply to Claim(s) that are referable to the period during which you were acting as a representative of the Advisory Council, and of which notice is received by the Province either during the period you are or after you cease to be involved with the Advisory Council.

This indemnity shall be governed by the laws of the Province of Ontario and the federal laws of Canada applicable in the Province of Ontario.

IN WITNESS WHEREOF, the undersigned has duly executed this indemnity this ____ day of April, 2015.

HER MAJESTY THE QUEEN IN RIGHT OF ONTARIO,
as represented by the

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REVISED TAB 8
TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE

Ministry:	Energy
Meeting Date:	August 25, 2015
Agenda Class:	Major Issue (In Camera)
Last reviewed by: TB/MBC, April 15, 2015	Tracking to: Cabinet, August 25, 2015

SUBMISSION TITLE: Hydro One Initial Public Offering Implementation Plan

I. DECISION BEFORE THE BOARD

- Approval of the implementation plan for the Hydro One Initial Public Offering (IPO).

II. RECOMMENDATIONS:

Approve that the IPO for Hydro One will include approximately 15 per cent of the Province's Interest in Hydro One voting securities and will take place in fall 2015.	<i>Approve</i>
Direct the Ministry of Energy to work with MAA, MAG and CO to engage First Nations communities on the IPO and to assess potential provincial options that are fiscally neutral.	<i>Direct</i>
Approve a Supplementary Estimates in the amount of \$2,750,000,000, including \$2,663,000,000 in operating expense and \$87,000,000 in operating asset.	<i>Approve</i>
Recommend an Order in Council to authorize the incorporation of Hydro One Limited under the <i>Business Corporations Act</i>.	<i>Recommend</i>
Approve the Governance Agreement between the Province and Hydro One Limited.	<i>Approve</i>
Approve the Registration Rights Agreement between the Province and Hydro One Limited.	<i>Approve</i>
Authorize the Minister of Energy to sign the prospectus, underwriting agreement, lock up agreement and other ancillary documents necessary to complete the IPO.	<i>Approve</i>
Approve an administrative framework for managing the Province's investment in Hydro One Limited post-IPO.	<i>Approve</i>
Approve Loan, Share Purchase Agreements and ancillary documents between the Province and one or more trusts for the benefit of the Power Workers' Union, and agreements in principle between the Province and one or more trusts for the benefit of The Society of Energy Professionals, subject to final negotiation.	<i>Approve</i>
Recommend an Order in Council to authorize the Minister of Finance to enter into the PWU loan agreements.	<i>Recommend</i>
Approve an exemption from the mandatory requirements of the OPS	<i>Approve</i>

Procurement Directive to acquire active book runners and the underwriting syndicate for the IPO.	
Approve an exemption from the mandatory requirements of the OPS Procurement Directive, to acquire services required support the IPO process and future share offerings.	<i>Recommend</i>
Recommend an Order in Council to authorize the incorporation of Brampton Distribution Holdco Inc. under the <i>Business Corporations Act</i>.	<i>Recommend</i>
Recommend an Order in Council to expand the objects of the Ontario Electricity Financial Corporation (OEFC).	<i>Recommend</i>
Direct the Ministry of Energy to report back on the status of engagement with First Nations prior to tabling a formal proposal in any negotiations.	<i>Direct</i>
Direct the Ministry of Energy, working with the Ministry of Finance (Ontario Financing Authority) and Cabinet Office, to report back with the results of the IPO.	<i>Direct</i>
Direct the Ministry of Energy to report back with details on the final Brampton Transaction Results.	<i>Direct</i>

III. FINANCIAL SUMMARY

\$ Millions	2015-16	2016-17	2017-18
Initiative cost requested	0.0	0.0	0.0
Initiative cost recommended	0.0	0.0	0.0
Offset Recommended	0.0	0.0	0.0
Total Fiscal Impact	0.0	0.0	0.0

IV. KEY COMMENTS AND CONSIDERATIONS

In April 2015, TB/MBC approved the intention to proceed with an Initial Public Offering (IPO) for Hydro One and for the Minister of Energy to direct Hydro One to immediately enter into exclusive negotiations to combine Hydro One Brampton with one or more urban local distribution companies.

TB/MBC also approved a number of key parameters/elements of the IPO (e.g. the percentage of shares to be sold, the development of a Governance Agreement based on key principles, legislative and regulatory amendments to support Hydro One, procurements to support the IPO process, and the development of a loan agreement to facilitate the purchase of Hydro One shares by the Power Workers' Union), and directed the Ministry of Energy to work with the Ministry of Finance and report back with several items, including:

- an IPO implementation plan, including financial details,
- the Governance Agreement,
- details of a proposed capital contribution to Hydro One,
- details of the financial benefit to be provided to the Ontario Electricity Financial Corporation (OEFC),
- details on the final Brampton transaction, and
- the agreements with the unions.

In May 2015, the Ministry of Energy received TB/MBC approval of both Ontario Power Generation's (OPG) and Hydro One's collective agreements with the Power Workers' Union (PWU), and in August 2015 the Ministry received TB/MBC approval of Hydro One's collective agreements with The Society of Energy Professionals (SEP).

IPO Overview

To receive optimal value through an IPO, Hydro One Inc. has undergone a number of leadership changes in recent months to provide investors with comfort that it has in place an effective, experienced and "public company ready" Board, Chair and senior management

- April 16, 2015: David Denison was appointed the Chair of Hydro One
- June 23, 2015: Michael Vels was hired as the new Chief Financial Officer
- July 17, 2015: The Province appointed a new Board of Directors of Hydro One
- August 20, 2015: Hydro One announced that Mayo Schmidt was hired as the new Chief Executive Officer, effective September 3rd.

A successful IPO process will be supported by a number of external parties including:

- Bookrunners: These banks will carry out most of the work relating to the IPO including conducting due diligence, participating in the preparation of the prospectus, organizing the marketing meetings, and assembling/managing the underwriting syndicate.
- Underwriters: The underwriters will purchase shares and resell them to investors through their networks of brokers and dealers (all bookrunners are also underwriters).
- Broker/Dealers: They will facilitate purchase by individual investors and provide investment advice.

Aspects of the IPO process are also being overseen by Denis Desautels who has been engaged by the Ministry of Energy to provide advice regarding the fairness and transparency of the transaction, including the bookrunner and underwriting syndicate selection. He is also advising on the process to establish a dedicated Ombudsperson's office for Hydro One.

Together, these parties will proceed with an IPO that would include approximately 15 per cent of the Province's interest in Hydro One, according to the following approximate timeline (see below for additional detail on individual components):

- August 25 – TB/MBC and Cabinet approval of the IPO implementation plan, including the creation of the holding companies Hydro One Limited and Brampton Distribution Holdco Inc.
- August 31 – Hydro One Limited is created and Hydro One Brampton is transferred from Hydro One Inc. to the new Brampton Distribution Holdco Inc., through a dividend in-kind.
- Late August/Early September – Minister of Finance enters into loan agreements, and the Minister of Energy enters into share purchase agreements, with trusts representing the PWU and SEP.
- September 9 – Hydro One Limited files its preliminary prospectus with the Ontario Securities Commission (OSC) and other Canadian securities commissions as required.
 - o The preliminary prospectus, which is a public document, will include disclosure of the Governance Agreement, Registration Rights Agreement, departure tax determination and the Province's capital contribution to Hydro One Limited, the loan and share purchase agreements with the PWU and SEP, and the Hydro One

- Limited business plan.
- o The Minister of Energy will sign the prospectus certifying the disclosure on behalf of the Province in his role as selling shareholder. Hydro One will also sign the prospectus.
 - September 14 (earliest date) –Supplementary Estimates are tabled in the Legislative Assembly.
 - September/October – OSC reviews and comments on the preliminary prospectus.
 - o Hydro One has an opportunity to respond to any initial comments and submit an amended and/or restated preliminary prospectus.
 - September/October/November – The underwriters prepare a summary of the preliminary prospectus and a “roadshow” presentation (also filed with the OSC), which are used to market the IPO in a series of meetings (called “roadshows”) with financial analysts, brokers, and potential institutional investors.
 - **October/**November – The underwriters solicit expressions of interest during the marketing roadshows and develop a list of interested investors, including the price they would be willing to pay and the number of shares they would be willing to purchase.
 - November – Based on the results of the marketing, the bookrunners, underwriters, the Ministry of Energy, Ministry of Finance (**Ontario Financing Authority**) and Cabinet Office determine the price of the offering.
 - November – The Minister of Energy **signs** the final Governance Agreement and Registration Rights Agreement with Hydro One Limited.
 - November– The final prospectus and underwriting agreement (which sets forth the terms and conditions of the offering, including the underwriters’ compensation (a percentage of proceeds plus expenses), the offering price, and the number of shares to be offered) are signed.
 - o The final prospectus is delivered to prospective purchasers, who then have two days to withdraw their offers.
 - o The IPO is closed and the securities are listed on the stock exchange.
 - o The underwriters may recommend the use of a “PREP” or “post-receipt pricing” prospectus: this procedure allows companies to file a final prospectus that omits the deal size and other pricing information that would be receipted by the OSC, and once pricing is determined a “supplemented prospectus,” is filed and provided to purchasers.
 - Prior to closing:
 - o **The Province provides a capital contribution of an equivalent amount to the departure tax** Hydro One **has to pay** to the Province (i.e. the OEFC).
 - An IPO transaction of greater than 10 per cent will cause Hydro One to leave the payments-in-lieu of tax (PILs) regime and into the normal corporate tax regime, resulting in Hydro One being subject to a departure tax payable to the OEFC.
 - The payment would result in a large expense and associated reduction to Hydro One’s equity that is not recoverable from ratepayers. As a result, to keep Hydro One whole and support its value in the IPO, the Province, consistent with the April TB/MBC approvals, would inject cash into Hydro One through a capital contribution for up to the amount of the departure tax **that has to be paid**. The two transactions are fiscally neutral.
 - As part of this process Hydro One is expected provide to the Province a one-time **pre-IPO** dividend to be in the range of **approximately** \$500 to

\$1,000 million.

- A cash dividend payment is not a revenue item for the Province; therefore, there is no direct fiscal impact from a dividend payment. However, a dividend payment would reduce the Province's borrowing needs, and lower the Province's interest on debt expense.
 - o Province's common and preferred shares in Hydro One Inc. are exchanged for common and preferred shares in Hydro One Limited.
- Immediately after closing:
 - o The Ministry of Finance advances loans for the purchase of shares and the Ministry of Energy implements terms set out in the Share Purchase Agreements with the PWU and SEP.

First Nations Engagement

The Chiefs of Ontario (COO) wrote to Minister Chiarelli on July 13, 2015 advising that First Nations recognize the partial sale of Hydro One as a "significant opportunity...to move past historic grievances and to...share resources and the benefits of the lands."

- The Chiefs of Ontario stated an expectation to own 10 percent of Hydro One and to work with the Minister and the Ministry to ensure that ownership of shares is transferred outside of the IPO.

The COO letter was followed by a letter on July 16, 2015 from the Nishnawbe Aski Nation (NAN) who wrote that the privatization of Hydro One "activates" the Crown's duty to consult and accommodate Aboriginal and Treaty rights.

- NAN requested the establishment of a NAN Energy Table with Ontario on energy and policy development affecting the Treaty 9 and Treaty 5 territory

The Metis Nation of Ontario also indicated an interest in discussing the IPO during their Annual General Assembly held on August 22-24, 2015.

To support a successful IPO, the Ministry of Energy is proposing to work with the Ministry of Aboriginal Affairs, Ministry of the Attorney General and Cabinet Office to engage First Nations communities in a discussion on a range of issues related to the IPO in order to assess potential provincial options. Those options could include a variety of financial arrangements that are fiscally neutral.

- The ministries will be directed to report back to TB/MBC prior to tabling a formal proposal with any of the parties.

Supplementary Estimates

Approval of Supplementary Estimates in the amount of \$2,750,000,000, including \$2,663,000,000 in operating expense and \$87,000,000 in operating assets is being sought for the following transactions:

- Creation of a new operating asset line and an expenditure increase in the Ministry of Finance in the amount of \$87,000,000 to provide loans to the PWU and SEP to enable

- them to purchase Hydro One shares at the IPO price (see below for additional detail).
- Creation of a new **vote, item**, operating expense, transfer payment, and an expenditure increase in the Ministry of Energy in the amount of **\$2,600,000,000** representing the amount of the capital contribution the Province will provide to Hydro One (equivalent to the amount of departure tax paid by Hydro One). The two transactions are fiscally neutral.
- An expenditure increase in the Ministry of Energy in the amount of **\$63,000,000** to ensure a sufficient appropriation to pay the procurement and other IPO and Brampton Distribution Holdco Inc. related costs, which will be recovered through the IPO proceeds (see below for additional detail).

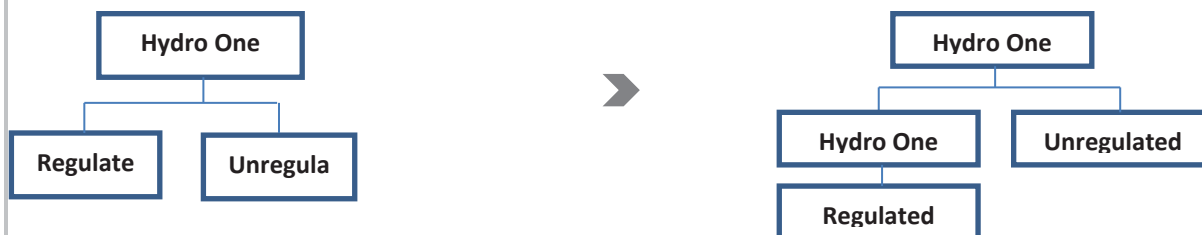
Once TB/MBC has approved the Supplementary Estimates, they should be tabled in the Legislative Assembly at the earliest opportunity. Supplementary Estimates can only be tabled if the Legislature is sitting (currently scheduled to resume on September 14, 2015).

- The members of the Standing Committee on Estimates have not yet selected the ministries whose estimates will be reviewed by the Committee. The members of the Committee have the right to expect that they will be informed of all the government's spending plans before they decide which ministry's estimates they wish to select for review
- The Auditor General includes a description of the process by which the Province obtains legal spending authority for each fiscal year in her annual report and comments if she believes that the Supplementary Estimates have been unreasonably delayed.
- Any perception that the Province has not fully disclosed its spending plans to the Legislative Assembly could create communications issues or lead to a point of privilege being raised in the Legislature.

Creation of Hydro One Limited

The Ministry of Energy is seeking approval for the creation of Hydro One Limited under the Business Corporations Act (Ontario). Legislative authority to do this is provided in the Electricity Act.

The purpose of the new Hydro One Limited is primarily to acquire, hold, dispose of and otherwise deal with the securities of Hydro One Inc. The creation of Hydro One Limited would result in the following change in corporate structure (simplified illustration):



This structure is used by comparable public utility companies (e.g., Fortis, Emera, Canadian Utilities, etc.) to increase value as well as to fund growth opportunities, and would allow Hydro

One Limited to:

- separate the financing of its non-regulated businesses to mitigate negative factors in the credit evaluation of the currently regulated Hydro One Inc., and
- take on additional debt (increase leverage) in order to lower the overall cost of capital, increase the return on equity for common shareholders, and increase the overall value of the company.

The creation of Hydro One Limited would also support the financing of growth opportunities while preserving the credit quality of the existing regulated businesses

To complete the creation of the new Hydro One Limited, the Ministry of Energy will exchange the preferred shares the Ministry currently holds in Hydro One Inc. (book value \$323M) for an issuance of common shares in Hydro One Inc. of an equivalent value. The Ministry of Energy will then exchange its common shares in Hydro One Inc. (approximately \$7.9B currently, not including the \$323M described above, for a total of about \$8.2B) for an issuance of common and preferred shares in Hydro One Limited of an equivalent value. The Province will then sell common shares to underwriters for distribution to the public. The Province will retain the preferred shares in Hydro One Limited until it decides to sell them, and will have no obligation to do so. The Province will also continue to receive dividends.

For an annual fee, the OEFC currently indemnifies Hydro One Inc. for adverse claims related to the failure to transfer certain assets to Hydro One, as well as adverse claims or deficiency in title relating to certain assets that were transferred from the former Ontario Hydro. The Province guarantees the obligations of OEFC under this indemnity.

Since the Province will no longer be the sole shareholder of Hydro One following the IPO, the Ministry of Finance and OEFC are working together with Hydro One to draft a proposed amendment to sunset the indemnity within a set timeframe.

- Any amendment would require the prior written consent of the Minister of Finance.

Administrative Framework

Post-IPO, the Province's relationship with Hydro One will change in three main ways:

- The Province will deal with Hydro One as an investor not as manager
 - The Province will not engage with Hydro One as a manager. Though the Province will be the most significant shareholder, it will be one shareholder among many
- The Province's fiscal/financial relationship with Hydro One will change.
- The Province will seek to maximize its return on investment and will need to organise itself to enable administration of its rights and obligations as a shareholder, including the management of confidential information.

The Province's ongoing relationship with Hydro One Limited will be laid out in two primary documents:

- Governance Agreement: oversees the Province's ongoing relationship with Hydro One from a governance perspective. Consistent with TB/MBC direction, it includes the following key components:
 - Hydro One will adopt governance standards consistent with best practices in

- Canada for leading public companies having regard to Hydro One's ownership structure and the Governance Agreement.
- o The Ontario Energy Board will continue to regulate Hydro One and the Province will retain the ability to enact or enforce laws that affect Hydro One. Hydro One will also continue to contribute to system planning pursuant to its regulatory obligations.
 - o With respect to its ownership interest in Hydro One, the Province will state its intention to achieve its policy objectives through regulation. However, the Province will preserve its right to vote its shares in its sole interest and sole discretion, except as expressly provided for in the agreement.
 - o The Minister of Energy, or any other person delegated by the Minister, is the Provincial Representative to fulfil any obligation or exercise any right of the Province under the Governance Agreement. Any action taken by the Provincial Representative binds the Province.
 - o The Board will consist of 10 to 15 members and will be comprised of:
 - The CEO;
 - Up to 40 per cent of the number of directors (or its pro-rata share, whichever is less, but subject to a minimum cure period) nominated by the Province; and
 - Remaining directors will be nominated by the Nominating and Governance Committee established by the Hydro One Limited Board.
 - o Each Director nominee must be an individual of high quality and integrity who has:
 - Significant experience and expertise in business or that is applicable to business;
 - Served in a senior executive or leadership position;
 - Broad exposure to and understanding of the Canadian or international business community;
 - Skills for directing the management of a company,
 - Motivation and availability; and
 - Met the requirements of applicable securities and other Laws and any exchange on which Voting Securities are listed and Hydro One Limited's governance policies.
 - o The Province and the Board's Nominating and Governance Committee may reject a Board nominee only if they determine, acting reasonably, that the nominee does not meet the qualifications.
 - The initial directors at the time of the IPO are not subject to this process unless their circumstances materially change.
 - o Other than the CEO, each Director nominee shall be independent of Hydro One Limited and the Province.
 - o The majority of the Board must at all times be resident Canadians.
 - o The Province would have the right to requisition a shareholders' meeting to consider the removal of the Board at which time the Province may vote for the removal of all, but not less than all of the Board (other than the CEO and, at the Province's sole discretion, the Chair).
 - o The Province will have the pre-emptive right to acquire up to 45 per cent of a Hydro One Limited offering of shares or securities that are convertible into shares subject to compliance with securities laws and TSX requirements:
 - Hydro One Limited would be required to provide notice of a proposed

- distribution to the Province not later than 30 days prior to the date Hydro One Limited enters into an agreement to issue shares.
 - The Province would have 10 business days after receiving the notice to determine if it wishes to exercise its pre-emptive right.
 - o The Province will be permitted to acquire (subject to securities laws) additional Hydro One Limited common shares from other shareholders so long as its ownership interest after the acquisition does not exceed 45 per cent.
 - o Hydro One Limited and the Province will enter into a confidentiality agreement with respect to confidential information provided to the Province to which the Province would agree:
 - To use confidential information provided to it in its capacity as a shareholder only to exercise its rights under the Governance Agreement and Registration Rights Agreement (as described below) or for the purpose of evaluating, overseeing and determining how to deal with its investment in Hydro One Limited and exercising its rights as a shareholder, in accordance with the Governance Agreement and Registration Rights Agreement and applicable law;
 - To use confidential information provided to the Minister of Finance or the President of the Treasury Board under the *Financial Administration Act*; only for preparing the Province's consolidated financial statements;
 - To establish sufficient procedures to protect against insider trading; and
 - Not to disclose confidential information about Hydro One Limited, or its subsidiaries, except as required by law and to provide Hydro One Limited with prior notice of such disclosures where permitted by law.
 - o Hydro One Limited and the Province will agree to cooperate in good faith to amend the Governance Agreement if there are changes in circumstances in the future that impact the original purpose and intention of the parties in entering into the agreement.
 - o The appointment of the CEO and Chair requires annual confirmation of at least two-thirds of the directors of the Board at the meeting.
 - o Changes to initial governance standards, including the mandate for the Hydro One Ombudsman and the skills matrix for nominees, will require approval of at least two-thirds of the directors of the Board at the meeting.
 - o Any disputes will be determined by binding, confidential arbitration.
- A Registration Rights Agreement, which lays out the roles and responsibilities of the Province and Hydro One Limited specifically as they relate to future share sales. It includes the following key components:
 - o The terms within the agreement will continue as long as the Province is a "control person" of Hydro One Limited.
 - o The Province can require Hydro One Limited to, use commercially reasonable efforts to facilitate an offering of the Province's shares, under a prospectus in Canada or as a private sale in Canada or other jurisdictions
 - Hydro One Limited is obliged, at the Province's request, to file a prospectus no more than four times in a 12 month period, and Hydro One Limited may defer a request for up to 60 days for confidentiality or bona fide reasons
 - The Province shall enter into an underwriting agreement and lock up agreement on "customary market terms"

- o The Province also has the right to “piggy back” on a Hydro One Limited offering:
 - Hydro One Limited must provide notice of a proposed distribution to the Province not later than 30 days prior to the date Hydro One Limited enters into an agreement to issue shares.
 - The Province has 10 business days after receiving the piggy back notice to determine if it wishes to participate in the proposed distribution.
 - If the Province chooses to piggy back on a Hydro One Limited distribution, the underwriters may limit the number of shares that are included in the distribution, and proportionately allocated to the Province and Hydro One Limited, if, in their reasonable judgment, market conditions require such limitations in order to maximize the value of the offering.
- o The Province is responsible for the associated costs with a distribution of shares under a demand registration
 - The Province is responsible for these costs even if the Province withdraws its request for a demand registration or in circumstances where a distribution does not otherwise occur pursuant to a prospectus prepared at the Province’s request
 - The Province and Hydro One Limited share costs in proportion to the gross proceeds for a piggy back registration

In addition to the above noted agreements, the Minister of Energy will need to enter into a number of additional agreements to support the IPO, including, but not limited to:

- Underwriting Agreement: The underwriting agreement outlines the terms on which the underwriters agree to purchase and distribute the shares of Hydro One Limited, including the offering price and number of shares to be sold (the base offering, plus an “over-allotment option” allowing the underwriters to purchase additional shares for market support).
- Lock Up Agreement: To maintain an orderly market post-closing of the IPO, Hydro One (as issuer) and the Province (as selling shareholder) enter into an agreement not to sell any additional shares for 180 days after the IPO closes without the underwriters’ approval.

Overseeing the Province’s Investment in Hydro One Limited

Following the IPO, the Province will need to manage its interest in Hydro One Limited as an investor. In order to effectively carry out these roles and responsibilities, the Ministry of Energy indicates that it will require dedicated resources and expertise to support the Province as shareholder in these decisions, and proposes an approach whereby delegation of authority combined with a standing mandate to undertake buy and sell transactions can facilitate quick action:

- The Minister of Energy, as shareholder, will represent the Province as an investor in Hydro One Limited.
- The Ministry of Energy will monitor Hydro One to ensure legislative and governance agreements requirements are met (head office, holdings, etc.).
- The Ministry will meet with members of the Hydro One Limited nominating committee to identify and confirm nominees for the Board of Directors annually and as needed.
- The Ministry of Energy would acquire the services of a financial advisor, on an ongoing basis to monitor market conditions to inform buy/sell decisions.

- The Ministry of Energy would acquire the services of external legal expertise on an as-needed basis.
- Treasury Board Secretariat and the Ministry of Finance will work with the Ministry of Energy and be responsible for setting sales targets to support the fiscal plan
- The Ministry of Finance will ensure close coordination with fiscal priorities.
- Treasury Board Secretariat will ensure appropriate government approvals are taken into account.
- The Ministry of Energy will report to TB/MBC on an annual basis to receive broad policy approval to purchase and sell shares during the subsequent fiscal year, and report back to TB/MBC following each transaction that takes place.
- The Minister of Energy would approve individual transactions

The resourcing details of this proposed administrative framework (FTEs for the Ministry and cost of external services) are not known at this time.

Loan and Share Purchase Agreements

In April 2015, TB/MBC approved the development of a loan agreement to enable the PWU to purchase shares in Hydro One Limited. The Ministries of Energy and Finance have negotiated the terms of the Loan Agreements and Share Purchase Agreements (and ancillary agreements) with the PWU to enable the transactions ("the Agreements"). Negotiations are underway to allow the SEP to also purchase shares. In each case, the Agreements would be entered into by the Province (the Minister of Finance for the Loan Agreements, and the Minister of Energy for the Share Purchase Agreements) and two Ontario trusts, the sole trustee of which is an Ontario corporation wholly-owned by each union and the sole beneficiary of which is that union.

The Agreements are broadly similar, but include a few specific differences reflective of the particular needs of each union, such as the following:

- The PWU loan will be for \$75,000,000 to the PWU Trust, and the Trust can use the loan to pay fees for financial advisors to a maximum amount of \$3,000,000.
- The SEP loan will be for up to \$36,000,000 to the SEP Trust, and the Trust can use the loan to pay fees for financial advisors to a maximum amount.

Note, while the loans are proposed to be for up to a total of \$111,000,000, the proposed supplementary estimates related to the loans is for only \$87,000,000 (there is also, unlike the PWU Trust, no approval currently included related to an OIC for the SEP Trust loan). This is because the final amount of the SEP Trust loan is still outstanding; however it is expected to be no less than \$12M, and no more than \$36M. The Ministry will return to TB/MBC prior to the IPO with the final OIC for the SEP Trust, including the loan amount.

The proposed Agreements also include the following key terms:

- The loans will be used to:
 - o purchase Hydro One Limited common shares at the IPO price; and
 - o pay for the fees of any financial advisors to the unions to the maximum amounts noted above.
- The borrower will agree not to vote any shares they own in any matter for so long as the

loan remains outstanding.

- The loan matures and becomes repayable in full 15 years from the initial advance.
- The interest rate applicable to the interest period (as selected by the borrower) will be the Province's borrowing rate for a term equal to the selected interest period, plus 15 basis points (bps, or 0.15 percentage points).
 - o Interest will be payable in arrears at the end of each fiscal quarter.
- Interest payments are to be made from quarterly dividends on the shares
 - o If the dividends are insufficient to pay the interest due on any interest payment date, the borrower may elect to defer payment of interest to the next interest payment date.
 - o If the market value of the shares pledged by the borrower is greater than 2x the outstanding principal and interest on the loan, the borrower may use any dividends in excess of interest payments for its own purposes.
 - o If the market value of the shares pledged by the borrower is less than 2x the outstanding principal and interest on the loan, the borrower must use the excess dividends (i.e. dividends remaining after interest payments) to repay the loan.
- The borrower may prepay the loan without penalty at any time.
 - o If the borrower sells the pledged shares, the proceeds of the sale must be used to repay the loan.
 - o If there is a change of control of Hydro One Limited, the borrower must repay the loan in full.
- The loan will be secured by the pledged shares and by dividends received on the pledged shares. If the market value of the pledged shares is more than 2x the outstanding principal and interest on the loan, the borrower is entitled to request that the lender release pledged shares up to an amount so that the market value of the pledged shares is not less than 2x the outstanding principal and interest on the loan.
- In addition, the PWU and the SEP will each set up a separate trust to purchase up to \$5M each shares with funds provided by each union.
- The shares bought with funds provided by unions will not be disposed of by the unions until at least one year after the date of the IPO.
- All shares will be sold at the IPO purchase price and will not be transferred until the date of the IPO.
- The borrowers and their respective union will not be permitted to buy any additional Hydro One Limited common shares in the IPO.

A side letter from the relevant union to the Province (Minister of Energy and Minister of Finance) will require that the proceeds from the shares purchased with the loans be used for training, employee benefits or other matters determined by the union to be for the benefit of its members.

While the unions will become shareholders in Hydro One Limited, their ownership stake is expected to represent only about 1% of the total company.

Appendices C (PWU) and D (SEP) provide an overview of the pension changes the Province benefited from in the collective agreements with the two unions, the benefits the unions themselves will receive from the trusts and share purchase agreements described above, and the benefits union members received through Hydro One share grants provided for in the collective agreements.

Procurements

Consistent with the April TB/MBC approval, the fees paid to the bookrunners and the rest of the underwriting syndicate will be a percentage of sales to investors (3 per cent for retail investors 1 per cent for institutional investors). The total payment to bookrunners and the accompanying underwriting syndicate is expected to be approximately 1.8 per cent of the transaction value (about \$35M-\$45M, with \$50M as a ceiling), which the Council indicates is considerably lower than the industry average of 4-5per cent (\$100M). The Ministry has also noted that it will pay the expenses of the bookrunners. These will include legal fees, costs related to the marketing effort and road shows. All of the items will be outlined in the underwriting agreement.

- In April it was expected that Hydro One would be responsible for the procurement of these advisors, however it now appears the Ministry of Energy will also be required to sign the agreements with the underwriting partners, and therefore a new procurement approval is being requested to enable the Ministry to participate.

The Ministry has indicated that there will be other procurements that will need to be undertaken as part of the IPO process, including, but not limited to the following:

- New Investment Dealer: The Ministry will need to procure the services of an investment dealer to establish an investment account that will hold the Province's shares in Hydro One Limited. The account will be used to hold and transfer shares in the first IPO, and can also be used for the management of shares in future offerings.

The Ministry has indicated that it will need to act quickly to procure the various services required for the IPO and that it may not follow the mandatory components of the OPS Procurement Directive, such as criteria around the procurement process. As a result, it is requesting an exemption from the mandatory requirements of the OPS Procurement Directive, **including the use of the Central Common Service for the acquisition of financial services to undertake the remaining procurements required for the IPO and to support the administrative framework that will manage the shareholder relationship with Hydro One, and implement the share purchase and sale strategy of the Province.**

The Ministry indicates that it will endeavour to abide by the principles of the Directive (value for money, vendor access, transparency and fairness, and responsible management) and that **during the initial IPO** Denis Desautels will oversee this as part of his work to ensure the transparency of the IPO process.

This request has not been reviewed by the Supply Chain Leadership Council.

While the procurement costs (and those of Hydro One Limited) will be offset from the IPO proceeds, the Ministry of Energy will require an appropriation to record the expected payment to the underwriting syndicate (i.e. up to \$50M), as well as for its other advisors (e.g. Mr. Desautels, legal counsel, etc.), and other related payments (e.g. listing fees, OSC fees, rating agency fees, etc.). The Ministry estimates that the total expenses will not exceed **\$63,000,000**.

Hydro One Brampton

As approved in April 2015 and announced in the 2015 Ontario Budget, the Province is moving forward with the sale of Hydro One Brampton to a merged entity of three other large utilities – PowerStream, Enersource and Horizon.

- This transaction is still in progress and is not expected to close prior to the IPO.

As part of the Hydro One Brampton transaction the Ministry of Energy is seeking approval for the creation of Brampton Distribution Holdco Inc. under the Business Corporations Act (Ontario). Legislative authority to do this is provided in the Electricity Act, 1998 (Ontario). Prior to its sale, prospectively, to a merged entity of three other utilities, Hydro One Brampton will be transferred from Hydro One to a new holding company wholly owned by the Province through a dividend in-kind prior to the IPO, by way of a Shareholder Declaration from the Minister of Energy, acting as sole shareholder. The Shareholder Declaration will direct Hydro One to pay the dividend by transferring Hydro One Brampton and its associated intercompany debt to Brampton Distribution Holdco Inc. Hydro One Brampton will continue to operate as a going concern while owned by the Province.

In addition, the Ministry of Finance is seeking approval of an Order in Council to expand the objects of the OEFC to include providing financial assistance to a distributor owned or controlled, directly or indirectly, by the Province, so that the OEFC would be in a position to provide financial support to Hydro One Brampton if necessary, as a contingency measure.

The Ministry of Energy and Brampton Distribution Holdco Inc. will enter into a Memorandum of Agreement with respect to the governance, mandate, reporting requirements, performance expectations and communications.

In April 2015, TB/MBC approved exempting Hydro One from any Treasury Board/Management Board of Cabinet directives that currently applied to it. To ensure clarity, the Ministry is requesting for that approval be applied to Brampton Distribution Holdco Inc.

Risks

Securities laws restrict the communications that can be made by a seller/issuer of shares while it is preparing for, and during, an IPO. Generally, this “quiet period” is aimed at preventing the seller/issuer from engaging in communication aimed at promoting the shares to be offered to the public in the IPO

- As the Province has publicly announced that it intends to move forward with the Hydro One IPO, the Province has entered the quiet period with respect to the transaction. As such, the Province should not engage in any communication that promotes Hydro One’s shares.
- Given its public mandate, there is scope in spite of these rules for the Province to discuss policy rationales supporting the IPO and the potential benefits the IPO brings to the Province provided it does so only where necessary to support that mandate and on a limited basis.

There are a number of risks to the proposed approach, including financial and governance risks.

If First Nation communities, or other interested parties, launched a legal challenge it could impact the timing of the IPO

There are financial risks with respect to the actual proceeds of the IPO from the market. The market valuation will not be known until close to the date of the IPO and may contribute to generating different results for the Province in 2015-16 than initially anticipated.

- The expected fiscal results remain subject to market conditions, including equity market volatility and changes in interest rates.
- The Ministries have not provided a detailed financial update as part of this submission. but will be directed to report back following the IPO on the financial results of the IPO.

There is a regulatory risk that the OEB, in the context of rate filing, could see the cash dividend provided to the Province by Hydro One Limited as an extraction of value from Hydro One Limited that should be shared with rate payers. In such a case, Hydro One Limited could argue that this is a tax-driven outcome that did not result in a direct fiscal impact.

There are long term financial risks with respect to the repayment of the loans to the PWU and the SEP Trusts. Loans are to be paid from dividends received, and dividends are subject to fluctuation as market conditions change. The ability of the borrower trusts to obtain the release of pledged shares could also reduce the obligation of the trusts to repay interest and principal on the loan.

There are risks that the proposed governance structure for the ongoing management of the investment in Hydro One and the capital market may be complex. There are also risks that the Ministry of Energy's obligations and/or interests as a policy maker for the sector, including its regulatory framework, could conflict with its obligations as an investor, or may require disclosures as part of a secondary sale process, or could impact the timing of secondary sales.

There are risks with respect to the proposed exemption from the OPS Procurement Directive. These include financial risks (costs of future procurements are not known), risks of public and vendor perceptions of fairness and transparency of the procurement processes.

Name of analyst:	Mark Lyons	Phone number:	416-327-2184
Date:	October 25, 2018	Log number:	
Branch / Division:	GGPR/PEMD		

APPENDIX A: PROPOSED MINUTE

Receive a report back on the Hydro One Initial Public Offering (IPO) implementation plan.

In this regard,

IPO Overview

- i. Approve that, consistent with and further to the April 15, 2015 TB/MBC direction, the IPO for Hydro One will include the following key components:
 - a. the IPO will include approximately 15 per cent of the Province's Interest in Hydro One **voting securities**;
 - b. there will be an offering of common shares by the Province only;
 - c. at least 25-30 per cent of the total shares in the IPO will be made available to retail investors, with the remaining shares to be allocated to institutional investors;
 - d. the IPO will take place on the Toronto Stock Exchange.
 - e. the preliminary prospectus is expected to be filed with the Ontario Securities Commission by September 15, 2015.
 - f. the price of the offering will be approved by the Ministry of Energy working together with the Ministry of Finance (Ontario Financing Authority) and Cabinet Office, and in consultation with the active bookrunners and underwriters.
 - g. the IPO is expected to be completed by December 21, 2015.
 - h. the Province will provide to Hydro One Limited a capital contribution of **\$2,600,000,000**, which is to be equivalent to the amount of departure tax paid to the Ontario Electricity Financial Corporation by Hydro One.
 - i. procurement costs incurred during the 2015-16 fiscal year that are related to the IPO will be offset from the proceeds resulting from the IPO.
- ii. Direct the Ministry of Energy to work with the Ministry of Aboriginal Affairs, Ministry of the Attorney General and Cabinet Office to support the IPO by engaging with First Nations communities in a discussion on a range of issues to assess potential provincial options that are fiscally neutral.
- iii. Receive a report back on the proposed capital contribution in relation to Hydro One's departure tax obligation.
- iv. Note that Hydro One will make a one-time dividend payment to the Province in the range of \$500,000,000 to \$1,000,000,000 as it adjusts its capital structure to become a publicly traded company. A dividend payment is not expected to have a direct fiscal impact for the Province.

Supplementary Estimates

- i. Approve supplementary estimates in the amount of \$2,750,000,000 **in 2015-16 including \$2,663,000,000 in operating expense and \$87,000,000 in operating asset** as follows:

Ministry of Finance

- a. Approve the creation of an Operating Asset (1203-24) entitled Strategic Assets - Loans and Investments in the Ministry of Finance's Economic, Fiscal and Financial Policy Program in 2015-16.
- b. Approve an expenditure increase of \$87,000,000 in 2015-16 in Strategic Assets - Loans and Investments in the Economic Fiscal and Financial Policy Program (Vote/Item 1203-24) for loans to the Power Workers Union and Society of Energy Professionals.

Ministry of Energy

- a. Approve the creation of a new Vote in the Ministry of Energy entitled Strategic Asset Management (Vote 2906).
- b. Approve the creation of a new Operating Expense item entitled Strategic Asset Management and Transformation in Strategic Asset Management (Vote/Item 2906-01).
- c. Approve the creation of a Transfer Payment named Tax Adjustment Offset for Hydro One Transformation in Strategic Asset Management and Transformation (Vote/Item 2906-01) in 2015-16.
- d. Approve an expenditure increase of \$2,600,000,000 in 2015-16 in the Tax Adjustment Offset for Hydro One Transformation Transfer Payment (Vote/Item 2906-01) for expenses to support the Ministry's objectives regarding its assets management and transformation strategy, through a capital contribution to Hydro One Limited.
- e. Approve an expenditure increase of \$63,000,000 in Services in the Ministry of Energy's Ministry Administration Program (2901-1) in 2015-16 for expenses to engage external support and expertise required to achieve the Ministry's assets management and transformation strategy. This includes IPO and Brampton Distribution Holdco Inc. related project

- ii. Direct that any underspending be returned to Treasury Board/Management Board of Cabinet and not be reallocated within the Ministries.

Creation of Hydro One Limited

- v. Approve the creation of Hydro One Limited. This corporation's activities will include acquiring, holding, disposing, and otherwise dealing with the securities of Hydro One Inc.
- vi. Recommend an Order in Council to authorize the incorporation of Hydro One Limited under the Business Corporations Act (Ontario).
- vii. Approve an exchange of the Minister of Energy's preferred shares in Hydro One Inc. for an issuance of common shares in Hydro One Inc. of an equivalent market value.
- viii. Approve an exchange of the Minister of Energy's common shares in Hydro One Inc. for an issuance of common and preferred shares in Hydro One Limited of equivalent values.
- ix. Note that the Ministry of Finance and the Ontario Electricity Financing Corporation are working to draft an amendment to terminate the indemnity provided by the OEFC to Hydro One.

Administrative Framework

- x. Receive a report back on the Governance Agreement between the Province and Hydro One Limited.
- xi. Approve the Governance Agreement between the Province and Hydro One Limited, including the following key provisions:
 - a. The Provincial Representative for the purposes of the Governance Agreement is the Minister of Energy and any other person designated by the Minister of Energy. Any action taken by a Provincial Representative binds the Province.
 - b. Hydro One Limited will adopt governance standards consistent with best practices in Canada for leading public companies having regard to Hydro One Limited's ownership structure and the Governance Agreement.
 - c. The Province will engage in the business and affairs of Hydro One Limited as an investor, not as a manager.
 - d. The Board will consist of 10 to 15 members and will be comprised of:
 - i. The CEO;
 - ii. Directors nominated by the Province up to 40 per cent of the number of directors (or its pro-rata share, whichever is less, but subject to a minimum cure period); and
 - iii. Directors nominated by the Nominating and Governance Committee established by the Hydro One Limited Board.
 - e. Each Director nominee must be an individual of high quality and integrity who has:
 - i. significant experience and expertise in business or that is applicable to business,
 - ii. served in a senior executive or leadership position,
 - iii. broad exposure to and understanding of the Canadian or international business community,
 - iv. skills for directing the management of a company,
 - v. motivation and availability, and
 - vi. met the requirements of applicable securities and other Laws and any exchange on which Voting Securities are listed
 - f. The Province and the Board's Nominating and Governance Committee may reject a Board nominee only if they determine, acting reasonably, that the nominee does not meet the qualifications
 - i. The initial directors at the time of the IPO are not subject to this process unless their circumstances materially change.
 - g. Other than the CEO, each Director nominee shall be independent of Hydro One Limited and the Province.
 - h. The majority of the Board must at all times be resident Canadians.
 - i. The Province will have the right to requisition a shareholders' meeting to consider the removal of the Board at which time the Province may vote for the removal of all, but not less than all of the Board (other than the CEO and, at the Province's sole discretion, the Chair)
 - j. The Province will have the pre-emptive right to acquire **for cash** up to 45 per cent of a Hydro One Limited offering of shares or securities that are convertible into shares:

- i. Hydro One Limited would be required to provide notice of a proposed distribution to the Province not later than 30 days prior to the date Hydro One Limited enters into an agreement to issue shares.
 - ii. The Province would have 10 business days after receiving the notice to determine if it wishes to exercise its pre-emptive right.
- k. The Province will be permitted to acquire (subject to securities laws and TSX requirements) additional Hydro One Limited common shares from other shareholders so long as its ownership interest after the acquisition does not exceed 45 per cent.
- l. Hydro One Limited and the Province would enter into a confidentiality agreement with respect to confidential information provided to the Province to which the Province would agree:
 - i. To use confidential information only to exercise its rights under the Governance Agreement and Registration Rights Agreement or for the purpose of evaluating, overseeing and determining how to deal with its investment in Hydro One Limited and exercising its rights as a shareholder, in accordance with the Governance Agreement and applicable law;
 - ii. To use confidential information provided to the Minister of Finance or the President of the Treasury Board under the *Financial Administration Act*; only for preparing the Province's consolidated financial statements;
 - iii. To establish sufficient procedures to protect against insider trading; and
 - iv. Not to disclose confidential information that the Province receives in its capacity as a shareholder about Hydro One Limited, or its subsidiaries, except as required by law and to provide Hydro One Limited with prior notice of such disclosures where permitted by law.
- m. Hydro One Limited and the Province will agree to cooperate in good faith to amend the Governance Agreement if there are changes in circumstances in the future that impact the original purpose and intention of the parties in entering into the agreement
- n. The appointment of CEO and Chair requires annual confirmation and approval of at least two-thirds of the directors of the Board present at the meeting.
 - i. Changes to initial governance standards, including the mandate for the Hydro One Ombudsman and the skills matrix for nominees, would require approval of at least two-thirds of the directors of the Board present at the meeting.
- o. Any disputes would be determined by binding, confidential arbitration
- xii. Approve a Registration Rights Agreement which outlines the terms on which the Province can buy and sell shares and terms to facilitate coordination with Hydro One Limited on its own issuances, including the following key provisions:
 - a. The terms within the agreement will continue as long as the Province is a "control person" of Hydro One Limited.
 - b. The Province can require Hydro One Limited to use commercially reasonable efforts to facilitate an offering of the Province's shares, under a prospectus in Canada or as a private sale in Canada or other jurisdictions
 - i. Hydro One Limited is obliged, at the Province's request, to file a prospectus no more than 4 times in a 12 month period, and Hydro One Limited may in some cases defer a request for up to 60 days.

- ii. The Province shall enter into an underwriting agreement and lock up agreement on “customary market terms”
- c. The Province also has the right to “piggy back” on a Hydro One Limited offering:
 - iii. Hydro One Limited must provide notice of a proposed distribution to the Province not later than 30 days prior to the date Hydro One Limited enters into an agreement to issue shares.
 - iv. The Province has 10 business days after receiving the piggy back notice to determine if it wishes to participate in the proposed distribution.
 - v. If the Province chooses to piggy back onto a Hydro One Limited distribution, the underwriters may limit the number of shares that are included in the distribution on a pro rata basis between the Province and Hydro One, if in their reasonable judgment, market conditions require such limitations in order to maximize value of the offering.
- d. The Province is responsible for the costs associated with a distribution of shares under a demand registration
 - vi. The Province is responsible for these costs even if the Province withdraws its request for a demand registration or in circumstances where a distribution does not otherwise occur pursuant to a prospectus prepared at the Province’s request
 - vii. The Province and Hydro One Limited share costs in proportion to the gross proceeds for a piggy back registration
- xiii. Authorize the Minister of Energy to sign the prospectus, Underwriting Agreement, Lock up Agreement and other ancillary agreements necessary to complete the IPO.
- xiv. Approval of an administrative framework post-IPO, including the following key provisions:
 - a. The Minister of Energy, as shareholder, will represent the Province and report to TB/MBC on an annual basis to receive broad policy approval to purchase and sell shares during the fiscal year.
 - b. The Ministries of Finance and Treasury Board Secretariat will work with the Ministry of Energy, including developing targets to support the fiscal plan.

Loan and Share Purchase Agreements

- xv. Receive a report back on loan and share purchase agreements.
- xvi. Approve loan agreements and share purchase agreements that include the following key provisions:
 - a. The loans will be made to a trust established by the borrowing Unions(s) to:
 - i. purchase Hydro One common shares at the IPO price immediately after the IPO; and
 - ii. pay for the fees of any financial advisors to the unions.
 - b. The borrower will agree not to vote any shares it owns in any matter for so long as the loan remains outstanding.
 - c. The loan matures and becomes repayable in full 15 years from the initial advance.
 - d. The interest rate applicable to the interest period (as selected by the borrower) will be the Province’s borrowing rate for a term equal to the selected interest period, plus 15 basis points (bps, or 0.15 percentage points).
 - i. Interest will be payable in arrears at the end of each fiscal quarter

- e. Interest payments are to be made from quarterly dividends on the shares
 - i. If the dividends are insufficient to pay the interest due on any interest payment date, the borrower may elect to defer payment of interest to the next interest payment date
 - ii. If the market value of the shares pledged by the borrower is greater than 2x the outstanding principal and interest on the loan, the borrower may use any dividends in excess of interest payments for its own purposes
 - iii. If the market value of the shares pledged by the borrower is less than 2x the outstanding principal and interest associated with the loan, the borrower must use the excess dividends (i.e. dividends remaining after payment of interest) solely to repay the loan
- f. The borrower may prepay the loan without penalty at any time
 - i. If the borrower sells the pledged shares, the proceeds of the sale must be used to repay the loan
 - ii. If there is a change of control of Hydro One Limited, the borrower must repay the loan in full
- g. The loan will be secured by the pledged shares and by dividends received on the pledged Shares. If the market value of the pledged shares is more than 2x the outstanding principal and interest on the loan, the borrower is entitled to request that the Lender release pledged shares up to an amount so that the market value of the pledged shares is not less than 2X the outstanding principal and interest on the loan.
- h. The shares will be sold at the IPO purchase price and will not be transferred until the date of the IPO.
- i. The shares will be sold under a securities law exemption and, therefore, will not be qualified under a prospectus.
- j. The borrower and their respective union will not be permitted to buy any additional Hydro One common shares in the IPO.
- xvii. Approve that the PWU Loan Agreement and Share Purchase Agreement will be entered into by the Province and an Ontario trust, the sole trustee of which is an Ontario corporation wholly-owned by the PWU and the sole beneficiary of which is the PWU, and will include the following specific provisions
 - a. The Province will advance a term loan of up to \$75,000,000 to the PWU Trust.
 - b. The fees for financial advisors that can be paid for through the loan proceeds is capped at \$3,000,000.
- xviii. Approve a second Share Purchase Agreement to be entered into by the Province and a separate Ontario trust (Second PWU Trust), the sole trustee of which is an Ontario corporation wholly-owned by the PWU and the sole beneficiary of which is the PWU, and will include the following provisions
 - a. Hydro One common shares will be sold to the Second PWU Trust with funds provided by the PWU at the IPO purchase price and will not be disposed of by the Second PWU Trust until at least one year after the date of the IPO
 - b. The shares will be sold under a securities law exemption and therefore will not be qualified under a prospectus
 - c. Neither the PWU, the PWU Trust borrower nor the Second PWU Trust will be permitted to buy any additional Hydro One common shares in the IPO
- xix. Approve that the SEP Loan Agreement and Share Purchase Agreement will be entered into by the Province and an Ontario trust, the sole trustee of which is an Ontario

corporation wholly-owned by the SEP and the sole beneficiary of which is the SEP, and will include the following specific provisions

- a. The Province will advance a term loan of up to **\$36,000,000** to the SEP Trust.
 - b. The fees for financial advisors that can be paid for through the loan proceeds is capped.
- xx. Approve a second Share Purchase Agreement will be entered into by the Province and a separate Ontario trust (Second SEP Trust), the sole trustee of which is an Ontario corporation wholly-owned by the SEP and the sole beneficiary of which is the SEP, and will include the following specific provisions
- a. Hydro One common shares will be sold to the Second SEP Trust with funds provided by the SEP at the IPO purchase price and will not be disposed of by the Second SEP Trust until at least one year after the date of the IPO
 - b. The shares will be sold under a securities law exemption and therefore will not be qualified under a prospectus
 - c. Neither the SEP, the SEP **Trust** borrower nor the Second SEP Trust will be permitted to buy any additional Hydro One common shares in the IPO
- xxi. Recommend an Order in Council to authorize the Minister of Finance to enter into the loan agreement with the PWU Trust and to authorize certain officials to enter into other agreements that are necessary and desirable in connection with the loan agreement.
- xxii. Authorize the Minister of Energy to enter into the Share Purchase Agreements with the Power Workers Union **Trusts**.
- xxiii. Authorize the Minister of Energy to enter into the Share Purchase Agreements with the Society of Energy Professionals **Trusts**.

Procurements

- xxiv. Approve an exemption from the open competitive requirements of the OPS Procurement Directive to allow for a joint procurement by Hydro One Inc. and the Ministry, using an invitational competitive process for a procurement of over \$100,000 to acquire active book runners and the underwriting syndicate for the IPO and in this regard
- a. Approve an exemption from the mandatory requirements of the OPS Procurement Directive in respect of the procurement documents for this procurement.
 - b. Approve the reimbursement of expenses for the active book runners
- xxv. Approve an **exemption to the mandatory requirements of the OPS Procurement Directive, including the mandatory use of Central Common Services, for the future acquisition of services required to support the IPO process and to support of the ongoing administrative framework to enable future share sales/purchases.**
- xxvi. Note that the cost of the Ministry of Energy's IPO procurements, and the costs incurred by Hydro One Limited, will be recovered from the proceeds from the IPO.

Hydro One Brampton

- xxvii. Approve the creation of Brampton Distribution Holdco Inc. This corporation's activities will include acquiring, holding, disposing, and otherwise dealing with the securities of **Hydro One Brampton Networks Inc.**

- xxviii. Recommend an Order in Council to authorize the incorporation of Brampton Distribution Holdco Inc. under the Business Corporations Act (Ontario).
- xxix. Note that the Minister of Energy will issue one or more shareholder declarations and/or resolutions to Hydro One Inc. to transfer to Brampton Distribution Holdco Inc. all shares in Hydro One Brampton Networks Inc. through a dividend in kind.
- xxx. Note that the Minister of Energy will issue one or more shareholder declarations and/or resolutions to Hydro One Inc. to reduce the stated capital of Hydro One Inc. by transferring to the Province all the long-term debt receivables owed by Hydro One Brampton Networks Inc. to its parent Hydro One Inc. **The Province will direct the long-term debt receivables to Brampton Distribution Holdco Inc.**
- xxxi. Note that the Minister of Energy will issue one or more shareholder declarations and/or **resolutions** appointing the board members of Brampton Distribution Holdco Inc
- xxxii. Note that the Minister of Energy will issue one or more shareholder declarations and/or resolutions addressing operational requirements (insurance, letter of credit) of **Hydro One Brampton Networks Inc.**
- xxxiii. Approve an expansion to the objects of the Ontario Electricity Financing Corporation to include providing financial assistance to a distributor owned or controlled, directly or indirectly, by the Province.
- xxxiv. Recommend an Order in Council to expand the objects of the Ontario Electricity Financial Corporation.
- xxxv. Note that the Ministry of Energy and Brampton Distribution Holdco Inc. will enter into a Memorandum of Agreement with respect to the governance, mandate, reporting requirements, performance expectations and communications.
- xxxvi. Approve exempting Brampton Distribution Holdco Inc. **and Hydro One Brampton Networks Inc.** from any Treasury Board/Management Board of Cabinet directives.

Report backs

- xxxvii. Direct the Ministry of Energy to continue to work with Cabinet Office, Premier's Office, Ministry of Finance (Ontario Financing Authority), and Treasury Board Secretariat on a communications plan.
- xxxviii. Direct the Ministry of Energy, working with the Ministry of Aboriginal Affairs, Ministry of the Attorney General, and Cabinet Office to report back on the status of engagement with First Nations prior to tabling a formal proposal in any discussions with First Nations.
- xxxix. Direct the Ministry of Energy, working with the Ministry of Finance (Ontario Financing Authority) and Cabinet Office, to report back to Treasury Board/Management Board of Cabinet with the results of the IPO, including financial details.
 - xl. Direct the Ministry of Finance (Ontario Financing Authority), working with the Ministry of Energy, to report back to Treasury Board/Management Board of Cabinet with details on the financial benefit to be provided to the OEFC as a result of the IPO.
 - xli. Direct the Ministry of Energy, working with the Ministry of Finance and Treasury Board Secretariat to report back to Treasury Board/Management Board of Cabinet for approval of an implementation plan to achieve a target for the Hydro One Limited investment for the 2016-17 fiscal year.
 - xlii. Direct the Ministry of Energy, working with the Ministry of Finance (Ontario Financing Authority) to report back to Treasury Board/Management Board of Cabinet with details on the final Brampton Transaction Results.

- xliii. Note that the Ministry of Finance (Ontario Financing Authority), working with the Ministry of Energy will report back on designating **shares of** Hydro One Limited and Brampton Distribution Holdco Inc. as qualifying assets under the *Trillium Trust Act*.

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE
TABLE B1
*Appropriations
Basis*
Fiscal Plan Basis

\$ Millions		2015-16	2016-17	2017-18	2015-16
Initiative cost recommended		0.0000	0.0000	0.0000	
<i>Expense changes:</i>					
	Oper	0.0000	0.0000	0.0000	0.0000
<i>Revenue changes:</i>					
Revenue increase		0.0000	0.0000	0.0000	
Revenue decrease		0.0000	0.0000	0.0000	
Total Fiscal Impact (draw from c-funds)		0.0000	0.0000	0.0000	0.0000

APPENDIX C: PWU SHARE ARRANGEMENTS

	Benefit to the Province	Benefit to the Union	Benefit to Members
PWU	Increase in employee pension contributions of 2.70% and employer contributions to not be less than employee contributions up to March 31, 2025	\$75M loan from the province to a Trust, the sole beneficiary of which is the PWU which must be used to - purchase Hydro One common shares at the IPO price; and - pay for the fees of any financial advisors (capped at \$3M). - A second Share Purchase Agreement will be entered into by the Province and a separate Ontario trust (Second PWU Trust), which will enable the PWU to purchase (using its own funds) up to \$5M in shares at the IPO price	- Share grants will be made on April 1 of each year from April 1, 2017 up to and including April 1, 2028 (Up to a maximum of 12 annual share grants) - Grants will be 2.7% of salary as of April 1, 2015, provided in form of Hydro One shares, based on initial share price. - To be eligible, Hydro One employee must still be an active employee and have less than 35 years of pensionable service. - Example – if an employee has a salary on April 1, 2015 of \$90,000, and the initial share price is \$20.00, 121.5 shares (2.70% x \$90,000/\$20.00) will be granted to the employee each year up to a maximum of 12 grants. At the end of the 12 years, the employee will have 1,458 shares

APPENDIX C: SEP SHARE ARRANGEMENTS

	Benefit to the Province	Benefit to the Union	Benefit to Members
SEP	• Increase in employee pension contributions for existing members, who joined before November 17, 2005 (Pre-2005 employees), of the plan as per the following: - o April 1, 2016 – 0.50% Below YMPE/0.50% above YMPE (Year's Maximum Pensionable Earnings) - o April 1, 2017 – 0.75% Below YMPE/0.75% above YMPE - o April 1, 2018 – 1.00% below YMPE/1.50% above YMPE - o Eventual Increase will be 2.25% of total salaries. • Increase in employee pension contributions for new members of the plan joining on or after November 17, 2005 (Post-2005 Employees): - o April 1, 2016 – 0.50% Below YMPE/0.50% above YMPE - o April 1, 2017 – 0.75% Below YMPE/0.75% above YMPE - o April 1, 2018 – 0.50% below YMPE/1.00% above YMPE - o Eventual increase will be 2.00% of total salaries.	• Up to \$36M loan from the province to a Trust, the sole beneficiary of which is the SEP, which must be used to - o purchase Hydro One common shares at the IPO price; and - o pay for the fees of any financial advisors (capped). • A second Share Purchase Agreement will be entered into by the Province and a separate Ontario trust (Second SEP Trust), which will enable the SEP to purchase (using its own funds) up to \$5M in shares at the IPO price	• Share grants will be made on April 1 of each year from April 1, 2018 up to and including April 1, 2029 - o Grants will be 2.00% of salary as of September 1, 2015 provided in the form of Hydro One shares based on the initial share price. - o To be eligible, Hydro One employees must still be an active employee and have less than 35 years of pensionable service. - o Example – If an employee has a salary on September 1, 2015 of \$100,000 and the initial share price is \$20.00, 100 shares (2% x \$100,000/\$20.00) will be granted to the employee each year up to a maximum of 12 grants. At the end of the 12 years, the employees will have 1,200 shares.

Loan_Estimates TB-MBC_July19.docx



Briefing Note

PEMD

General Government, Planning, and Resources Branch

PWU Loan Requirements

Issue:

What approvals would be required for the Ministry of Finance to provide a loan to the Power Worker's Union (PWU)?

Current Status:

MOF, working with Cabinet Office and the Ministry of Energy is preparing report back to TB/MBC on the details of a proposed loan agreement with the PWU.

Based on the information received to-date, the following approvals are likely to be required:

Approval of the Loan Agreement Terms

TB/MBC approved the development of the loan agreement based on a term sheet. The report back should include a business case to support the final agreement, including a discussion on the extent to which the final agreement is in-line with the term sheet, and explanations for any variations.

Approval of an OIC authorizing the Loan

The proposal is for the loan to be provided by the Ministry of Finance.

While the Ministry does not have an express statutory authority to make such a loan, the province has the power to enter into contracts provided that there are no specific statutory provisions that would restrict the Crown's power.

Given the absence of express statutory authority to make the loan, an OIC could authorize the Minister of Finance to make the loan or approve the loan agreement.

Approval of the OIC should be obtained prior to execution of the loan agreement.

Approval of Supplementary Estimates

The Ministry of Finance does not currently have a vote/item or operating asset line that would enable it to flow money to the PWU. As a result, MOF would need to seek approval from TB/MBC for a supplementary estimate that would authorize it to make the loan.

MOF has the option of seeking either

- Treasury Board approval to table a supplementary estimate for the full amount of the loan, or

- Treasury Board approval to table a supplementary estimate for a nominal amount (e.g. \$1,000) and then subsequently seeking Treasury Board approval for the issuance of a Treasury Board Order that supplements the new appropriation and reduces the amount available under another appropriation, such as a Contingency Fund. However, it should be noted that MOF cannot request the issuance of any such Treasury Board Order before the supplementary estimate has been tabled in the Legislative Assembly since Treasury Board Orders can only be requested in relation to existing voted appropriations

Considerations:

Once Treasury Board approval for a supplementary estimate for the full amount of the loan has been obtained, the Minister would be able to enter into the Loan Agreement, and flow the funding to the PWU.

Once Treasury Board has approved the supplementary estimate, it should be tabled in the Legislative Assembly at the earliest opportunity. Supplementary estimates can only be tabled if the Legislature is sitting, which is not scheduled to resume until September 14, 2015.

- The members of the Standing Committee on Estimates have not yet selected the ministries whose estimates will be reviewed by the Committee. The members of the Committee have the right to know all the government's spending plans before they decide which ministry's estimates they wish to select for review
- If the members of the Committee select the estimates to be reviewed before Treasury Board approves the supplementary estimate, then it should be tabled at the earliest opportunity if MOF's estimates were selected for review and have not yet been considered by the Committee.
- The Auditor General includes a description of the process by which the government obtained legal spending authority for each fiscal year in her annual report and might be expected to comment if she did not believe that the supplementary estimate had been tabled in a timely manner.

Any perception that the government has not fully disclosed its spending plans could lead to a charge that the government has committed contempt of the Legislature.

If the government (or the PWU) makes any public announcement regarding the proposed transaction before the supplementary estimate has been tabled in the Legislative Assembly, this could create communication issues and increase the potential for points of privilege being raised.

All approvals are expected to be required by the end of August to ensure the loan is in-place prior to the Hydro One Initial Public Offering.

Background:

In April 2015, TB/MBC approved the development of a loan agreement with the PWU and directed the ministries to report back with the final details.

The proposed agreement would provide the PWU with up to \$75M and enable it to purchase shares in Hydro One at the IPO price, and pay for the fees of any financial advisors to the PWU in connection with the negotiation of the Loan and labour agreements.

Prepared by: Mark Lyons

Reviewed by: Len Hatzis

Date: July 19, 2015

Minute.pdf

Approved the document entitled "Summary of Term for Loan to Facilitate a Common Share Investment in Hydro One Inc.", as recommended by the Premier's Advisory Council on Government Assets.

In this regard, the Board:

- i) Authorized the Minister of Finance to sign the document on behalf of Her Majesty in Right of Ontario.
- ii) Directed the Ministry of Finance, Cabinet Office, and the Ministry of Energy to report back to Treasury Board/Management Board of Cabinet (TB/MBC) on the details of the final loan agreement outlined in the document along with any further documents requiring approval by TB/MBC and/or Cabinet.

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**TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE**



Ministry:	Energy
Meeting Date:	October 30, 2015
Agenda Class:	Discussion
Last reviewed by: TB/MBC, August 25, 2015	Tracking to: Cabinet, October 30, 2015

SUBMISSION TITLE: Authority to use an expense to acquire an asset

I. DECISION BEFORE THE BOARD

- The Ministry of Energy is seeking approval to use its operating expense appropriation to acquire an asset.

II. RECOMMENDATIONS:

Approve the Ministry of Energy's use of an operating expense appropriation to acquire an asset	<i>Approve</i>

III. FINANCIAL SUMMARY

\$ Millions	2015-16	2016-17	2017-18
Initiative cost requested	0.0	0.0	0.0
Initiative cost recommended	0.0	0.0	0.0
Recommended program base	0.0	0.0	0.0
Offset Recommended	0.0	0.0	0.0
Total Fiscal Impact	0.0	0.0	0.0

IV. KEY COMMENTS AND CONSIDERATIONS

On August 25, 2015 TB/MBC approved Supplementary Estimates to create a vote, item, operating expense, transfer payment, and an expenditure increase in the Ministry of Energy in the amount of \$2,600,000,000, representing the amount of a capital contribution the Province will provide to Hydro One (See Appendix C for an extract of the August 25 minute).

Since that time, it has become apparent that to ensure proper financial reporting, the operating expense should be recorded as an operating asset.

Section 11.5(2) of the *Financial Administration Act* (FAA) provides Treasury Board, based on a recommendation from the President of Treasury Board, with the authority to approve that a Ministry can use its operating expense to acquire an asset (See Appendix D for additional detail).

- The TB authorization should be obtained before an amount is charged to the operating expense appropriation since this would otherwise be prohibited under s. 11.2 (1) (a).

If Treasury Board approves the use of an operating expense appropriation to acquire an asset, additional disclosure in Volume 1 of the Public Accounts would be made. Specifically, a reconciliation in the form of a footnote in Volume 1 of the Public Accounts would be made to indicate that the operating expense was used to acquire an asset.

While the appropriation related treatment and/or disclosure in Volume 1 has no significance to the Auditor General's audit opinion on the Province's consolidated financial statements, the use of an approval by Treasury Board under s. 11.5(2) of the Financial Administration Act would need to be included in the Auditor General annual report to the Legislative Assembly.

The proposed approval would not in and of itself require the transfer to be reported as an investment, but would ensure that the transfer is properly authorized if it needs to receive this accounting treatment.

The Ministry of Energy is scheduled to process the capital contribution transaction on the morning of November 4, 2015.

Name of analyst:	Mark Lyons	Phone number:	416-327-2184
Date:	October 28, 2015	Log number:	
Branch / Division:	General Government, Planning and Resources Branch / PEMD		

APPENDIX A: PROPOSED MINUTE

Approve, pursuant to subsection 11.5(2) of the Financial Administration Act and on the recommendation of the President of the Treasury Board, the Ministry of Energy's use of its \$2,600,000,000 operating expense in Strategic Asset Management (Vote/Item 2906-01) to make a loan, advance or other form of investment for the purposes of completing the planned capital contribution to Hydro One.

APPENDIX B: FINANCIAL IMPACTS

Financial Impacts: Changes to Expense and Revenue					TABLE B1
		Fiscal Plan Basis			Appropriations Basis
\$ Millions		2015-16	2016-17	2017-18	2015-16
Initiative cost recommended		0.0000	0.0000	0.0000	
Expense changes:					
Operating item	Oper	0.0000	0.0000	0.0000	0.0000
Operating Offset	Oper	0.0000	0.0000	0.0000	00000
Revenue changes:					
Revenue Increase/ Offset		0.0000	0.0000	0.0000	
Revenue decrease		0.0000	0.0000	0.0000	
Total Fiscal Impact (draw from c-funds)		0.0000	0.0000	0.0000	0.0000

APPENDIX C: EXTRACT OF AUGUST 25, 2015 TB/MBC MINUTE

Supplementary Estimates

- i. Approve supplementary estimates in the amount of \$2,750,000,000 in 2015-16 including \$2,663,000,000 in operating expense and \$87,000,000 in operating asset as follows:

...

Ministry of Energy

- a. Approve the creation of a new Vote in the Ministry of Energy entitled Strategic Asset Management (Vote 2906).
- b. Approve the creation of a new Operating Expense item entitled Strategic Asset Management and Transformation in Strategic Asset Management (Vote/Item 2906-01).
- c. Approve the creation of a Transfer Payment named Tax Adjustment Offset for Hydro One Transformation in Strategic Asset Management and Transformation (Vote/Item 2906-01) in 2015-16.
- d. Approve an expenditure increase of \$2,600,000,000 in 2015-16 in the Tax Adjustment Offset for Hydro One Transformation Transfer Payment (Vote/Item 2906-01) for expenses to support the Ministry's objectives regarding its assets management and transformation strategy, through a capital contribution to Hydro One Limited.
- e. Approve an expenditure increase of \$63,000,000 in Services in the Ministry of Energy's Ministry Administration Program (2906-01) in 2015-16 for expenses to engage external support and expertise required to achieve the Ministry's assets management and transformation strategy. This includes IPO and Brampton Distribution Holdco Inc. related project

APPENDIX D: EXTRACT OF THE FINANCIAL ADMINISTRATION ACT

Limits on charges to appropriations

- 11.2 (1) No appropriation shall be charged with an amount,
 (a) that is for a purpose other than that for which the appropriation was provided; or
 (b) that is in excess of the amount available under the appropriation. 2002, c. 8, Sched. B, s. 2.

Authorized investments

- 11.5 (1) Except as otherwise expressly provided in an Act of the Legislature, an appropriation for a fiscal year does not include the authority to make a loan, advance or other form of investment. 2002, c. 8, Sched. B, s. 2.

Treasury Board may authorize investments

- (2) Despite subsection (1), on the recommendation of the Minister of Finance, the Treasury Board may authorize a payment pursuant to an appropriation to be made in the form of a loan, advance or other form of investment on such terms and conditions as the Treasury Board considers advisable. 2002, c. 8, Sched. B, s. 2.

Note: The power referred to in subsection 11.5 (2) has been assigned and transferred to the President of the Treasury Board under the TBS Ministerial OIC.

H1 and Brampton transaction impact analysis_Final.pdf

Hydro One and Brampton Transactions Impact Analysis

Summary table of H1 and Brampton transaction

Financial Statement Category (\$M)	H1 Initial Public Offering (Nov 2015)	H1 Secondary offering (April 2016)	H1 Secondary offering (May 2017)	Hydro One Brampton Sale (Feb 2017)	Total Cumulative Impact
Increase in Cash	1,945	1,970	2,790	545	7,250
Decrease in Investment in GBEs	1,071	1,321	1,942	436	4,770
Increase in Deferred Revenue (deferred gains)	48	70	0	0	118
Increase in Other Revenue (Gain on sale)	783	538	791	109	2,221
Increase in Expense (transaction costs)	43	41	57	0.0	141

Initial Public Offering

In November 2015, the Province sold approximately 16 per cent of Hydro One's common shares at a price of \$20.50 per common share, through a public offering and through related share sales. An accounting gain of \$783 million was recognized in the 2015-16 financial results in connection with the sale of Hydro One shares. An additional gain of \$48 million was deferred in connection with a sale of shares to electricity sector union trusts during the year and will be recognized as revenue as the loans provided to the trusts to purchase the shares are repaid.

A summary of key direct components of the Hydro One transactions include:

2015-16 IPO (\$ Millions)	
Total proceeds from the sale of shares	\$1,945
Deferred gain on sale of shares to electricity union trusts	(\$48)
Transaction costs	(\$43)
Net Proceeds from sale of Hydro One shares (Net of transaction cost and gain on sale of shares to electricity union trusts)	\$1,854
Book value of shares sold (Schedule 9)	(\$1,071)
Gain on sale of shares recognized in 2015-16	\$783

Secondary Offering (April 2016)

In April 2016, the Province sold 14 per cent of Hydro One's common shares at a price of \$23.65 per common share, through a secondary offering generating gross proceeds of approximately \$2 billion. As of March 31, 2017, the Province owned approximately 70 per cent of Hydro One's common shares. An accounting gain of \$538 million was recognized in the 2016–17 financial results in connection with the sale of Hydro One common shares.

An additional gain of \$70 million was deferred in connection with a purchase by Ontario Power Generation (OPG) of 9 million common shares of Hydro One through the secondary offering. OPG purchased these shares to distribute to eligible OPG employees represented by the Power Workers' Union and The Society of Energy Professionals as part of future share-delivery obligations under the collective agreements. This deferred gain will be recognized as revenue as the Hydro One common shares are distributed to qualifying OPG employees for up to a 15-year period starting in 2018. There is no agreement between OPG and the Province with respect to Hydro One common shares or the voting of those shares. Although the Province is the sole shareholder of OPG, it does not intend to influence OPG as it pertains to its voting rights of these shares.

A summary of key direct components of the secondary offering of Hydro One shares include:

<u>2016-17 Secondary offering of Hydro One shares (\$ Millions)</u>	
Total proceeds from the sale of shares	\$1,970
Deferred gain on sale of shares to OPG	(70)
Transaction costs	(41)
Net proceeds from sale of Hydro One shares (net of transaction cost and gain on sale of shares to OPG)	1,859
Book value of shares sold (<i>Schedule 9</i>)	(1,321)
Gain on sale of shares recognized in 2016–17	\$538

Secondary Offering (May 2017)

In May 2017, the Province sold 120 million common shares of Hydro One Limited at \$23.25 per common share through a secondary offering, generating approximately \$2.8 billion in gross proceeds. Subsequent to this sale, the Province owned approximately 49.9 per cent of the outstanding common shares of Hydro One Limited. An accounting gain of \$791 million was recognized in the 2017-18 financial results in connection with the sale of Hydro One common shares.

A summary of key direct components of the secondary offering of Hydro One shares includes:

<u>2017-18 secondary offering of Hydro One shares (\$ Millions)</u>	
Total proceeds from the sale of shares	\$2,790
Transaction costs	(57)
Net proceeds from sale of Hydro One shares (net of transaction cost)	2,733
Book value of shares sold (<i>Schedule 9</i>)	(1,942)
Gain on sale of shares recognized in 2017–18	\$791

Hydro One Brampton Networks Inc. (February 2017)

In August 2015, Hydro One transferred all of the issued and outstanding shares of Hydro One Brampton to the Province as a dividend-in-kind. Hydro One also transferred to the Province all of the long-term intercompany debt plus accrued interest owed by Hydro One Brampton to Hydro One as a return of stated capital. The transfers were made to the newly formed Brampton Distribution Holdco Inc., creating a new government business enterprise for the Province. On February 28th, 2017, the Province, through Brampton Distribution Holdco Inc., sold its entire interest in Hydro One Brampton through a sale of shares to Alectra Utilities Corporation (Alectra). As a result, the Province recognized an accounting gain of \$109 million in its Consolidated Financial Statements.

A summary of key direct components of the sale of Hydro One Brampton Networks includes:

<u>Sale of Hydro One Brampton Networks (\$ Millions)</u>	
Total proceeds from the sale (excluding PILs)	\$545.2
Transaction costs	(0.2)
Net proceeds from sale of Hydro One Brampton Networks	545.0
Book value of Hydro One Brampton Networks (<i>Schedule 9</i>)	(436)
Gain on sale recognized in 2016–17	\$109

Brampton Distribution Holdco was dissolved on March 29, 2018.