Ontario

MINISTRY OF
ENERGY

# Update on Chiefs of Ontario Engagement on Broadening Ownership of Hydro One

October 22, 2015

# Background

- 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 percent 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.
- 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 broadening of the ownership of Hydro One.
    - At that meeting, COO also invited Minister Chiarelli back to Thunder Bay in late October to provide more detail on the Hydro One IPO process as well as the process for potential future share sales.
    - The Minister is meeting with COO in Thunder Bay on October 27th to continue to engage in dialogue with COO leadership.
- The Ministry is focused on continuing to have cooperative and productive discussions with COO and keep the IPO proceeding throughout these discussions which will require longer timeframes to resolve.

# Current Status

- COO has retained the services of the companies Dickson Wright LLP and Crosbie & Company who have partnered in response to COO's request for proposals to provide COO with expert financial and legal advice and options.
  - As a follow up to the meeting between COO and Minister Chiarelli in August, a draft Transfer Payment Agreement (TPA) has been prepared to support COO's assessment of options, including the retaining of its financial and legal advisors.
  - The TPA has been shared and the Ministry is waiting for feedback. A budget request of $352,000 has been made by COO. The main change from Ministry expectations has been the addition of $35,000 COO staff travel, meal and accommodation costs plus $70,000 in future professional fees related to "Phase 2 – Negotiations".
- The Ministry has held one meeting thus far with these advisors to discuss the process going forward including status and timelines of the IPO.
  - The advisors indicated that they are working to an October 30th milestone to provide COO with both an IPO primer and some basic information on the deal and aiming to have options developed for COO consideration within 60 days (by the end of November).
  - The advisors re-iterated the COO position that First Nations are seeking an eventual 10 percent ownership stake in Hydro One and noted they are aware of the arrangements made with Hydro One unions on share ownership.
- The Ministry is working closely with MAG and MAA on all these matters.

# Future Opportunities for Hydro One Ownership

- The Province is moving forward with the Council's recommendations to broaden the ownership of Hydro One through an initial public offering of approximately 15%, which it expects to close this fall
  - The amended and restated prospectus was filed on October 9$^{th}$, the Global Coordinators and Bookrunners have began marketing to inform the pricing that will be included in the final prospectus expected in early November
- 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 reduce its ownership to 40% over time. This will provide time for negotiations with the Chiefs of Ontario (COO) and opportunities to for share sale(s) to First Nations

40% Ownership

**IPO Closes (FY 2015-16)**
Province sells 15% of its shares in Hydro One

**Future Share Sales (FY 2016-17 and Beyond)**

- Each year, the Province will set out share sale targets in an effort to eventually sell down to 40% ownership
  - Share sales may take the form of market sale (similar to IPO, but for sales after the IPO) or private placements (allows province to consider long-term owners of Hydro One)

# Minister's Meeting - Considerations

- Minister's meeting on October 27th may present an opportunity to hear and respond to COO on several key issues

1. **COO has stated an interest in "at least 10 percent" of Hydro One**
   - The Minister's September 4th letter stated that the Ontario government is prepared to discuss COO's stated interest in First Nation equity ownership of Hydro One and noted that these discussions would focus on facilitating equity participation for First Nations through future offerings, potentially supported by loan arrangements from the Province
   - The Minister's letter was not explicit about the 10 percent stated interest
   - The Minister will likely be pressed at the October 27th meeting

2. **COO has previously linked these discussions to the "historic rent owed to us by Hydro One"**
   - The strategy has been to delink historic grievances from the commercial transaction

3. **Minister committed to provide capacity funding**
   - The Minister sent a follow up letter on October 6th to confirm the government's commitment to discuss COO's interest in First Nation equity ownership of Hydro One and providing capacity funding to assist COO in evaluating the opportunities to support those discussions.
   - The Ministry has shared a draft TPA for capacity funding with COO for their review and input for finalizing

# Proposed Agenda

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| 9 am – 9:30 am | Opening Ceremony<br>- Large session; expect 60 Chiefs<br>- Traditional ceremonial opening |
| 9:30 am – 10:30 am | Minister Chiarelli remarks and Q&A<br>- Minister's speaking remarks (IPO plus other topics including rate mitigation, grid expansion in northwest, remote diesel/off-grid strategy, green energy procurements) |
| 10:30 am | Minister departs session<br>- COO technical staff (Cheri Brant/Crosby & Co.) to make presentation about opportunities for COO |
| ~11:00 am – Noon | Minister meets with Ontario Regional Chief Day<br>- Discuss general matters of mutual interest<br>- May be attended by some members of the Political Confederacy |
| Noon – 1 pm | Working lunch with COO<br>- Minister and ORC Day joined by technical advisors to discuss the path ahead<br>- Discuss ongoing analysis, upcoming negotiating structure, timelines, etc. |
| 1 pm onwards | Minister departs<br>(In Minister's absence) Chiefs vote on a Resolution/Negotiating Mandate for COO |

# Proposed Negotiation Structure

Political Confederacy

Cabinet

COO Chiefs Committee

Minister of Energy

## Negotiation Table

**COO**

Dickson Wright LLP
Crosbie & Company

**Ontario**

ENERGY ADM
MAA ADM
Legal representation (TBD)

# Related Information

- Several First Nations have expressed interest in the Hydro One IPO independently of COO (e.g. Nishnawbe Aski Nation). Keeping all First Nation interests aligned will be a challenge for COO and Ontario Regional Chief Day.
- The Ministry has additional policy items of interest to COO that could be important to raise and discuss: Ontario Electricity Support Program, Aboriginal participation policy in major energy projects, and electricity delivery rates for on-reserve customers.
- Métis Nation of Ontario (MNO) has also expressed an interest in the Hydro One IPO. The Ministry has offered to provide MNO with information about the IPO process.

# Next Steps

- Minister Chiarelli to have a brief phone call with Deputy Chief Sara Mainville October 23rd to confirm expectations
- DMs from ENERGY and MAA to accompany Minister Chiarelli
- Incorporate feedback from COO on draft Transfer Payment Agreement for capacity funding to support COO analysis of Hydro One opportunity
- Provide technical briefings to Chiefs as required to support COO's timelines and milestones for their analysis
- Work with the Restructuring Secretariat, Ministry of Finance and Treasury Board Secretariat to develop financial models to appropriately assess different options
- Establish an ADM-level negotiating team between ENERGY and MAA
  - o Seek a negotiating mandate from Treasury Board/Cabinet
  - o Determine what, if any, capacity support may be required by COO beyond the initial options development stage