CABINET BRIEFING NOTE

Ministry of Energy

Implementing the Premier's Advisory Council Recommendations Related to Hydro One

Most Recent TB/Cabinet: Jan. 26, 2015	Cabinet: April 15, 2105	Announcement Date: April 16, 2015

This government's commitment	The Premier's Advisory Council on Government Assets is examining how to get the most out of key government assets to generate better returns and revenues for Ontarians. The Council will recommend ways to maximize the value and performance of Hydro One, OPG and the LCBO to help deliver on the multi-year targets set out in the 2014 Budget. - Advisory Council Mandate

SUMMARY OF PROPOSAL

The Ministry of Energy is bringing forward a proposal in order to implement the recommendations of the Premier's Advisory Council on Government Assets ("the Council") with respect to Hydro One.

The key elements of the proposal include:

- Divesting the Province's ownership of Hydro One, beginning with an Initial Public Offering (IPO) of approximately 15 per cent in 2015-16, while indicating the Province's intention to proceed with secondary share offerings in the future to ultimately reduce the Province's ownership interest in Hydro One to 40 per cent.
- Merging Hydro One Brampton, a subsidiary of Hydro One, with three other local distribution companies (LDCs), in exchange for shares in the merged company, or cash.

The proposal includes a number of legislative, regulatory and other changes in order to facilitate the implementation of these two key elements of the proposal, while maintaining other public policy objectives such as ensuring electricity ratepayers are protected. This includes policy approval to enhance the regulatory authority of the Ontario Energy Board (OEB).

With the exception of amendments to the Ontario Energy Board Act, the current submission is intended to provide all of the necessary policy, financial, and legislative approvals in order to allow the government to make a public announcement about both the IPO and the Brampton merger on Thursday, April 16th. Policy approvals related to the OEB Act are being sought now, but the approval of these legislative amendments will be brought to a future Cabinet meeting in Spring 2015.

Proceeding with the Hydro One IPO is premised on the following key ideas:

- Divesting the Province's interest in Hydro One would generate net proceeds that would enable larger provincial investments in infrastructure (such as public transit, transportation and other infrastructure) than would otherwise be possible.
- The interests of electricity ratepayers, and the Province's electricity system policy objectives, can still be protected even if Hydro One is not in full public ownership.
- The proposed implementation approach is feasible, and would maximize the value that the divestment would generate for the Province.

The merger of Hydro One Brampton is also premised on the following key ideas:

- The merger would help to support the Province's policy objective of encouraging the consolidation of LDCs, as recommended by the Ontario Distribution Sector Review Panel and the Council.
    - Consolidation may promote efficiencies, lower costs, and promote better service for customers.
- Proceeding with the merger as proposed is the best way for the Province to secure value from Hydro One Brampton, compared to the alternatives.

This proposal is being brought forward now in order to promptly implement the Council's recommendations to the government, and to enable the government to achieve its infrastructure investment objectives, thereby supporting job creation and economic growth.

What is the expected cost to government?

Both the IPO and the merger of Hydro One Brampton are intended to generate net proceeds to the government to enable greater investments in public transit and transportation infrastructure.

<u>Hydro One IPO</u>

The ministry estimates that ultimately, if the government sold off 60 per cent of Hydro One's equity over a period of four years, doing so would generate gross proceeds of approximately $9 billion (subject to actual market conditions). For the initial IPO, the ministry expects a total upfront fiscal benefit of $1.43 billion.

Currently, the Province receives net income as the sole shareholder in Hydro One. In the 2014-15 fiscal year, the forecast net income to the Province is $750 million. As the Province reduces its ownership interest in Hydro One, this net income to the Province will decline correspondingly.

The Province also currently receives payments-in-lieu (PIL) of taxes from Hydro One. In the 2014-15 fiscal year, this revenue was forecast to total approximately $100 million.

Following the IPO, the Province will no longer receive PIL revenue, and based on the Council's assessment, Hydro One would not pay federal or provincial corporate taxes for about 10 years.

The proceeds from the IPO can be categorized as follows:

- Gross proceeds, which includes the net gain from the sale (i.e., the amount exceeding the book value), and the book value.
- Cash proceeds, which is the net gain excluding the non-cash component (i.e., excluding goodwill).

The proposal is to invest the total net proceeds into the Trillium Trust, which includes the cash proceeds of the net gain, and an amount equivalent to a one-time gain in "tax goodwill" (described below). This will allow the Province to borrow less money than would otherwise have been the case, for a period of time. Therefore, in respect of the cash proceeds, the Province will pay less interest on debt than it otherwise would have, generating some savings compared to the fiscal plan. As infrastructure investments are made from the Trillium Trust, interest on debt savings will start to decline.

Any procurement or transaction costs related to the IPO are intended to be offset by the proceeds of the IPO. This includes the fees that will be paid to the firms that will underwrite the IPO. These fees are currently estimated to be in the range of $35-$45 million. This range is significantly lower when compared to comparable transactions.

Taking all of these considerations into account, the ministry's submission indicates that under current estimates, and subject to market conditions, the initial 15 per cent IPO would generate a positive fiscal contribution to the Province of approximately $1.43 billion. Divesting 60 per cent of the Province's interest in Hydro One is estimated to generate a positive fiscal impact of approximately $4 billion over a period of four years (this estimated amount in total net proceeds will not be made public for commercial reasons and to protect the Province's interests).

The cash proceeds of the net gain that would be available to direct into the Trillium Trust (for new infrastructure investments) is estimated to be $760 million from the IPO, and a total of approximately $4 billion over the period of four years. The Province is also projected to receive an additional fiscal benefit of $770 million in 2015-16 due to "tax goodwill", a one-time accounting gain that provides a fiscal benefit. The ministry proposes that the cash proceeds of the net gain, and an amount equivalent to the fiscal benefit resulting from "tax goodwill", would go into the Trillium Trust. It is expected that investments from the Trillium Trust will foster economic growth and contribute to increased provincial revenues in the future.

Because of the foregone net income, in 2019-20 and onwards, the Province will be receiving $740 million less per year than it would have if it had retained full ownership of Hydro One (or $350 million less when transitory interest savings are taken into account). As the Province's ownership interest is diluted, an accounting judgement could be made that net income should cease to be consolidated on the Province's books. In that case, the Province would only recognize dividend income from Hydro One, resulting in an increase in the amount of foregone revenue compared to the figure above.

The table below summarizes these elements of the transaction:

Fiscal Impact ($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 per Council analysis and assuming modified equity consolidation. This is subject to AG review.

**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 Council will make it clear that while the return on equity of owning Hydro One is slightly higher than the the cost-savings of provincial borrowing, it is in the public interest to broaden the ownership of Hydro One for a variety of reasons, including receiving greater returns by being an investor in a growth company, reducing the Province's need to borrow, and increasing the Province's ability to make infrastructure investments.

Brampton Merger

The ministry notes that under current expectations, the Province will receive either 17 per cent of the shares in the newly merged company, or $607 million in cash. The option to buy out the Province's interest in the merged company will be determined by the other three partners to the transaction by July 31, 2015. Either way, because of fiscal and accounting considerations, the positive fiscal impact to the Province in the year of the transaction is in the range of $174-$221 million. There is the prospect of a negative fiscal impact over the longer term due to foregone net income that the Province currently receives. The table below summarizes these elements of the transaction:

Fiscal Impacts ($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 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

How will the changes be communicated?

All of the Council's recommendations and the government's response are intended to be announced together on April 16th. This includes the elements related to both Hydro One, and other parts of the Council's mandate, such as the retail sale of beer. The announcement will be high-profile, emphasizing how these changes are intended to support investments in infrastructure across Ontario.

CABINET OFFICE ANALYSIS

In its 2014 Budget, the government stated its intention to seek ways to maximize the value of the assets that it holds, including Hydro One, and to use any value generated from those assets to invest in infrastructure and create jobs. The current proposal is consistent with that objective.

Generating Returns to Invest in Infrastructure

Determining whether to retain full public ownership of an electricity transmission system is a complex decision, with many considerations. Other jurisdictions around the world have struggled with this question, and the Council's initial report in November 2014 recommended divesting Hydro One's distribution business, and retaining the transmission business in full public ownership.

Through subsequent analysis and ongoing discussion with the government and industry stakeholders, the Council has come to the conclusion that attempting to separate Hydro One's transmission and distribution business lines would be more costly, difficult and time consuming than divesting partial ownership of Hydro One. In its final report to the government, the Council describes its interactions with the government on this matter of energy policy and, as a result, is recommending keeping Hydro One together as an integrated company, and divesting a portion of the government's ownership interest. This recommendation was supplemented by valuation and due diligence involving market soundings and financial, legal and accounting analysis.

Focusing on the Hydro One IPO and secondary share sales, moving forward as proposed would generate net proceeds for the government over the next four to five years. The decision point for Cabinet is whether receiving these net proceeds in the short-term is preferable to the long-term revenue stream that the continued full provincial ownership of Hydro One would provide.

The ministry and the Council also argue that post-IPO Hydro One would be more "growth-oriented", offering the prospects of greater returns to the Province on its ownership share in the future. The Council also argues that introducing private sector discipline to the governance and operation of Hydro One will help to create a more successful business in the future. Going forward, it is intended that Hydro One should be well positioned to take advantage of expanded business opportunities, increasing its returns to all Ontarians. These advantages should help offset the lost net income resulting from the divestment.

Ontario faces an infrastructure deficit, and the government has demonstrated a consistent commitment to investing in public infrastructure across Ontario. These investments generate jobs, facilitate economic growth, and enhance Ontario's competitiveness and quality of life.

Fundamentally, the current proposal is premised on the notion that the public interest is better served by investing more in public infrastructure today than by maintaining full public ownership of an electricity transmission and distribution company tomorrow.

Protecting Ratepayers

The proposal is also premised on the notion that full public ownership of Hydro One is unnecessary in order to protect electricity ratepayers, and to achieve Ontario's electricity policy objectives. It is important to note that regardless of whether Hydro One is in public or private ownership, Hydro One's transmission and distribution rates are determined through the OEB-regulated rate-setting process. Private owners of Hydro One could not simply set whatever rates they wished.

A core element of the current proposal is that there are a number of measures proposed to enhance the oversight capabilities of the Ontario Energy Board. This includes proposing legislative changes that would give the OEB more compliance tools over energy distributors and transmitters, and enhanced tools to ensure that critical transmission infrastructure is built. In addition, Energy also proposes to give the OEB additional powers to provide enhanced consumer protection (such as stricter oversight of energy retailers) through legislative and regulatory amendments.

In addition, the ministry notes that existing rate protection and subsidy programs for rural and remote electricity ratepayers administered by the Ministry of Energy would remain in place in the future.

Currently, under the *Electricity Act*, the net proceeds of the Hydro One divestment must be paid to the Ontario Electricity Financial Corporation (OEFC) to pay down the stranded debt of the former Ontario Hydro, and may not be used for other purposes. The current proposal includes legislative changes that would allow the net proceeds of the IPO to be directed to the Trillium Trust for infrastructure investments.

In order to address the issue of the remaining electricity stranded debt, the proposal includes a legislative amendment that would provide a financial benefit to the OEFC equivalent to the financial gain from the Hydro One sale. This could be in the form of cash, or an equivalent financial benefit, such as granting a remission of OEFC debt, that would allow the OEFC to reduce its unfunded liability (i.e., the stranded debt).

There will be an ongoing risk that any remaining electricity-sector stranded debt would be paid off more slowly than would otherwise have been the case. This is because future Hydro One PILs would no longer be paid to the OEFC, and the Province's share of Hydro One net income would decline. The stranded debt is estimated at $9.8 billion, and the residual stranded debt is estimated at $2.9 billion, as of March 31, 2014.

Facilitating the IPO

In order to allow Hydro One to operate as a commercial entity post-IPO and to maximize the proceeds from the divestment strategy, this submission recommends removing a number of existing government controls that apply, including:

- The Minister of Energy would no longer be able to issue sole shareholder declarations
- Hydro One would no longer be required to submit annual business plans for the concurrence of the Ministers of Finance and Energy
- Hydro One would no longer be subject to a number of existing oversight measures, including:
    - Regular scrutiny from the provincial Ombudsman, Financial Accountability Officer, Integrity Commissioner and Information and Privacy Commissioner
    - Value for money audits by the Auditor General
    - The *Freedom of Information and Protection of Privacy Act*
    - The *Broader Public Sector Executive Compensation Act*
    - Various Management Board of Cabinet directives (e.g., procurement; travel, meal and hospitality)

These government powers and oversight mechanisms would fall away to enable the IPO. After the IPO, despite the government maintaining majority ownership of Hydro One, these oversight mechanisms would not apply.

<u>Control and Oversight</u>

Even with a reduced ownership share, the government would still retain several important levers of control and oversight.

From an electricity system policy perspective, most of the government's existing policy levers would remain in place after a Hydro One IPO. For example, the Integrated Electricity System Operator (IESO) would still be responsible for long-term planning and short-term system operations. The OEB would continue to scrutinize rate applications and approve rates. The government would continue to develop policies like the Long-Term Energy Plan, and would make decisions about Ontario's electricity supply mix. However, under this proposal, the Province would lose its ability to have the Minister of Energy issue shareholder declarations to Hydro One – something that the minister has done six times since 2008 for purposes such as requiring Hydro One to hire contractors from Ontario, or directing how Hydro One would recover certain of its costs.

This proposal also would put several notable restrictions into place (e.g., through legislation and a governance agreement) that would help to protect the public interest, including:

- As the single largest shareholder the Province would continue to appoint a portion of the board of directors (likely 40 per cent of the members), and could remove the entire board if necessary.
- The corporation's head office, senior executives, and grid control centre would have to be located in Ontario.
- Hydro One could not sell all or substantially all of either its transmission or distribution assets.
- A new dedicated Hydro One ombudsperson would be created.
- Hydro One would continue to be subject to Ontario Securities Commission and other financial disclosure requirements (including those under the *Ontario Business Corporations Act*).

To the extent that the Province intends to exercise controls over Hydro One as a shareholder, the government's influence will decline as the government's stake in the company moves away from 100 per cent.

Hydro One Brampton Merger

In 2012, a special panel provided a number of recommendations to the government about the benefits of LDC consolidation. The government accepted these recommendations, and while it chose not to force consolidation within the sector, the Minister of Energy did challenge the sector to find efficiencies through consolidation and innovative partnerships on a commercial basis. From a policy perspective, the merger of Hydro One Brampton with three other LDCs (PowerStream, Enersource and Horizon) would achieve several of the Province's objectives, consistent with the panel's report.

The panel argued that larger LDCs are generally more efficient and able to operate at a lower cost than smaller LDCs. Especially in large metropolitan regions, there are diseconomies that result from having a patchwork of small LDCs, each of whom has to build and operate its own back office infrastructure. Given capital constraints, these smaller companies lack the resources to innovate, and may struggle to provide higher levels of customer service and reliability. The proposed Brampton merger would create the second-largest LDC in Ontario by number of customers (even larger than Toronto Hydro). This new company could also be a platform for further LDC consolidation in the region.

Through a related but separate proposal, certain time-limited tax changes are also being planned to create an environment more conducive to further LDC consolidation. These would include reducing the so-called transfer tax for a three-year period beginning January 1, 2016.

Delivery

Hydro One IPO

The initial IPO for Hydro One would seek to sell approximately 15 per cent of the company's equity. Analysis by the Council indicated that an offering of this size is about what the market can absorb at any one time.

Through subsequent secondary offerings, the Province would gradually reduce its ownership stake to 40 per cent of its original number of common shares. The Council's advice is that being a 40 per cent owner would maximize the value to the Province, and would enable to Province to maintain significant investor oversight of the company (by virtue of other shareholders being limited to a 10 per cent share). This threshold is intended to balance protection of the interests of the government as a responsible shareholder and maximize value for Ontario taxpayers without discouraging potential investors. It should be noted that under certain conditions the Province's ownership share could be diluted and fall below 40 per cent due to additional share offerings, unless the Province were to decide to acquire additional shares.

The IPO for the first tranche of shares would take place during the 2015-16 fiscal year, likely in Fall 2015/Winter 2016. From March to July initial preparatory work would be done, and legislative changes to make Hydro One “market ready” would be introduced through the upcoming Budget bill. Over the summer the documents required for an IPO would be prepared and filed, and the firms that would manage the IPO (known as the “bookrunner”) would be retained. In the fall there would be investor road shows, in advance of the actual IPO proceeding.

Any future share offering to further divest the Province’s ownership beyond the initial 15 per cent share would be subject to additional Treasury Board approvals. The ministry’s submission is based on a scenario that there would be a secondary share offering representing approximately 15 per cent of the company in each of the next three fiscal years until the Province’s ownership share reaches 40 per cent.

As Hydro One leaves the PIL regime, it will have to pay an estimated $2.6 billion in departure tax to the OEFC under current requirements. Because this amount cannot be recovered from ratepayers, and in order to maintain an appropriate capital structure and prevent a material discount on the IPO valuation, the proposal includes a provision for the government to make a one-time capital contribution to Hydro One of up to the value of the departure tax. While this will be a fiscally neutral transaction for the government, it is expected to be visible to the public through the tabling of Supplementary Estimates in the Legislature.

<u>Hydro One Brampton Merger</u>

The Council and Hydro One have already negotiated a non-binding letter of intent (LOI) with the three holding corporations for the other LDCs regarding the merger. The Council’s analysis indicates that the terms of the LOI are highly competitive. The Council had previously contemplated an auction approach, but received a strong pre-emptive bid and has recommended that the government accept this bid.

Because the LDCs involved in this transaction are municipally-owned, Council resolutions supporting the merger will be required to successfully implement the proposal. The OEB will also need to approve the merger.

The Minister of Energy will issue a sole shareholder declaration to Hydro One enabling Hydro One’s interest in Hydro One Brampton be transferred directly to the Province so that the merger can proceed independently of the IPO for the remainder of Hydro One.

<u>Other Considerations</u>

While not the subject of the current Cabinet submission, it will be important for the Province, Hydro One management and its unions to reach agreement on labour relations and pension matters. These have been the subject of previous Treasury Board and Cabinet approvals, and will be addressed again through a future report-back to Treasury Board, prior to the IPO being implemented.

The oversight and control levers described above would be achieved through a variety of mechanisms. These include legislation, regulations, and the corporate governance documents of the post-IPO Hydro One.

Additional Treasury Board approvals will be required before either the IPO or the Brampton merger can be completed.

Linkages

This proposal would implement some of the recommendations of the Advisory Council on Government Assets. The Council is also providing the government with recommendations regarding beverage alcohol, and these are being brought forward to Cabinet by the Ministry of Finance.

In 2002 the Province of Ontario also considered divesting its interest in Hydro One. In that case, the initial proposal was that the Province would have sold off 100 per cent of its interest all at once (rather than through a phased process) and would have used the proceeds to pay down the legacy debt of the former Ontario Hydro (rather than for infrastructure investments). While the 2002 proposal had features to limit single investor ownership to 15 per cent, the current proposal ensures broader ownership by limiting any single investor to 10 per cent. The 2002 proposal had limited public interest protections compared to the enhanced OEB protections included in the current proposal.

Legal challenges to the 2002 proposal from labour unions, and conflicts with the Hydro One board, arose as the divestment was being considered. Ultimately, the government of the day chose not to proceed with any divestment of Hydro One.

Some commentators have drawn parallels between the current proposal and the Province's decision to sell its interest in Highway 407. There are some key differences between the two transactions, including the fact that Hydro One would continue to operate in a regulated environment, whereas rate setting on Highway 407 is not rate-regulated. In addition, the structure of the current proposed transaction is intended to better maximize the value to the Province.

There are a number of other precedent transactions where governments have sold off their interest in corporations that they owned, including Petro Canada, CN Rail, and the Nova Scotia Power Company. The ministry's submission provides information on how these and other transactions compare to the current Hydro One proposal. While there are some provinces where transmission infrastructure is privately-owned (e.g., Nova Scotia, Alberta, PEI), across Canada most of the electricity transmission infrastructure is publicly-owned.

Stakeholder response

With respect to the Hydro One IPO, it will be important for the government to clearly articulate the rationale for proceeding in the manner proposed. Members of the public are unlikely to understand all of the elements involved in the transaction, and may not understand the case for the disposition.

Based on recent media coverage, some have questioned the rationale for the divestment of the government's interest in Hydro One. These critics have focused on the loss of the on-going revenue stream that full ownership of Hydro One provides, and they have also focused on how and when the electricity-sector stranded debt will be retired.

Electricity ratepayers, especially in rural and Northern communities, will seek assurances that their electricity bills will not be going up even more than planned as a result of the divestment. Some may question why the sale of province-wide assets is being used to fund infrastructure investments in large urban areas. The communications plan will emphasize the benefits that infrastructure investment and economic growth provide to all Ontarians. Communications will also emphasize the ongoing and strengthened role of the OEB in protecting ratepayers (particularly that rates will remain regulated).

With respect to the Hydro One Brampton merger, LDCs are likely to react favourably to the time-limited tax provisions to incent consolidation, and will appreciate the government's signal of its commitment to the principles around driving efficiency, reliability and customer service among LDCs. Some LDCs may be disappointed because they have been advocating for the elimination of these tax provisions entirely. Some LDCs may raise concerns that they were not given the opportunity to bid for Hydro One Brampton before the merger decision was made.

PROPOSED CABINET MINUTE

Cabinet agreed that:

i. The Ministry of Energy direct Hydro One Inc. ("Hydro One") to implement an Initial Public Offering (IPO) of Hydro One, including all of its subsidiaries at the time of the IPO, consisting of approximately 15 per cent of the Government's interest in Hydro One during the 2015-16 fiscal year. In this regard:
    a) The Ministry of Energy shall work with Cabinet Office, the Premier's Advisory Council on Government Assets, Ministry of Finance, the Ontario Financing Authority, Treasury Board Secretariat, and Hydro One on the development of the proposed IPO for Hydro One.
    b) The Ministry of Energy proceed to Treasury Board and Management Board of Cabinet for approval of the IPO and related financial and governance approvals.
    c) The Ministry of Energy and the Ministry of Finance, shall work with the Ontario Financing Authority to seek Treasury Board and Cabinet approval for a regulation to designate Hydro One shares as qualifying assets under the *Trillium Trust Act* so that the net proceeds of the transaction are credited to the Trillium Trust to support investments in transit and major infrastructure.

ii. Consistent with previously approved Cabinet direction, the Ministry of Energy 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, including Enersource, Horizon and/or Powerstream in exchange for shares of the combined entity or cash.

iii. The following specific elements to be included as part of the 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:

a) a portion of the shares comprising the IPO be allocated to retail investors, with the remaining shares to be allocated to institutional investors;
b) disclose an intention to 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;
c) 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;
d) 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 of substantially all of the business, property or assets related to the distribution system of Hydro One regulated by the Ontario Energy Board;
    3) continuing under the laws of a jurisdiction other than Ontario.
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;
f) if the Province's ownership is reduced to 10 per cent or less, the Province shall be restricted to acquiring shares in the same manner as other shareholders, the Governance Agreement would no longer apply, but all other statutory restrictions would remain in place;
g) 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 the 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;
        b. publicly disclosing the annual remuneration for each member of the Board of Directors.
    7) establish an Office of the Ombudsperson 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 this office is functional prior to the end of the six-month transition from the application of the Ombudsman Act.

h) all of these and any other proposed substantive governance changes related to the Board of Directors for Hydro One proceed to Treasury Board and Management Board of Cabinet for approval.

iv. The Ministry of Energy to bring forward proposed legislative amendments such that the Province would be restricted from selling Hydro One's common shares if, after any such sale, it would own fewer than 40 per cent of the number of Hydro One's common shares outstanding on the day of the closing of the IPO.

a) Approve the Ministry to also introduce legislative amendments such that if the Province's ownership is reduced to 10 per cent or less it shall be restricted to acquiring shares in the same manner as other shareholders, but all other statutory restrictions would remain in place in perpetuity.

v. The *Electricity Act, 1998* be amended to allow for a transaction between the Ontario Electricity Financial Corporation and the Province to ensure that a financial benefit equivalent to the adjusted net proceeds from the Hydro One IPO is provided to the Ontario Electricity Financial Corporation.

vi. The *Electricity Act* be amended so that, despite the limitations in sections 23 and 24 of the Business Corporations Act (Ontario), the Hydro One Board of Directors may 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. In addition, Hydro One may add to the appropriate stated capital account for the shares issued, the amounts received by Hydro One for those shares.

vii. The Ministry of Energy, working with the Ministry of Finance, seek Treasury Board approval to provide a financial benefit, such as a capital contribution, to Hydro One in an amount up to the amount of the departure tax to be paid to the Ontario Electricity Financial Corporation by Hydro One.

viii. Hydro One shall be exempt from all Treasury Board / Management Board of Cabinet directives that currently apply to Hydro One, subject to the approval of Treasury Board / Management Board of Cabinet.

ix. The Ministry of Energy to proceed to Treasury Board / Management Board of Cabinet for procurement approvals related to:

a) contracting of a book runner and underwriters for the Hydro One IPO process,
b) acquiring the services of an executive recruitment firm to recruit nominees for consideration by government in respect of their potential appointment to the Hydro One Board of Directors, and if necessary the Board of Directors for the Hydro One Brampton combined entity,
c) acquiring the services of executive recruitment firms to recruit nominees for consideration by government in respect of their potential appointment to the Hydro One senior management, and
d) acquiring the services of an independent process advisor to provide strategic financial advice as needed on the IPO process and its effective execution.

x. The Ministry of Energy, working with Cabinet Office, Ministry of Finance, Ministry of the Attorney General, Ministry of Government and Consumer Services, and Treasury Board Secretariat, pursue legislative and/or regulatory amendments to remove or amend a number of current legislative and regulatory provisions that currently apply to Hydro One, as well as ones that would impose certain new requirements upon Hydro One, prior to the IPO, including but not limited to the following:

a) Electricity Act, 1998, in order to:

a. Remove a prohibition in the *Electricity Act, 1998* which precluded Hydro One from owning or operating transmission and distribution systems outside of Ontario;

b. 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;

c. Require Hydro One to maintain its principal executive head office in the Province of Ontario;

d. Ensure that substantially all of the executives of Hydro One with strategic decision-making and management authority reside in the Province of Ontario;

e. Prohibit Hydro One from selling, leasing, divesting or otherwise disposing of all or substantially all of the business, property, or assets related to its transmission system regulated by the Ontario Energy Board;

f. Prohibit Hydro One from selling, leasing, divesting or otherwise disposing of all or substantially all of the business, property, or assets related to its distribution system regulated by the Ontario Energy Board;

g. Limit any one shareholder from owning more than 10 per cent of any class or series of voting shares of the company;

h. 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 held immediately prior to the IPO.

i. Provide for a transaction between the Ontario Electricity Financial Corporation and the Province as described in Section (v) above so that the gain from disposition can be credited to the Trillium Trust as described in Section (i)(c) above.

j. 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) *Management Board of Cabinet Act*
   - *a.* Exclude 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) *Lobbyist Registration Act, 1998*
   - *a.* 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*;
   - *b.* Remove three unproclaimed references to Hydro One and its subsidiaries from subsections 4(4), 5(3) and 6(3) of the Act.

d) *Public Sector Salary Disclosure Act, 1996*
   - *a.* Remove Hydro One and its employees from salary disclosure requirements in respect of salaries and benefits paid after December 31, 2014.

e) *Financial Administration Act*
   - *a.* 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 the 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) *Auditor General Act*
   - *a.* 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. 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) *Ombudsman Act*
   - *a.* Exclude Hydro One and its subsidiaries from the purview of the Ombudsman, with provision for transitional matters.
     - *i.* 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.
     - *ii.* An investigation of Hydro One and its subsidiaries taking place during the six month transition period may be reported on after that period.

h) *Freedom of Information and Protection of Privacy Act (FIPPA)*
   a. Exclude Hydro One and its subsidiaries from FIPPA. 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.
   b. Provide the Information and Privacy Commissioner with six months to complete all outstanding appeals and privacy investigations after the date of Royal Assent.
   c. Amend the schedule of institutions in Ontario Regulation 460 under FIPPA to remove Hydro One and its subsidiaries.

i) *Municipal Freedom of Information and Protection of Privacy Act (MFIPPA)*
   a. Exclude Hydro One and its subsidiaries from MFIPPA. 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.
   b. Provide the Information and Privacy Commissioner with six months to complete all outstanding appeals and privacy investigations after the date of Royal Assent.
   c. Amend Ontario Regulation 372/91 under MFIPPA to clarify that MFIPPA does not apply to any Hydro One subsidiaries.

j) *Public Sector Expenses Review Act*
   a. 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) *Broader Public Sector Executive Compensation Act, 2014*
   a. Exclude Hydro One from application of the Act

l) *Broader Public Sector Accountability Act, 2010*
   a. 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.
   b. 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) *Financial Accountability Officer Act*

a. 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.

xi. With respect to appointments:
   a) the Minister of Energy would appoint a new Chair of Hydro One;
   b) the Minister of Energy would appoint a new Board of Directors of Hydro One, based on the recommendation of the new Chair;
   c) 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.

xii. The Ministry of Energy to develop a legislative and regulatory package to further strengthen the powers and processes of the Ontario Energy Board, for introduction during the 2015-16 fiscal year, that would include:
   a) Enhancing consumer protection by implementing a suite of recommendations from the OEB regarding the *Energy Consumer Protection Act* that would, among other things, include:
      a. Limiting or prohibiting door to door sales by energy retailers;
      b. Enabling the OEB to:
         i. Ensure retail contracts are in prescribed forms;
         ii. Enhance price disclosure statements and price comparison requirements for retailers;
         iii. Extend the cooling-off period for contracts to 20 days.
      c. Enhancing the OEB's enforcement powers;
      d. Removing contract-cancellation penalties;
      e. Providing greater oversight of green energy retail offerings;
      f. Amending the *Ontario Energy Board Act* to add consumer education to the OEB's objectives, and providing for greater OEB-led consumer education
   b) Ensuring reliability / continuity of service to customers by:
      a. Ensuring the OEB can extend its current emergency provisions to transmission
      b. Providing authority to the OEB to appoint supervisors or require a third party to take over the operations/management of distributors if those distributors are unable to fulfil their licence conditions
      c. Amending legislation to allow for the sharing of safety-related information between the OEB, TSSA and ESA
   c) Providing further OEB compliance tools, including:
      a. Increasing penalties for non-compliant activities
   d) Providing the OEB with oversight of utility transactions and structure, including:
      a. Reducing the current change of control threshold to 10%
      b. Maintaining head offices, key personnel, and records in Ontario
      c. Ensuring all corporate/transaction structures are appropriately reviewed/defined

e) Providing new or enhanced tools to ensure that critical transmission infrastructure is built, including creating a new tool to deem transmission projects as priorities that do not have to undergo a needs test, subject to the approval of an Order in Council by the LGIC.
f) Clarifying relationships among local distribution companies and their affiliates by:
   a. Creating level playing field between utilities regardless of ownership
   b. Providing the OEB with greater discretion with respect to utility and non-utility business activities
g) Enhance the OEB's consumer advocacy role by providing consumers with a direct voice in OEB proceedings.
h) Other administrative amendments, as appropriate.

xiii. Ministries proceed to Treasury Board / Management Board of Cabinet to seek approvals to have all government procurement and transaction costs offset from the proceeds resulting from the IPO.

xiv. The Minister of Energy would issue to Hydro One one or more unanimous shareholder declarations and resolutions to assume control of the current 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.

xv. The Ministry of Energy report back to Treasury Board / Management Board of Cabinet prior to proceeding with any further divestment of the government's interest in Hydro One beyond the divestments authorized in this minute.

xvi. The Ministry of Energy continue to work with Cabinet Office, Premier's Office, Ministry of Finance, and Treasury Board Secretariat on a communications plan.