

To Own or Not to Own: Ownership and Governance Issues for Municipal Electric Utilities

Day-to-Day Challenges Facing LDCs...
...How to create value given current challenges

Council for Clean & Reliable Electricity,
February 27, 2014

Pankaj Sardana
CFO, Guelph Hydro Inc.

AGENDA

Guelph Hydro Inc. – Quick Facts

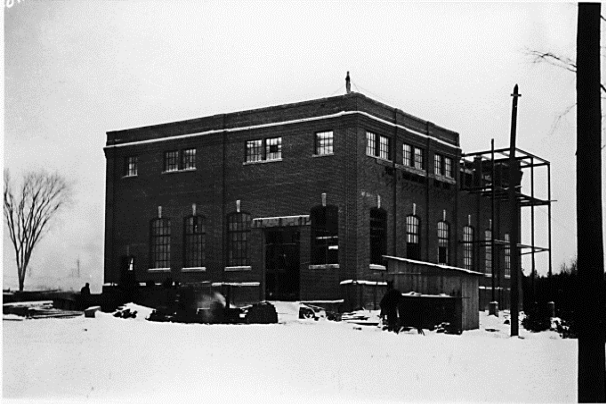
Day to Day Challenges

Merge, sell, status quo? Are there other questions that should be asked first?

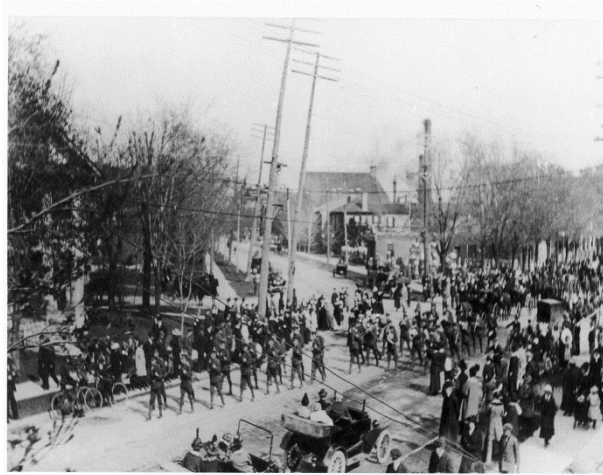
Q & A

GUELPH HYDRO INC. – QUICK FACTS

SERVICE SINCE THE EARLY 1900S



HP-1300--This photo of the Guelph transformer station was taken on December 21, 1909, when construction was nearing completion.



GUELPH HYDRO AT A GLANCE

- 110 years of service history
- About 52,000 customers
- Population of 128,600 including the Village of Rockwood
- Peak demand of 305 MW
- \$140 million “ratebase”
- \$205 million in gross revenues
- 120 employees (regulated and non-regulated)

Financial numbers are unaudited

OWNERSHIP STRUCTURE

City of Guelph

100%

Guelph Municipal Holdings Inc.

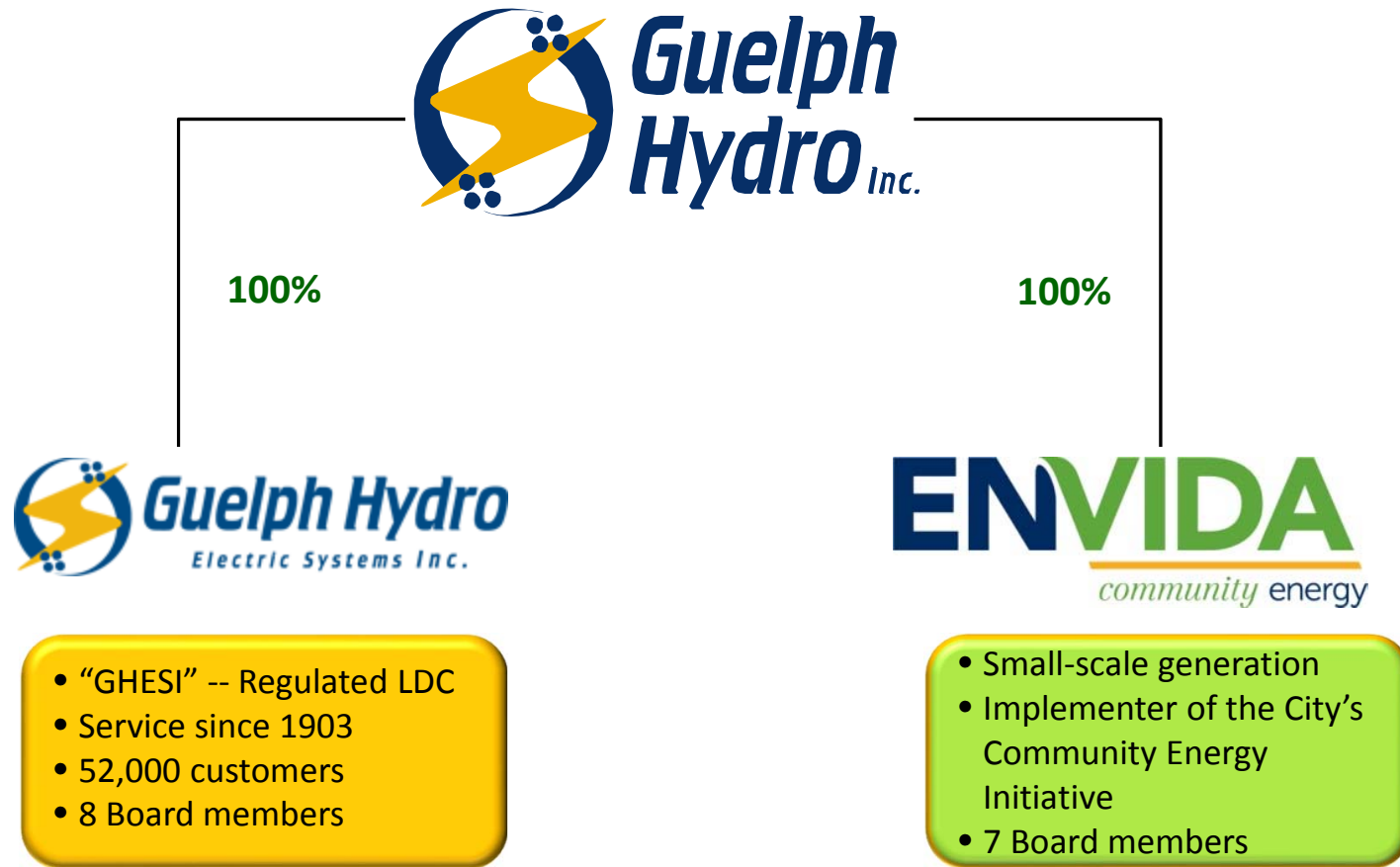
100%



Board & Committees

- All-Business Board
- 7 Board members
- Governance, Nominating
- Finance & Audit
- Human Resources & Compensation

OWNERSHIP STRUCTURE



GUELPH MUNICIPAL HOLDINGS INC. – SHAREHOLDER DIRECTION

Maintain a prudent financial and capital structure consistent with sound financial principles

Ensure just and reasonable distribution rates in GHESI that enhances its value and supports the economic development and goals of the City of Guelph

Enhance the value to the City by generating a reasonable return

Play a critical role in the development and implementation of the City of Guelph's Community Energy Initiative

STRATEGIC PRIORITIES

Deliver balanced financial and social returns

Be a leader in the provision and implementation of energy conservation and sustainable energy culture

Be a leader in the efficient, safe, reliable and economic distribution of energy

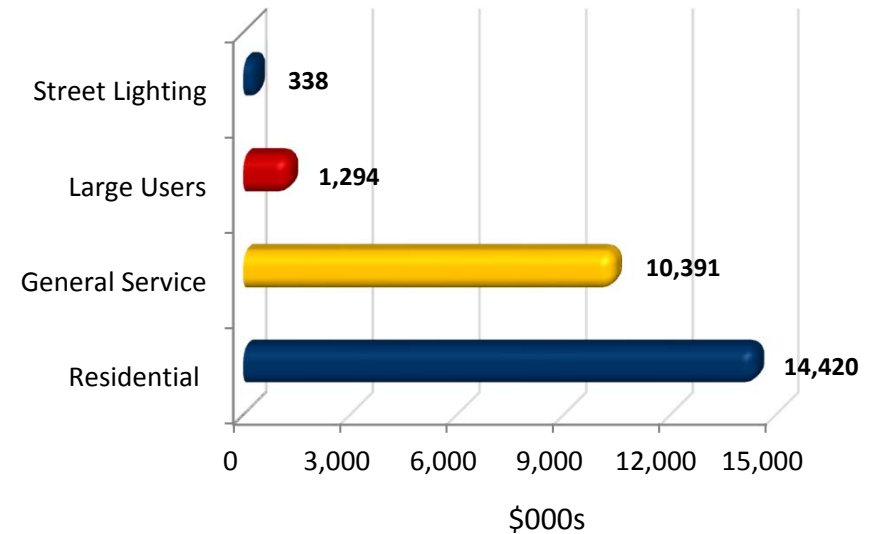
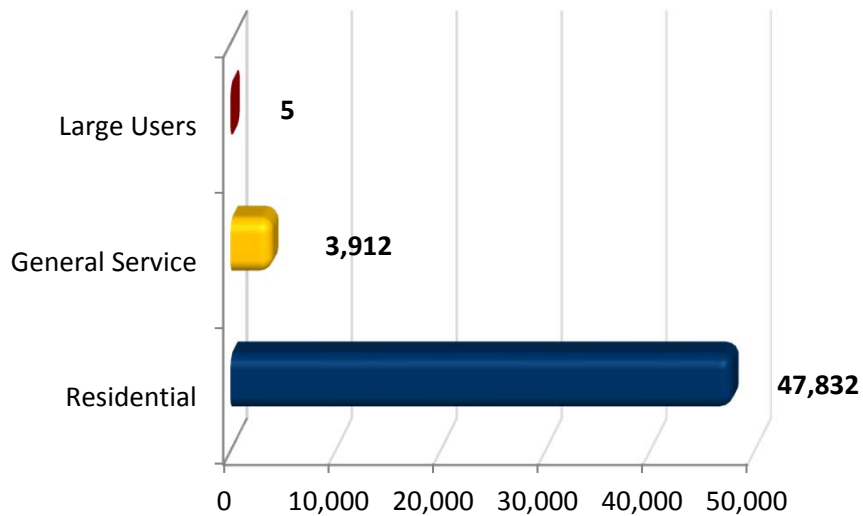
Be a great place to work

Enhance our position as an asset to our shareholder and the community

OPERATING STATISTICS, 2013 (unaudited)

**No. of CUSTOMERS:
51,749**

**DISTRIBUTION REVENUE:
\$26.4 million**



CURRENT CHALLENGES...and the difficulties these present for value creation

DAY-TO-DAY CHALLENGES



Ontario Energy Board

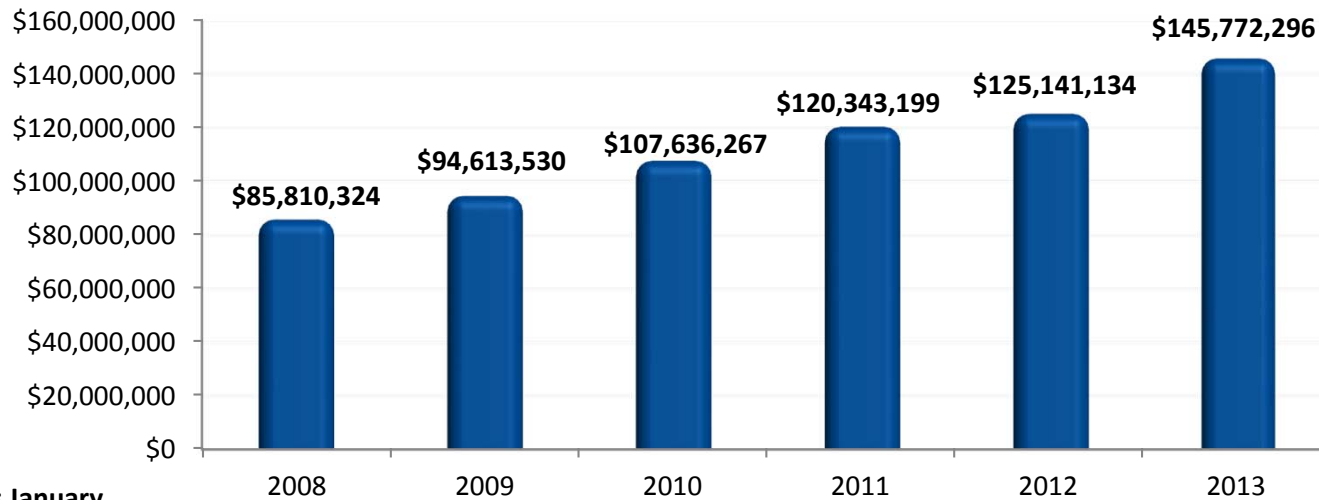


- Discussion of challenges best framed in context of current regulatory and political realities
- Cost of Service regulation supplanted by Incentive Regulation Mechanism which focuses on outcomes (for customers and utilities) and efficiencies in LDC operations
- LDCs now obligated to maintain and renew their distribution systems in the face of:
 - Below-inflation annual rate increases
 - “Regular” recovery of capital costs only every 4-5 years
- LDCs are required to deliver not just electricity, but also legislated and policy directives (e.g., CDM, Green Energy initiatives, assistance for low income customers, etc.)

DAY-TO-DAY CHALLENGES, cont'd.

- The manner in which the current electricity market operates has been causing cash flow challenges for many LDCs
- Wholesale market charges must be paid on a monthly basis, and have been rapidly increasing over the past several years, but LDCs only recover these costs over time

Energy and Global Adjustment Charges



2008 excludes January

DAY-TO-DAY CHALLENGES, cont'd.

- Number and intensity of storms has been increasing, and so have the associated costs of restoration
- Investments in technology are not only needed, but are necessary as the electricity market and the needs of customers are becoming increasingly technology-centric (e.g., smart meters and grids, social media, etc.)
- Resource requirements continue to be challenging as the baby boom generation retires; skills gaps are real and the issue is here to stay

MERGE, SELL, OR STATUS QUO?

IS THIS THE RIGHT QUESTION?

WHAT'S THE RIGHT QUESTION?

- What problem is the shareholder trying to solve?
 - Does the municipality need cash?
 - Does the municipality want a higher return on its investment?
 - Does the municipality have a broader policy, or social, or strategic objective that it is attempting to meet?
 - Does the municipality simply “want out” of the electricity business?
- The answer(s) to these questions will then lead to the best strategy – i.e., a sale, merger or do-nothing strategy

Shareholder's Need(s)	Merge	Sell	Do Nothing
Cash	x	✓	x
Higher Return (dividend)	Maybe	x	Maybe
Growth	✓	x	Maybe
Social or Policy Goal(s)	Maybe	✓	Unlikely