



Frequently Asked Questions – September 2016

Community Investment Opportunity with Hydro One

What is Hydro One planning to build within the Horne Business Park?

Hydro One intends, subject to Ontario Energy Board (OEB) approval, to build three facilities within the Horne Business Park in West Orillia.

- Back-up Ontario Grid Control Centre/Integrated Systems Operation Centre (ISOC) on 16.41 acres of land.
- Provincial Warehouse on 10 acres of land.
- Regional Operations Centre on 10 acres of land.

Hydro One has purchased 16.41 acres of the land required to build the ISOC portion of the development for approximately \$3 million – validated as fair market value by a third-party valuator. Construction of the buildings is estimated at more than \$150 million. The construction of the ISOC will require an upgrade to fibre optics in the area.

What are the economic benefits of this deal to the City of Orillia?

Hydro One plans to build three facilities in Orillia as detailed above. Some of the jobs located in the new facilities will be transferred from the existing Orillia Power Distribution Corporation facilities. Hydro One will also introduce a significant number of entirely new, high-quality, knowledge-based jobs to Orillia, along with construction/trades jobs for the development.

In the short term, the economic impact of the construction of the buildings and related activity is anticipated to inject \$200 to \$300 million into the Orillia economy. Once all the facilities are operational, employees at this Orillia facility are expected to receive a cumulative \$30 million in payroll/incomes that will be injected into the Orillia economy year after year. This will result in economic spin-offs through the creation of new jobs and additional spending in housing construction, retail, restaurants, personal services (i.e. dentists, taxis), schools and colleges, and many other fields throughout the Orillia economy.

Additionally, this technology investment by Hydro One will likely create improved infrastructure for other businesses, open up opportunities to entice investment in related businesses and suppliers, and send a signal to other corporate entities that Orillia is a great place to build a technology platform.

What happens to Orillia Power Generation Corporation?

This deal has no impact on the employment of Orillia Power Generation Corporation employees. The generation side of Orillia Power is still owned by the City of Orillia along with

the annual dividend, which accounts for the majority of the overall Orillia Power dividend received by the City. Orillia Power generation jobs are not impacted. Once the OEB has approved the sale of OPDC, the generation company will relocate to a different facility in Orillia.

What happens to existing Orillia Power Distribution Corporation (OPDC) employees?

All OPDC employees will be transferred to Hydro One and will receive a one-year location guarantee. Compensation, pensions, benefits, life insurance etc. for these employees will continue with similar terms provided by Hydro One. Until the Regional Operations Centre is constructed, Hydro One will be situated in the existing OPDC building on West Street.

How much is the City making from the sale of the distribution assets of Orillia Power?

The total value of the deal is approximately \$36 million. Hydro One will pay the City of Orillia \$26.35 million cash for the shares of OPDC; this is more than twice their current book value. The City also holds \$9.7 million in OPDC debt, which will be returned to the City at the close of the transaction.

What is the City of Orillia doing with proceeds from the sale?

All proceeds from the sale (approximately \$36 million) will be invested into a (perpetual) Legacy Fund with the One Investment Program. The Legacy Fund will be a segregated fund containing investments in the common shares of companies having a long history of paying dividends. On an annual basis, the City would draw 95% of the income earned on the fund. This leaves the initial proceeds of the sale, plus 5% of each subsequent year's income, as the principal amount in the fund. Because the principal will be growing each year, it is expected that the income earned on the principal will grow each year.

The annual return on this investment will likely be greater than the OPDC portion of the annual dividend provided by Orillia Power. Investing the proceeds into the Legacy Fund removes the temptation of future Councils to simply spend the principal amount on a current or future project.

How will this deal affect my electricity rates?

It is important to acknowledge that the infrastructure of Orillia Power will need upgrading over the next decade – a cost that would likely have driven Orillia Power distribution rates up by almost 10% over the next number of years. Upon closing, which requires Ontario Energy Board approval, Hydro One will lower base distribution rates by 1% and guarantee that rate reduction for a period of five years – this will keep base distribution rates lower for Orillians on the 20% portion of the bill that is within the power of distribution companies to control.

The cost of electricity (that is delivered through the wires by the distribution system) is not determined locally, and is based on market costs at the provincial level. This is the case now, and will be the case after Orillia transfers its distribution system to Hydro One. For more on how electricity rates are set in Ontario visit www.ontarioenergyboard.ca/.

When will I become a Hydro One customer?

The sale must receive final approval from the Ontario Energy Board. The current estimate is that it may take as long as one year for this transaction to close. Upon receiving approval, a transition plan will be put in place and it will take several more months for the transition to be

implemented. Customers will receive advanced notification as to the timing for moving from Orillia Power bills to Hydro One bills. Presently, there is no change to any of the services Orillia Power provides – billing, customer service, new services, outage response, etc.

What will happen to service levels once I become a Hydro One customer?

Ultimately, the service activity would remain the same within Orillia's boundaries should Hydro One acquire the distribution side of Orillia Power. At the public information session on Jan. 12, 2016, Hydro One representatives made it very clear that the people serving Orillia today from Orillia Power will likely be the same people serving you should a deal go through. That is certainly the case now that we know that all Orillia Power Distribution employees are guaranteed employment and a one-year location guarantee with Hydro One.

As for service levels, Orillia is often compared to surrounding townships serviced by Hydro One. It is important to understand the distinction and challenges between servicing rural areas, such as the townships, versus urban areas, such as the City of Orillia. Rural areas experience much more inclement and extreme weather compared to urban centres, which impacts the distribution system and its ability to be restored promptly during and after a storm event. There are many hundreds of miles of wires and poles scattered over large distances in the surrounding townships. It takes Orillia Power workers 11 minutes to get from one end of Orillia to the other, with switches required to restore power located extremely close together. Orillia has the ability for a quick recovery; rural settings do not.

How much land within the Horne Business Park could Hydro One be utilizing?

Currently the Horne Business Park includes approximately 42 acres of premier industrial employment lands. Hydro One could be utilizing approximately 36 acres, which leaves approximately six acres of land available for other development opportunities (exclusive of lands required for roads and servicing).

Since the City has communicated updates on major opportunities such as the new Costco development, the proposed Hydro One project, and the industrial development charge moratorium, the city has received a number of inquiries for development in the Horne Business Park and surrounding areas. In response to this demand the City explored and approved the purchase of 33 acres of unserviced land from Charter Construction and Mark Rich Homes in June 2016, which lie directly south of the future Costco and east of the Horne Business Park.

This additional land will allow the City to continue to place priority on the attraction of businesses and creation of jobs.

Why were the negotiations between the City of Orillia and Hydro One carried out in closed session?

As with all commercial transactions, an element of confidentiality is required. When dealing with commercially sensitive information involving individuals, organizations or businesses other than the City, it is essential that certain information be kept confidential to protect the City and its assets and potentially the third party. How the City of Orillia conducts business in these scenarios impacts our overall credibility and reputation when dealing with third parties. The City wants to ensure it is a good partner to do business with in order to encourage growth and development in Orillia.

However, democracy, openness and transparency are never overlooked. That is why the City announced its intention to negotiate with Hydro One and shared its negotiating principles at the earliest opportunity. Two formal public consultations were held which enabled the public to ask questions and provide comments and feedback on the opportunity – every one of those questions were answered to the greatest extent possible. The Mayor spoke to dozens of community groups and answered questions about the opportunity with Hydro One. Numerous ward meetings were held throughout the year and this topic was addressed during most of them. The City maintained an informative, up-to-date webpage with information to help educate the public on the opportunity.

Members of Orillia Council were elected as representatives of Orillia residents. Councillors are required to examine all the facts and information on public and confidential matters, ask the difficult questions, weigh the pros and cons and make tough decisions.

Are there guarantees that ensure Hydro One will follow through on their plans?

The electricity industry is a highly-regulated industry and the acquisition of OPDC and the construction of the Back-up Ontario Grid Control Centre/Integrated System Operations Centre (ISOC) are contingent on OEB approval. Hydro One does not have the authority to speak on behalf of or bind the OEB to a decision; therefore, there is no guarantee contained within the signed agreements. However, Hydro One officials have expressed confidence they will proceed with the development plans because there is a documented need for these facilities in Ontario. Hydro One has also demonstrated their commitment by purchasing 16.41 acres of land within the Horne Business Park for approximately \$3 million to accommodate the ISOC building pending OEB approval. Upon OEB approval of the sale of OPDC to Hydro One, and as soon as suitable sites are available in the Horne Business Park, Hydro One will move forward with the Provincial Warehouse and the Regional Operations Centre developments.

How do I weigh in on the deal between the City of Orillia and Hydro One?

The deal between the City of Orillia and Hydro One requires Ontario Energy Board approval, which may take up to one year. This approval process begins once the agreements are signed by both parties (this occurred on Aug. 15, 2016). Members of the public can participate in the approval review process in the following ways:

1. **Follow the proceeding:** You can sign up to receive documents issued by the Board in the proceeding.
2. **Provide a letter of comment:** If you wish to comment on the proceeding, you can submit a letter of comment. The letter of comment will be considered by the Board members deciding the application.
3. **Intervenor:** Intervenors are interested groups or individuals who participate actively in the proceeding either by submitting evidence, arguments or interrogatories (written questions) or by cross-examining a witness or witnesses at an oral hearing. Intervenors may include customers and other affected individuals, consumer and trade associations, environmental and regional interest groups, and other public interest groups.

More detailed information on how the public can participate in the OEB proceeding is available on the OEB website at <http://www.ontarioenergyboard.ca/>.