

**PROPOSED MERGER OF ALECTRA INC.
AND GUELPH HYDRO ELECTRICITY SYSTEMS INC.**

Recommendation

The Chief Financial Officer and City Treasurer recommends:

1. That, subject to the approval of the Board of Directors of Vaughan Holdings Inc. (VHI) at its meeting on December 12, 2017, Council, as sole shareholder of VHI, accept the Alectra Board's resolution to enter into a merger with Guelph Hydro Electricity Systems Inc. ("Guelph Hydro"); and
2. That the Mayor and the City Clerk be authorized to execute any necessary documents and agreements on behalf of the City of Vaughan with respect to the proposed merger, with content satisfactory to the Chief Financial Officer and City Treasurer and in a form satisfactory to the City Solicitor.

Contribution to Sustainability

The proposed merger provides additional revenue opportunities and financial sustainability to Vaughan Holding Inc. (VHI) and the City of Vaughan. Providing greater investment diversity and stronger dividend yields, in turn provide better long term financial sustainability to VHI and its shareholder, the City of Vaughan.

Economic Impact

The proposed merger of Guelph Hydro is expected to bring improved dividends to shareholders despite a very minor dilution of relative shareholdings. Based on Alectra's analysis, dividend income on average is expected to increase 0.9% to 1.1% and equity ownership of VHI would go down from the current 21.49% to 20.49%. No equity injection is required for the merger. The transaction is considered a "Tuck-In Merger" as Guelph Hydro will be accepting all of Alectra's systems, processes, and procedures. Additionally, customers could expect 0.5% to 0.6% lower average annual distribution rate over a 20-year period.

Communications Plan

As per the recommendation above and following Council's approval, City Clerk would communicate the approval decision of the City to Alectra.

Purpose

The purpose of this report is to seek approval from Council to accept the proposed merger of Alectra with Guelph Hydro.

Background - Analysis and Options

On March 24, 2016, the three-way merger of PowerStream Inc., Enersource Corporation, Horizon Holdings Inc. and subsequent acquisition of Hydro One Brampton was finalized. The newly merged entity, Alectra, was created, of which VHI has a 21.49% equity ownership.

The proposed merger is aligned with Alectra's Strategic Plan

Alectra's strategic plan, as approved by its Board of Directors, is to grow the core business through mergers and acquisitions that are value accretive with a preference to geographic contiguity and expanded service area. To that end, Alectra has entered into negotiation with the City of Guelph for a potential merger with Guelph Hydro.

The merger is expected to provide benefits to shareholders and customers

Based on Alectra's analysis, the proposed merger with Guelph Hydro is expected to benefit shareholders with increases in dividends from synergies savings. Customers will also benefit from downward pressure on rising rates and improved customer service levels. Specifically, the merger benefits are as follows:

- \$18M to \$26.6M of net cash savings from operating and capital costs in the first 8 to 10 years
- Annual ongoing cash synergies of \$4.31M thereafter
- 0.5% to 0.6% lower average annual distribution rates over 20 years
- Aggregate customer benefit of \$70 to \$85M over 20 years
- Expected improved customer service levels and system reliability
- 0.9% to 1.1% average increase in dividends for current Alectra shareholders or \$0.9M to \$1.1M per year over status quo

The transaction is considered a Tuck-In Merger as Guelph Hydro will be accepting all of Alectra's systems, processes and procedures. This action will also reduce transition costs and integration risks.

The proposed merger does not require an equity injection from Shareholders

The transaction does not require equity injections from current shareholders and will see a very minor dilution of relative shareholdings of 4.63% in aggregate. Specifically, the proposed merger will result in the equity ownership of VHI going down from 21.49% to 20.49%. VHI will still be the second largest shareholder. Below is a table illustrating ownership allocation pre-merger and post-merger.

Table of Ownership:

Ownership	Pre-merger	Post-merger
City of Mississauga	27.90%	26.61%
City of Vaughan	21.49%	20.49%
City of Hamilton	18.15%	17.31%
City of Markham	15.73%	15.00%
City of Barrie	8.78%	8.37%
City of St. Catharines	4.85%	4.63%
OMERS Infrastructure	3.10%	2.96%
City of Guelph	0.00%	4.63%
	100.00%	100.00%

Source: Alectra Inc

Elements of Alectra's proposed merger benefiting Guelph Hydro

Alectra's proposal is consistent with the values that were identified via the City of Guelph's public consultation process. These values included local presence, commitment to community, protection of jobs and a focus on innovation and environmental sustainability.

Specifically, the merger would provide for the following:

- 1) Alectra would commit to preserving and enhancing community presence in the City of Guelph by maintaining the existing operational centre for a minimum of 10 years

2) Green Energy & Technology (GRE&T) Centre, to be established in Guelph Hydro's existing facility. The GRE&T Centre would act as an incubator and integrator of green energy and technology solutions with initial focus on residential energy solutions.

3) Alectra would consider the addition of a Board seat.

Key facts:

Regulated Utility:	Guelph Hydro Electric Systems Inc.
Customers:	56,000
Rate Base:	\$159M
Population:	132,000
Service Territory:	93 sq. km
Infrastructure:	1,132 km of lines, 42 fleet vehicles, 10,765 poles, 5,903 transformers

Alectra believes that the proposed transaction would allow a merger with like-minded communities and that Guelph hydro would be a good cultural fit.

Regional Implications

Not applicable

Conclusion

The proposed merger transaction is expected to bring enhanced dividend revenues to the City, lower customer distribution rates, and maintain existing municipal ownership of Guelph Hydro. Staff is recommending, based on the above and the due diligence conducted by Alectra, that the City accept Alectra's Board's resolution to enter in to a merger with Guelph Hydro.

Attachments

Not applicable

Report prepared by:

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Respectfully submitted,

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