

CAO's REMARKS

FESTIVAL HYDRO PUBLIC MEETING

June 24, 2014

You have heard the excellent presentation from Andre Morin, our Director of Corporate Services with respect to the financial implications of the three general options before you.

My concluding remarks will be to attempt to summarize the issues before you.

I wish to begin by reviewing the reasons the City, in the late 1990's rejected a proposed consolidation with other electrical utilities in Perth and Huron Counties. The City instead elected to compete in the marketplace to purchase other utilities in Perth and Huron Counties in order to:

- Ensure that we retained control over the largest utility in the area;
- Build a larger utility that would help ensure the survival of our utility;

We were successful in purchasing six other utilities; namely, Brussels, Dashwood, Hensall, Seaforth, St. Marys and Zurich.

Speaking for myself, I was also aware that Kitchener had elected to not sell their gas company many years ago and continue to this day to receive annual revenues from their utility.

I should also recognize a statement on the Ministry of Energy's website referencing an expert panel report which includes the following recommendation:

"The 73 LDCs that are the focus of this report should be consolidated into 8 to 12 larger regional distributors that are large enough to deliver

improved efficiency and enhanced customer focus, while at the same time maintaining a strong connection with their local communities."

If that is true, it is unlikely that Festival Hydro will survive and will have to be sold at some point. We are not aware that this has been carried over as official government policy. Moreover, governments have made similar statements before and they are not always carried forward into action. For example, the Ontario government has expressed concern for years about the sustainability of small water systems in the Province and has never acted on forcing any consolidations of those systems. What the government will do in this regard is something that you will need to weigh and consider.

Let me now address the three general options before you, namely:

- Selling Festival Hydro Inc.
- Merging Festival Hydro Inc.
- Retaining Festival Hydro Inc.

The Deloitte report basically narrows down those options to consider either selling or retaining Festival Hydro Inc. Accordingly, I will summarize those two options.

If you elect to sell, the proceeds of the sale could easily pay down debt and, even with paying a penalty, it would be sufficient to replace or, if you chose, to exceed the lost annual revenue of approximately \$2.4 Million Dollars. In fact there would be money left over both on an annual basis and as up front cash that could be used to lower taxes and/or put towards our large infrastructure deficit. We, of course, would encourage the latter.

If you elect to retain the company, the money that you would receive up front will still come in over a longer period of time and will provide a source of funding that should last indefinitely. Festival Hydro Inc. would also be free to continue to seek efficiencies and strategic partnerships to increase revenue and decrease costs and therefore profitability.

Also in question is whether the value of Festival Hydro Inc. is at a one time high or whether its market value will continue to hold, decrease or even increase. Perhaps Deloitte have a perspective on this matter.

In the end, I think it comes down to whether you want a large but finite amount of money now, or do you want to continue a significant revenue stream for an indefinite period of time.

This is a very significant decision before you. I encourage you to ask questions of our consultants on these issues and hear from members of the public. From this meeting, we will prepare a report for Council with what we believe will be the necessary information for you to consider. You may wish to adjust the weightings of the matrix prepared by Deloitte and, in the end make a decision on what you want to do with this important asset owned by The Corporation of the City of Stratford.

We are happy to answer any questions you may have.