



**CITY OF ORILLIA  
COUNCIL MINUTES**

2000-78

**MINUTES OF THE PUBLIC MEETING OF COUNCIL REGARDING BILL 35,  
TUESDAY, APRIL 4, 2000 AT 7:00 P.M. IN THE COUNCIL CHAMBER**

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**Present:** Mayor K. McCann in the Chair  
 Councillors: M. Buchanan  
 D. Evans  
 W. Gardy  
 M. Kirby  
 T. Lauer  
 G. Morano  
 D. Shaw  
 P. Spears

**Also**

**Present:** Transition Committee Members:  
 Ian C. R. Brown, City Manager  
 Dan Valley, Commissioner - OWLP  
 John Mattinson, General Manager - OWLP  
 Douglas S. Christie, Russell, Christie, Miller, Koughan,  
 Winnitoy  
 Don Gibson, McCarthy Tetrault

Orillia Water, Light and Power Commission Commissioners:  
 Gord Pye, Chair  
 Frank Kehoe  
 Ken McLaughlin

Pat Hurley, Treasurer, Orillia Water, Light and Power  
 Commission

Robert Ripley, City Treasurer  
 Laura S. Lee, Manager of Council Services/Clerk

Approximately 40 members of the public  
 4 members of the media

The meeting opened with the singing of O Canada and the reciting of the Opening Prayer.

**Disclosure of Interest**

- None declared

Mayor McCann advised that the purpose of the meeting was to discuss the options available to the City concerning retention or disposal of the distribution, generation and telecommunications businesses currently operated by the Orillia Water, Light and Power Commission and to receive public input. Recommendations will be brought forward to Council at its April 17<sup>th</sup> meeting.

**Correspondence**

1. Township of Severn. (Info)

**Reports**

1. Transition Committee – re Bill 35. File L11-Bill35

2000-79

The City Manager introduced the Transition Committee members and provided a summary of the recommendations contained in the March, 2000 Discussion Paper on the Future of Orillia's Hydro Utility submitted by the Bill 35 Transition Committee.

Mayor McCann asked for comments and questions from members of Council.

**Councillor Morano:**

- How will this affect the Upper Canada Energy Alliance?

**Mr. Mattinson responded:**

- The opportunity to remain part of that Alliance will still be there for the new corporation

**Councillor Morano:**

- Orillia produces up to 30% of its required power; do we have an option of selling into the grid or applying it to our own rates?

**Mr. Mattinson responded:**

- It is not clear according to Ontario Energy Board how we can use our generation
- It is anticipated that we will be able to sell into the grid, the independent market operator would acquire that power and the generation company would be compensated at the spot market price
- One advantage is our generation is considered to be imbedded – theoretically our customers are immune to transmission charges; therefore the corporation would not save but our customers would save
- Assume that it would be the decision of the new Board of Directors based on what best suits the corporation and the shareholders

**Mr. Brown responded:**

- If Council wishes to have influence over such a decision, then the shareholder direction should reflect this – the opportunity exists if Council wants generation profits to be used a certain way and that is one of the decisions Council will have to make on April 17<sup>th</sup>

**Councillor Gardy:**

- Please explain recapitalization and debt/equity

**Mr. Brown responded:**

- For the competitive business (generation) that would be operated in the market place debt/equity ratio will be used to ensure minimal leakage to upper levels of government
- The generation company is to have a debt equity in the range between 60/40 and 70/30
- The Ontario Energy Board will be deeming the regulated company (distribution) to have a debt/equity ratio of 50/50 in any event

**Mr. Hurley responded:**

- The purpose of maximizing the amount of cash retained by the City as a whole is so that the citizens of Orillia end up with more

**Mr. Ripley responded:**

- Most private businesses use the debt leverage technique

**Councillor Gardy:**

- "using leverage for carrying debt for tax reduction purposes to better benefit the shareholder" - is the shareholder the citizen or the taxpayer?

2000-80

**Mr. Ripley responded:**

- We can increase rates on utility for three years to get market rate return
- After that point we don't know what will happen

**Councillor Spears:**

- Why does the Transition Committee recommend four rather than five members on the Board of Directors?

**Mr. Brown responded:**

- Four is the minimum number recommended
- Agrees that the ultimate make-up should be an odd number

**Councillor Shaw:**

- Does not necessarily agree that elected official should not be on Board of Directors
- Would prefer two, three or four years initially for the appointment period so there is never a 100% turn over in one Council term
- Clarification requested on the debt/equity ratio

**Mr. Mattinson responded:**

- The Ontario Energy Board has set the debt/equity ratio of the distribution company at 50/50
- Set up to minimize leakage to upper levels of government

**Councillor Shaw:**

- What capitalization would each company need in real dollar terms

**Mr. Brown responded:**

- Certain assumptions were made by the Transition Committee about the value of the two separate companies to come up with the figures
- Did not attribute a separate value to telecommunication portion
- As per Page 17, section 5.11 of the Report – \$10 million assumed as book value for the generation company; a 70/30 debt ratio would result in debt of \$7million as per Page 20, section 5.23 of the Report - \$17.5 million assumed as book value for the distribution company; a 50/50 debt ratio would result in debt of \$8.75 million
- Stressed that book values have been used within reason
- Council could determine value for assets in the transfer by-law.

**Councillor Shaw:**

- Is it correct that the holding company does not hold funds

**Mr. Brown responded:**

- Holding company is not holding capitalized funds
- The City holds the paper
- It varies over the province as to whether Councillors are put on the Board
- It was the Committee's feeling that the Board might interpret that the presence of an elected official may make the Board feel it is reporting back to the shareholder through that official

**Mr. Christie responded:**

- In most corporations the directors are appointed for a year at a time
- the three year term was recommended because this Council appoints for a three year term – and perhaps because of other complexities
- The *Ontario Business Corporations Act* limits terms to no more than three years
- Council can "clean house" at any time anyway

2000-81

**Councillor Shaw:**

- His political wish for a Council not to be able to completely replace Board within its term

**Councillor Buchanan:**

- Accepts increase in the hopes that bills will eventually be lower
- Are we initially talking about \$1 million annual revenue to community with a potential for \$2.5 million in annual revenue

**Mr. Brown responded:**

- Figures based on figures used by the two Treasurers and the consultant in their modeling
- Basic assumptions were made
- In order of magnitude \$1.1 million in interest payments and return on equity of \$1.4 million

**Councillor Buchanan:**

- What's the worst case scenario in terms of financial implications if we keep the utility?

**Mr. Brown responded:**

- \$1.1 million in interest payments is in control of this Council
- What could be at issue is how close are we to the book value
- Area of flexibility of this Council is with the \$1.4 million
- The extent to which Council wants corporation to run as a commercial business
- Transition Committee suggests that the new Board make any recommendation from status quo to new market
- New Board will task administration to squeezing costs, partly on distribution side – greater return on equity

**Councillor Kirby:**

- What are the pros and cons of rate minimization and profit maximization?

**Mr. Brown responded:**

- If Council establishes rate minimization as a means of avoiding tax, there is some speculation that the Ontario Energy board may set a minimum tax

**Mr. Mattinson responded:**

- Ontario Energy Board– allowing 9.88% rate of return on equity on wires business – you either state up front that is your objective or make a statement that you are moving to for-profit; otherwise it may not allow you to do it at a later date

**Councillor Kirby:**

- Obviously the Province wants some profit

**Mr. Mattinson responded:**

- Stranded debt of \$23 billion dollars
- they propose to repay that debt through
  1. transfer tax in the event of sale to private entity and
  2. virtual corporate tax
  3. CTC competitive transition charge
  4. municipal taxes on facilities that change with regard to Bill 35 – any increase in levy would go to stranded debt fund

2000-82

**Councillor Kirby:**

- Please explain section 2.8 (Page 5) – rationale for not selling - “hardly any official interest expressed by potential purchasers ... in the acquisition of any of the OWLP assets or businesses.”

**Mr. Brown responded:**

- Only official interest expressed was early in the process in the form of a deputation before Council interested in purchasing green power – Greengrid Electric

**Councillor Kirby:**

- Internal debt owed to OWLP by the telecommunications business - what is going to happen to that debt?

**Mr. Mattinson responded:**

- Internally identified as a debt owing to the distribution company
- How that is handled in the future for tax avoidance – may have to get some tax advice on that – whatever is best for the shareholder

**Councillor Lauer:**

- Explain performance based regulation

**Mr. Mattinson responded:**

- Set up to enforce efficiency improvements in the organization to reduce cost and therefore lower distribution charges

**Councillor Lauer:**

- When you have a Board of Directors that are profit driven is the level of service jeopardized

**Mr. Mattinson responded:**

- One of the components of performance based regulation is reliability standardization – should not have concerns about level of service

**Councillor Lauer:**

- Are we creating any new revenue or are we just redistributing revenue?

**Mr. Hurley responded:**

- A combination - certainly additional costs added in (i.e. taxes)
- What we are trying to do is take advantage of the rules to benefit the City as a whole
- If the OWLP is run for profit then best bet is to minimize taxes – debt is the way to do that

**Mr. Ripley responded:**

- Whether it is a real or deemed corporate tax, any money that is paid out as tax will leave municipality and go to province
- All other monies would be retained in the municipality
- Through any proposal we have there will be rate increases
- What the City chooses to do with the money will determine if new revenues are generated or not

**Councillor Evans:**

- In favour of the report
- Report substantiates a commitment to retaining the OWLP
- Agrees with a semi annual progress report on the part of the corporation to the City (Recommendation 10)
- Suggests in the first year or two perhaps a quarterly report instead of semi-annual
- Re Recommendation 11 – review of the telecommunications – the verb should read “require” not “request”

**Mr. Mattinson responded:**

- At the outset OWLP Commission anticipated a seven-year payback before telecommunications enterprise broke even
- Hoped to have more customers on line in 1999
- Optimistic that will still meet the business plan

**Councillor Evans:**

- Re Recommendation 13 – as a result of Council responding positively to all aspects of the Report – on a \$50.00 /mth bill – how much will the ratepayer pay in a year's time and in three year's time

**Mr. Brown responded:**

- Referring to Page 18 of the Report – attempted to compare option A and option B - forecasted difference of 3%. (3% just deals with generation)
- Committee loathe to comment on commodity rate changes which represent 80% of the dollar
- Therefore a current \$60/month bill would increase to \$69/month

**Councillor Buchanan:**

- Plan to reduce operating costs and any risk to jobs in the existing corporation

**Mr. Mattinson responded:**

- Looking at efficiencies – i.e. state of the art billing system – looked into possibility of billing for other municipalities.
- Not planning staff reductions
- We have capabilities as a generating utility to provide service to others and generate revenues – may be able to leverage core competencies and offer services and perhaps increase staff

**Councillor Spears:**

- \$2.5 million in City's coffers if estimates are correct

**Mr. Brown responded:**

- Profit maximization not introduced in year one – Councillor Spears numbers are correct when phase in complete

**Councillor Gardy:**

- These figures are based on good water flow – how are we going to guarantee these figures if our 20% of control isn't there

**Mr. Brown responded:**

- No guarantee – one of the major variables is Mother Nature
- What has been assumed in this modeling is an average based on historical data
- Based on these assumptions over a twenty year period the average annual net income is forecasted to be in \$600,000 to \$700,000 range
- Could be volatile from year to year based on what Councillor said

2000-84

**Councillor Gardy:**

- If we are taking this money from that company as a holding company, will they not retain any reserve fund for future capital expenditures or will those future capital expenditures come by debenture to cover them

**Mr. Hurley responded:**

- Depreciation – as a minimum you have that amount of money for investment
- In addition -debt/equity ratio of between 60/40 and 70/30; you can borrow for additional income purposes
- You might hold off on dividend to the City in a particular year if you have a large expenditure

**Councillor Gardy:**

- Why must a majority of Board members be Canadian citizens?
- Are American citizens eligible to sit on Board?

**Mr. Christie responded:**

- That is set out in the *Ontario Business Corporations Act*

**Mr. Gibson responded:**

- Can be a Canadian or eligible to be a Can citizen Short answer is a majority of the Board have to be Canadian citizens or eligible to be Canadian citizens

Mayor McCann asked if there were any members of the public who would like to speak.

**1. Mr. Dennis Edmonds, Westmount Drive South**

- He had read a reference stating that \$7 million was in some kind of securities

**Mr. Brown responded:**

- \$7 million is referenced on Page 17 of the Transition Committee's Report
- Book value of \$10 million for generation business results in debt/equity of \$7 million
- There had been discussion previously about the possibility that there might be some excess working capital in the Commissions assets – this could have been the confusion

**Mr. Edmonds:**

- Agrees with Recommendations 1, 2 and 3
- Recommendation 4 – possible conflict as Council represents taxpayer; Board of Directors has a responsibility to ratepayers and the shareholder (City)
- Add that utility employees be excluded from sitting on Board
- Suggests that appointees shall be ratepayers of the utility
- Recommendation 5 - is this Committee a one time thing to set up the board or is this going to be ongoing?

**Mr. Brown responded:**

- Didn't go beyond initial establishment
- It will be the role of next Council to decide on a process to select next slate of directors

2000-85

**Mr. Edmonds:**

- Normal that most members would sit for three years – two terms
- To alleviate the problem of wanting a director for more than two terms – add a notwithstanding clause
- Recommendation 9 - shareholder direction should be made part of this report for Council's approval
- Before you make a final decision the solicitor should create this direction for Council to approve
- Agrees with Recommendations 12, 14, and 15
- does not agree with Recommendation 16 – this handcuffs the Board – these options should be left open
- Board still needs Council's approval but avenues should be left open
- Board is responsible to the company, the ratepayer and the shareholder (City)

**2. John Swartz, Laclie Street**

- You are voting for a form of indirect taxation by virtue of dividend payments back to the City
- Suggests passing a resolution to limit Council spending money to a percentage, using it to apply to tax levy to hold taxes or reduce them, and only be allowed to change by holding a referendum

**3. Frank Kehoe, Driftwood Road**

- Outlined history of the OWLP
- OWLP elected Commission has been eliminated from this process
- Commission has no interest in how the Board is set up but is interested in how the scenario will work
- There is not \$7 million – there is a \$1 million insurance reserve
- The OWLP Commission do not have access to that \$1.9 million dollars
- They must first ask Council and then Council must go to the Ontario Municipal Board for approval to access
- The Ontario Energy Board requires 15% of total cost of power and controllables - then you have a working budget for the year – the figure is not \$7 million; it is in the range of \$1 – \$2 million Transition Committee – not set up by Council or elected Commission
- Debt/equity ratio on the utility – on the three existing hydraulic plants would cripple the utility completely – debt/equity ratio of 70/30 – that's taking 70% of that asset as debt - that relates to \$8 million as debt - the interest on the debt/equity cripples the operation
- During this Transition Committee process it has been a lame duck Commission
- The economies of scale that can be captured in this new structure must be put in place before November 7, 2000 to avoid the tax. This means getting together and partnering with other utilities to pull down costs
- Expertise required on the Board for this will eliminate some of the Commission but the benefit is greater revenue
- Two utilities on our borders – Coldwater and Ramara. Ontario Hydro is hot after these utilities and there is a benefit in partnering with Ramara and Severn as there is a benefit in partnering in some areas with other utilities
- Orillia owns three undeveloped power sites - put the money into investing into future power sites
- Performance based accounting – we have to be able to show year by year efficiencies in the running of the utility. The elected Commission can pull some of these into perspective in a one to one meeting
- Mathias Plant on South Muskoka River – Ontario Hydro will likely be selling downstream
- Suggests a half day meeting with Council to discuss road allowances, right of ways, legislation allowing City to sell hydro within a radius of 25 miles
- Need for Council to sit down with elected Commission



2000-86

**Councillor Buchanan:**

- Please clarify the \$7 million figure

**Mr. Hurley responded:**

- You have liabilities offsetting so you don't have \$7 million to play with
- \$1 to \$2 million of the assets would be available

**Mr. Brown responded:**

- The Transition Committee has not made any recommendation as to the transfer of any liquid assets from the Commission to the City. Page 21 of the Report says once guiding principles have been established this would be one of the details at that time to be decided

**4. Mr. Gord Pye, Chair, Orillia Water Light and Power Commission:**

- Inaccurate that Commission has been ignored by the Transition Committee
- Transition Committee set up at the recommendation of Mayor McCann and included the General Manager and the then Chair of the Commission
- Regular reporting to Commission
- Past two meetings, Dan Valley could not attend and the Committee invited Mr. Pye to sit in
- Wishes to thank the Committee for representing the City of Orillia and the Commission

**5. Mr. Ken McLaughlin, Commissioner, Orillia Water Light and Power Commission:**

- Thanks to Dan Valley, John Mattinson and Don Gibson for representing the Commission and thank you to the Transition Committee – good report

**Mr. Mattinson responded:**

- Mayor McCann asked him to convey thanks to the Transition Committee
- Committee worked well together

**Councillor Lauer:**

- Thanks to Transition Committee – report well done

Mayor McCann thanked the Transition Committee and advised that if Council had any other questions they should feel free to ask the Mayor or the City Manager.

**MEETING ADJOURNED – 9:05 P.M.**

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MAYOR

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CLERK

