Name:	Approval to Proceed with Construction of New Operations Centre for ERTH Power Corporation
Agenda Item:	2(a)
Status:	Request for Approval via Special Shareholder Resolution

A. Background:

On March 23, 2023, the shareholders of ERTH Corporation approved the acquisition the shareholders unanimously approved the purchase of a six (6) acre parcel of land located at addresses [redacted], Ingersoll, Ontario for the purposes of building a new operations centre and head office for ERTH's regulated electricity distributor, ERTH Power Corporation.

The decision to acquire the land for the purposes of a new building was largely driven by the fact that EPC's existing operations centre at 143 Bell Street, Ingersoll, Ontario had reached the end of its useful life and the existing building had limitations on growth, and restrictions resulting in operational inefficiencies and higher risk. A copy of the Decision Item and approved special shareholder resolution from March 23rd is attached to this report, which provides background on EPC's need for a new building.

B. Discussion and Updates

Following the shareholder approval noted above, ERTH has undertaken the following:

- Successfully completed its environmental and other due diligence on the subject lands with no issues;
- Proceeded to close the land purchase, which includes a requirement of *Planning Act* consent to sever the subject lands. This process is ongoing, but it is in its final stages. The expectation is that the land purchase will be finalized before the special shareholder meeting on February 15, 2024;
- Retained a reputable utility industry consultant (Utilis Consulting Inc.) to complete a business case analysis supporting the new building, as discussed further below;
- Visited a number of peer utilities that have recently built new buildings to identify lesson learned, design ideas, cost saving opportunities, etc.
- Retained a local consulting engineering and architect firm (Pow Engineering), who have developed the design and construction budgets presented in this report.

<u>Business Case</u>

In addition to the issues identified on March 23rd and the conclusion that the Bell St. Property has reached the end of its useful life, Utilis Consulting concluded in its business case that ERTH Power requires larger and more purpose-built facilities and property for operations and storage to improve the safety and effectiveness of its core workload. Utilis Consulting summarized the full list of needs driving ERTH Power to seek relocation from the Bell St. Property as follows:

- **Fleet Maintenance**: ERTH Power fleet operations and staging are split across two separate facilities, neither of which is optimally designed or sized for ERTH Power's current operational requirements. As a result, tasks and materials are unnecessarily reduced in efficiency, and many routine fleet maintenance activities must be completed outdoors.
- **Fleet Maneuverability**: The proportion and location of the building envelopes on the property significantly hinder ERTH Power's heavy fleet vehicles' ability to complete basic maneuvers into, out of, and around the property. This creates reduced overall efficiency and effectiveness of basic operations, including emergency operations, and places extraordinary wear-and-tear on tarmac surfaces due to heavy-vehicle, multi-point turns. Finally, the constrained space creates extreme challenges for large-truck, third party deliveries of supplies and materials to the facility, which further hinders ERTH Power's fleet and outdoor storage during delivery.
- **Outdoor Storage:** The Bell St. Property has extremely limited space for outdoor storage of large distribution components such as poles and transformers, resulting in sub-optimal organization and access of these materials with impacts on efficiency. Any attempt to increase outdoor storage would subtract from space available for fleet maneuverability, which is already below basic requirements.
- **Safety:** One implication of the current outdoor space configuration is an increased risk to safety. Building configuration creates multi blind spots between vehicles and pedestrians within the constrained yard, and the required storage conditions for poles recently led to a near-miss safety incident.
- **Multiple Electrical Service Connections:** Current distribution connection configuration renders ERTH Power unable to electrify its fleet as the energy transition advances, and the cost to reconfigure and consolidate these connections would be costly.
- **Upcoming Maintenance & Investments:** The existing main building and outbuildings will require roof repairs within the next 5-10 years, while some of the Bell St. Property HVAC units are scheduled to be replaced within the next 5 years.
- **Control Room:** Due to the fragmented and largely structural nature of the building, the current control room lacks physical security and separation from the general office space of the building, inconsistent with utility best practice. Further, the current configuration does not have an optimal or readily available War Room adjacent to the control room to facilitate improved emergency response and coordination.
- **Server Room:** The server room currently lacks adequate temperature control and fire suppression relative to best practice.
- **Office Staff Requirements:** Interior office space is restricted for growth, and its fragmented layout limits the ability for staff collaboration and overall efficiency. Lacking any available outdoor space to spare, there is no green space for staff or opportunity to create such. As the labour market is anticipated to remain tight through most or all of the 2020's, the environment provided at Bell St. no longer meets basic office employee expectations relative to competitors. In addition, employee parking is near full capacity, with no opportunities for expansion.
- **Field Staff Requirements:** Field staff locker rooms, lunchroom and washrooms are inadequate and uninviting for a growing work force. ERTH Power has made best efforts to improve these facilities, however the physical and structural layout of the building provides limited cost-effective opportunities to significantly improve workplace conditions for field staff, including the persistent need for pest control.
- **Training:** The Bell St. Property does not have a room capable of facilitating full staff training events to maintain the working knowledge and effectiveness of both office and field staff. For mid-to-large training sessions, the truck bays must be cleared to provide a make-shift training space for staff. For full-sized training, third-party accommodations must be arranged.

Building Design and Construction

ERTH commissioned Pow Engineering to produce an engineering design of the new bacility that meets the requirements and mitigates the challenges noted above. The new building is being designed to be a serviceable operations and administrative centre that will house ERTH Power's employees and generate rental income from tis non-regulated affiliates.

ERTH Power's New Facility will have a two-storey administrative area that is adjacent to a stores warehouse, metering/stations and fleet vehicle service area. The building footprint is approximately 1 acre or 42,399 ft2 in area. It will include space for training, server and control rooms, as well as a meter station work area and sufficient warehouse space for storage of inventory.

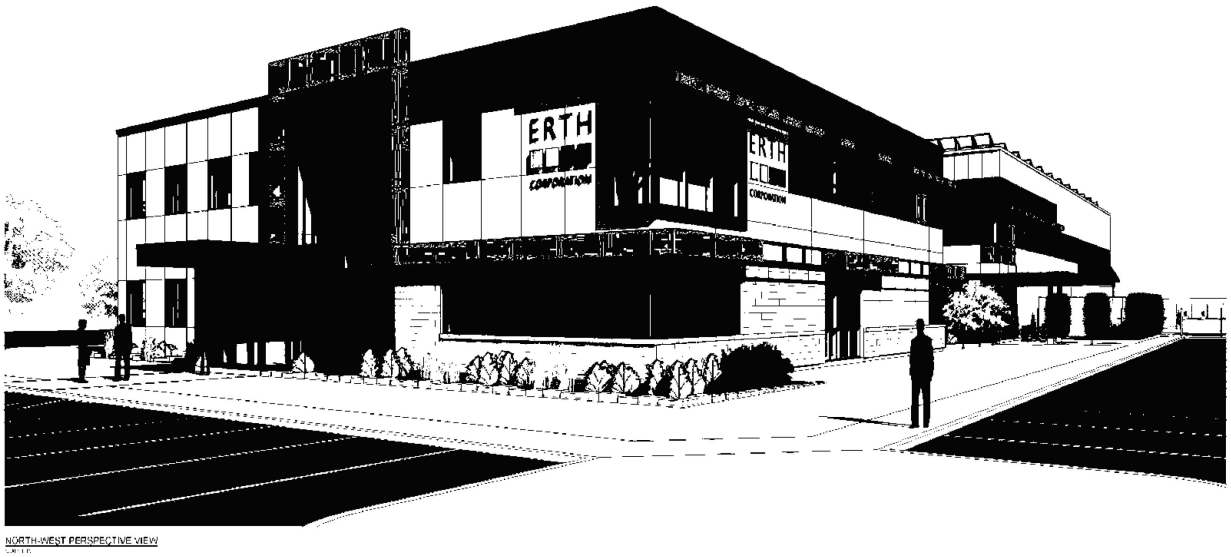
The following table lists the major design details of the New Facility:

New Facility Specification

New Facility Characteristic	**Specification**
Building Construction	Steel Frame Structure with Hollow Precast floor panels
Building area footprint	42,300 Sq Ft or 3,939 Sq Meters
Gross floor area for total building (office area is 2 levels)	57,170 Sq Ft or 5,312 Sq Meters
First Floor Area	**42,300 Sq Ft or 3,939 Sq Meters**
Lobby	897 Sq Ft or 83 Sq Meters
Training Room	1180 Sq Ft or 110 Sq Meters
Lunch Room	1275 Sq Ft or 118 Sq Meters
Office Space for Customer Service/Billing	3600 Sq Ft or 334 Sq Meters
Warehouse	5125 Sq Ft or 476 Sq Meters
Metering/Stations Area	1599 Sq Ft or 149 Sq Meters
Operations Office Area: Inclusive of meeting room, offices, change rooms, and first aid facilities	2440 Sq Ft or 227 Sq Meters
Fleet Vehicle Storage Area	18906 Sq Ft or 1757 Sq Meters
Repair Shop	1470 Sq Ft or 137 Sq Meters
Mechanical/Electrical Services Room	473 Sq Ft or 44 Sq Meters
Second Floor	**14870 Sq Ft or 1382 Sq Meters**
Executive Space	1831 Sq Ft or 171 Sq Meters
Office Space	1921 Sq Ft or 179 Sq Meters
Engineering Department Space	1500 Sq Ft or 139 Sq Meters
Control Room	1000 Sq Ft or 93 Sq Meters
Upper Mechanical/Electrical Services Room	1128 Sq Ft or 105 Sq Meters
Upper floor Mezzanine	960 Sq Ft or 89 Sq Meters
Server Room	276 Sq Ft or 26 Sq Meters
Office Storage Area	1000 Sq Ft or 93 Sq Meters

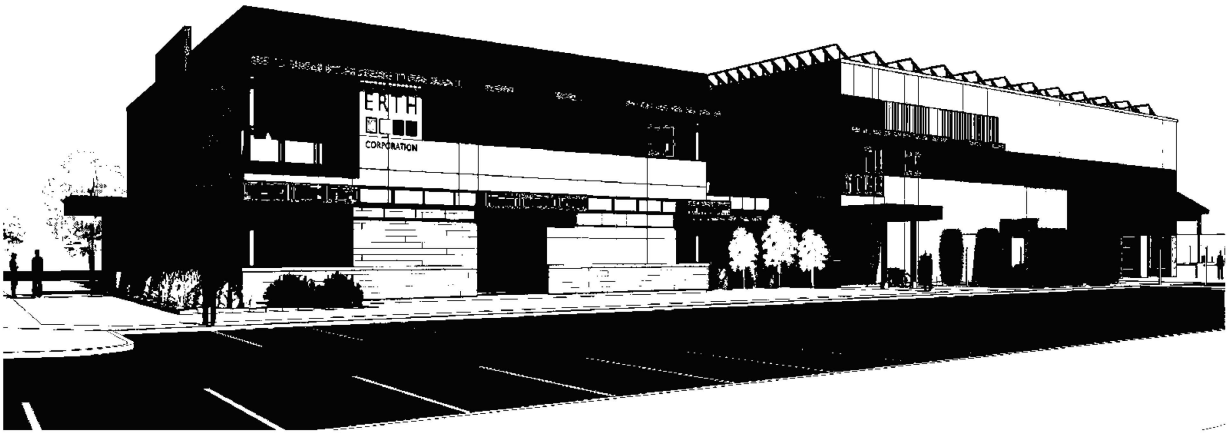
The following figures show the architect rendering of the new facility from various directional perspectives.

Figure 1: Northwest Perspective View of New Facility



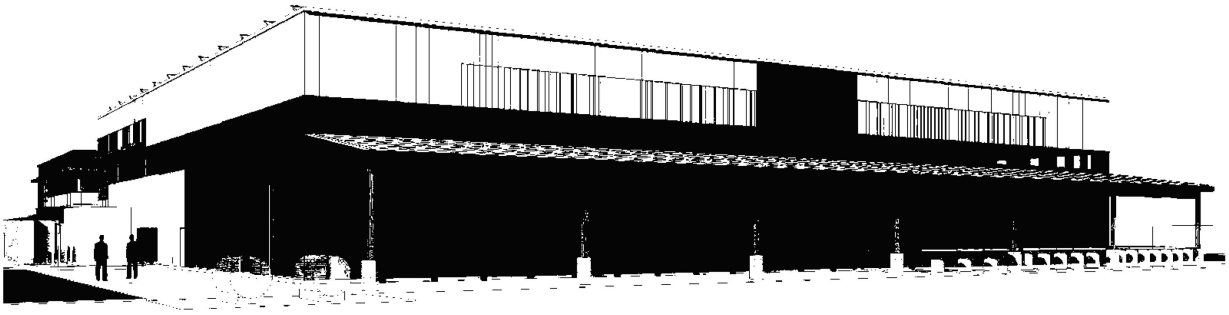
NORTH-WEST PERSPECTIVE VIEW

Figure 2: Ingersoll Street South Perspective View of New Facility



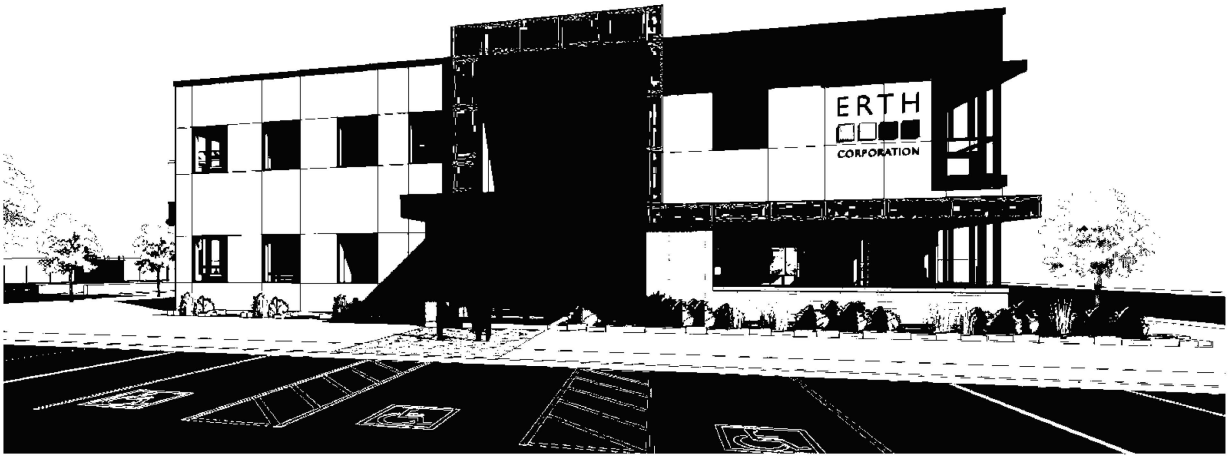
INGERSOLL STREET SOUTH - PERSPECTIVE VIEW

Figure 3: South West Side Perspective View of New Facility



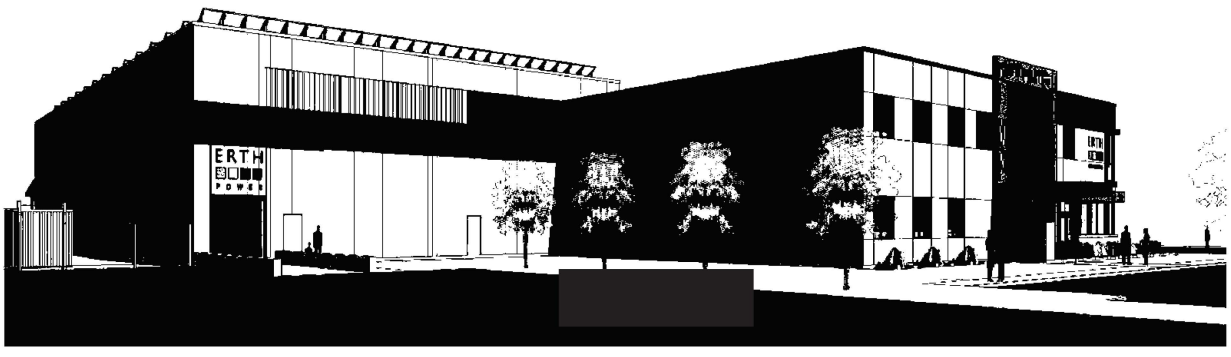
SOUTH-WEST - PERSPECTIVE VIEW

Figure 4: North Side Main Entrance Perspective View of New Facility



NORTH AT MAIN ENTRANCE - PERSPECTIVE VIEW

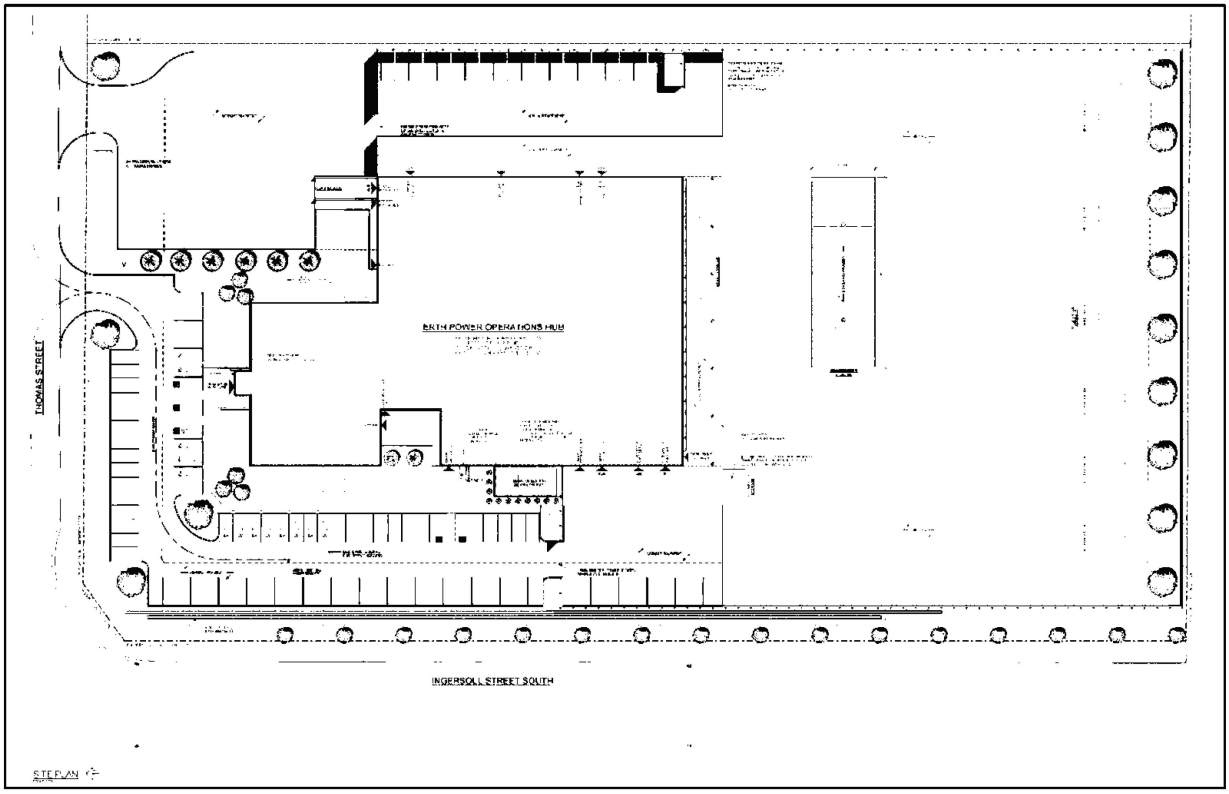
Figure 5: Thomas Street Perspective View of New Facility



THOMAS STREET - PERSPECTIVE VIEW

As indicated below, the design layout for the new facility provides ample space for outdoor storage of transformer, poles and other large distribution assets.

New Facility Design Layout



As proposed, the new building will support storage and maintenance of EPC's 20 fleet vehicles, 44 full-time employees, and additional vehicles and employees as EPC grows in the coming years.

Additionally, through a rental services agreement with ERTH Corporation, the new facility will also support approximately 10 additional full-time employees employed with the parent company, who will provide services to EPC and others. This arrangement has allowed a more cost effective use of staffing for ERTH Power's allowing it to operate at a lower cost.

The new facility's operational storage space and fleet storage area is being designed to balance ERTH Power's inventory procurement, and warehousing requirements. It includes staging areas for project specific work, as well as storm response. The proposed fleet storage area has been designed to allow for fleet ready electrification with EV charger installations, and indoor storage for emergency response to potential failures at any of EPC's 10 substations. The new operations building segment has a modicum of space for a small increase in the number of fleet vehicles without the need for incremental capital expenditures to expand the building.

Construction of the new building is anticipated to require a period of approximately 18 months from Q2 2024, into Q4 of 2025; providing for an in-service date in 2025.

Construction Budget and Financial Impacts

As approved by the shareholders on March 23rd, ERTH Power is in the process of purchasing the land on which the new facility will be for $5.4M.

The full cost of building construction is forecasted to be $22.2M, and requires EPC to incur financing costs in the amount of approximately $1.9M from the time of land purchase to the in-service date of the new building. The new building cost of $22.2M includes a forecast $1.5M for a solar photovoltaic system, and $1M premium to install a ground-source heat pump system in lieu of conventional heating and cooling (no natural gas connection to the facility). In addition to the cost of the building itself, ERTH Power forecasts furnishing costs of approximately $0.9M will be required to prepare the building for operations.

Prior to the in-service year of the new facility, EPC anticipates the filing of an Incremental Capital Module (ICM) application with the Ontario Energy Board, in order to begin receiving cost recovery for the new building in rates. When ICM approval is implemented through ICM rate riders, EPC will begin to receive costs equal to depreciation (building and furnishings), return on equity, Payment-in-Lieu of Taxes (PILs), and interest expense associated with a blend of short and long-term debt. Taken together, these costs represent the capital-related revenue requirement which will be recovered from ratepayers via rates. Such riders will begin May 1, 2025, and persist until the time of EPC's next Cost of Service application, currently scheduled to take effect January 1, 2028.

From the in-service year of 2025 to the end of 2027, the only revenue recovered in EPC's rates will relate to the capital-related revenue requirement. Costs (or savings) which will not be recovered over this period which includes any change in operations and maintenance (O&M) resulting from the move to Thomas St., any change in rent resulting from Bell St. closure and scaling down of Aylmer operations requirements for ERTH Power, and any change in rent to or from ERTH Corporation.

The standalone annual impacts of the new building's capital-related revenue requirement are as follows:

New Facility Capital-Related Revenue Requirement

Capital-Related Revenue Requirement		
Depreciation	$	699,157
Return on Equity	$	974,428
Interest	$	643,904
PILs	$	(380,201)
ANNUAL TOTAL	**$**	**1,936,288**

Customer Bill Impacts

Customer bill impacts as a result of the new building ICM rate riders described above varies between customer classifications and by rate zones. However, it can be concluded that the average **residential customer** would see their distribution portion of the bill increase by an estimated 11% - 13.8% which represents a total bill impact of less than 4%. As an example, for the average residential customer consuming 750 kWh's of energy, the total bill will go up from approximately $129 per month to $134.50 per month.

It is worth noting that EPC currently has approved rate riders set to expire in 2025 which ERTH anticipates will have a softening to the impacts noted above. Accordingly, the bill impacts described above may be a worst-case scenario.

Customer Bill Impacts

EPC values the relationship shared with our customers and our communities to which we serve and maintains a strategic focus ensuring that customer considerations and impacts are top of mind. ERTH anticipates multiple value for money benefits to be realized for the customer through the new building, such as:

- Major investment into the local economy, ensuring the long term sustainability for the Local Utility Operations meeting customer expectation both today and into the future – room for expansion as need arises.
- Ability to continue to innovate and modernize ERTH Power to meet the customer expectations and demands of the future.
- Fostering a safer environment for staff, customers, contractors and visitors to the facility, translating into lower risk for the organization.
- Barrier free access throughout the new facility.
- Innovative state-of-the-art energy efficiency geothermal design (no gas to the facility) reducing ERTH's carbon footprint and lowering ongoing operating and maintenance costs.
- 580 Kw's of Solar PV producing approximately 900 MWH's / year of renewable energy lower overall ongoing energy costs.
- EV charging capabilities for both public and employee use.
- Back-up power to the entire facility ensuring redundancy of operations during extreme weather events increasing resiliency to climate change.
- Updated control room, war room for real-time monitoring and advanced automation to maintain a high regard to the overall reliability and safety of the distribution system serving our customers and communities as climate risk continue to increase.
- Each department with its own space, streamlining services, making more efficient use of employee's time and energy improving the customer experience and efficiency of (room for staff to get things done).
- Centralized location outside of current residential area with easy access to the addresses addresses [redacted]'s reducing customer wait times for emergency response.
- Ability to consolidate operational requirements to optimize existing assets and reduce costs.

C. Recommendations and Decisions

ERTH has concluded that addressing the challenges associated with its Bell St Property is best performed through the construction of new facility to be located at addresses addresses Ingersoll, Ontario. Accordingly, the Corporation recommends that the shareholders authorize ERTH and EPC to proceed with the construction of the new building on the terms described in this report.

To this end, ERTH Power recommends that the shareholders pass a Special Shareholder Resolution authorizing EPC to proceed with the construction of the new building in the form attached to this report as *Special Shareholder Resolution*. In advance of the special shareholder meeting on February 15th, we ask that your Council consider this Confidential matter at an in camera portion of an upcoming Council meeting, and appoint a shareholder representative for the express purpose of casting your municipality's vote regarding the construction of the new building, as reflected in the attached Special Shareholder Resolution.