

Decision Item



Name:	Land Purchase re: New Operations Centre for ERTH Power Corporation
Agenda Item:	3(a)
Status:	Request for Approval via Special Shareholder Resolution

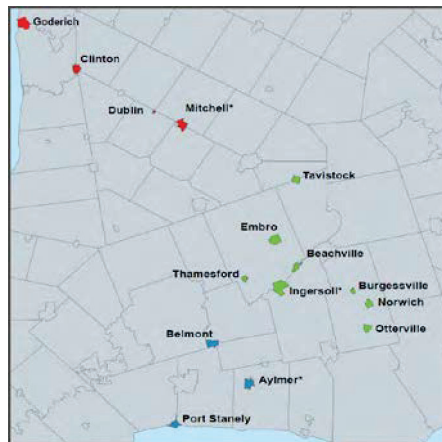
A. Background:

ERTH Corporation (ERTH) is the parent holding company of a diverse group of companies owned by your municipality and eight others. (For more information on the ERTH group of companies, please see the About ERTH item attached to this report, which provides an overview of ERTH's operating businesses and strategic pillars.)

ERTH's core business is ERTH Power Corporation, "*Your Hometown Utility*", a regulated electricity distributor delivering electricity to your municipality and other communities spread across four counties in southwestern Ontario.

ERTH Power is dedicated to providing safe and reliable electricity, while focusing on customer needs and energy affordability. ERTH Power strives to provide added benefits and value to its stakeholders by embracing innovation, technology, and community engagement in a way that improves the customer experience and ensures the future sustainability of its business and the communities that it serves.

When formed in 2000 with the amalgamation of seven municipal utilities, ERTH Power serviced 14,000 customers and 290 kms of distribution power lines across 11 communities.



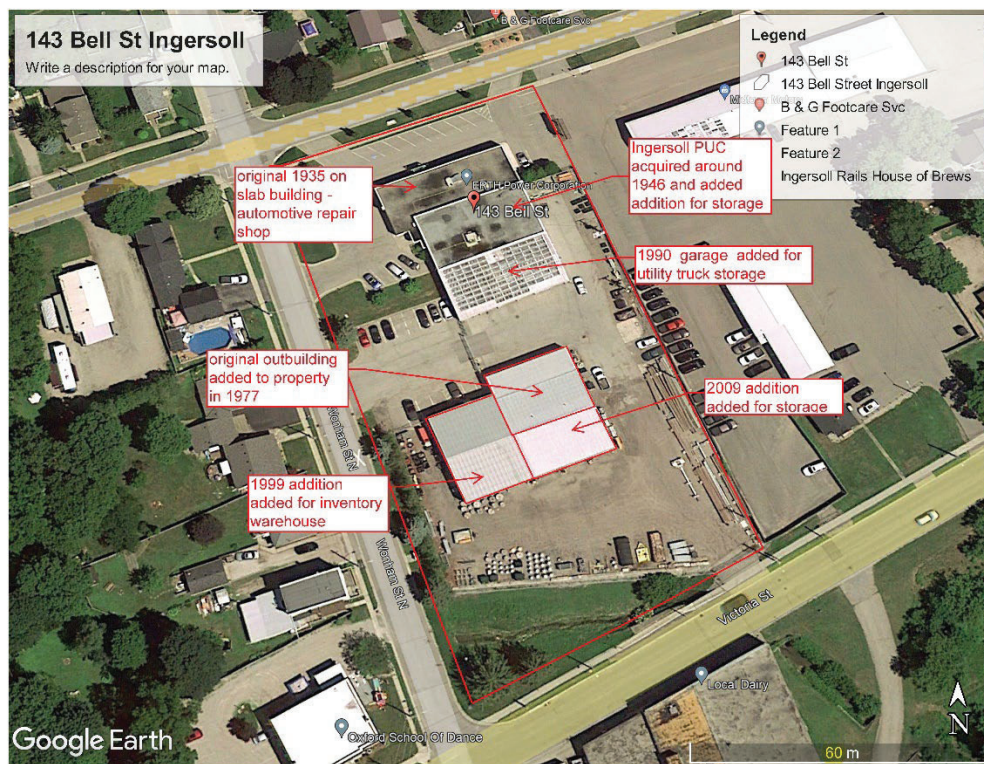
As a result of organic growth in our communities over 20 years and three mergers with neighbouring utilities in 2010 and 2019, ERTH Power now services over 25,000 customers and 453 kms of distribution power lines across the 15 communities reflected above. ERTH Power expects to continue to grow over the coming years as our shareholder communities expand and new opportunities to merge with neighbouring utilities present themselves.

The electricity sector is also expected to evolve rapidly over the next few decades as increasing sectors of the economy are electrified as a means to decarbonize and address

climate change. To survive and thrive in this new environment, ERTH Power will need to continue to expand as a regional utility while modernizing its grid and its operations.

Existing Operations Centre

ERTH Power's current operations centre and head office (pictured below) is located at 143 Bell Street, Ingersoll ON (the "Bell St. Property"). This location has served as ERTH Power's main operations centre since its formation in 2000. Prior to that date, the Bell St. Property serviced Ingersoll PUC's 4,400 electric and water customers within the Town of Ingersoll for over 50 years. Today, the Bell St. Property services over 25,000 customers across a service territory that stretches 220 kms from the shores of Lake Erie to Lake Huron. In addition to the Bell St. Property, ERTH Power also has satellite operations centres in Aylmer and Goderich.



As reflected above, there have been a number of additions and modifications to the original building on the Bell St. Property, which date back to 1935, to allow it to support the additional staffing compliment of a growing regional LDC and to adequately service ERTH Power's expanded service territory. These multiple expansions and modifications over the 87-year life of the property has resulted in a number of issues, including multiple electric service entrances which would be very costly to consolidate and reconfigure to allow for future fleet electrification.

The 1.8 acre site has a natural slope from the north to the south, and the southern edge of the Bell St. Property sits on a natural flood plain (approx. 0.3 acre) which limits any future expansions into the remaining open space. This sloping continues to present a risk of contamination into a natural waterway if an environmental spill occurs.

The Bell St. Property has effectively reached its maximum allowable building envelope, and the property is very restricted in terms of inventory storage and vehicle maneuverability given the limited open space. This presents a hazard to staff and visitors on site given the space restrictions and high volume of large vehicle traffic. In addition to these limitations, the Bell St. Property also has the following issues:

- The existing main building and the outbuildings will require roof repairs within the next 5-10 years.
- Some of the HVAC units are scheduled to be replaced within the next 5 years
- Interior office space is restricted for growth and its fragmented layout limits the ability for staff collaboration.
- There is no green space for staff.
- Employee parking is at or near full capacity.
- Fragmented building space creates inefficiencies.
- Server room lacks adequate temperature control and fire suppression.
- Control room lacks adequate security moving forward.
- Field staff locker rooms, lunch room and washrooms are inadequate and uninviting for a growing work force.
- Limited training room facilities to support full staff training events.

In light of the above, and given ERTH Power's goal to grow as regional utility of the future, the long-term viability of the Bell St. Property as the main operations centre has come into question in strategic discussions between management and the board of directors.

Need for a New Operations Centre

ERTH Power has concluded that the Bell St. Property has reached its end of useful life given the property's age, condition, and space limitations. Moreover, it is expected that the current facility will be insufficient to meet the needs of a modern and growing utility.

In addition to the restrictions and issues with the existing Bell St. Property, ERTH Power has concluded that there are a number of strategic and operational advantages associated with a new operations centre, including efficiencies of operations and expanded services, the opportunity to reduce ERTH's carbon footprint with a modern facility, the ability to support electric vehicle fleet additions, and an increased ability to support the growth both organic and/or associated with future mergers with strategic partners. A new operations centre would also allow for additional parking for staff and visitors and reduced risk of on-site vehicle traffic incidents due to expanded space. Finally, a new operations centre would allow ERTH to modernize its utility operations with improved security, expanded control room operations, collaborative workspaces, and green space, while eliminating the need for future capital repairs that are anticipated in the short term.

ERTH Power's business plan therefore includes the direction to explore options for and the feasibility of a new operations centre (the "New Operations Centre") with a goal to secure a new site location in 2023 - 2024. Accordingly, ERTH Power has been exploring potential acquisitions of land for a New Operations Centre in the Town of Ingersoll.

Recommended Location – Town of Ingersoll

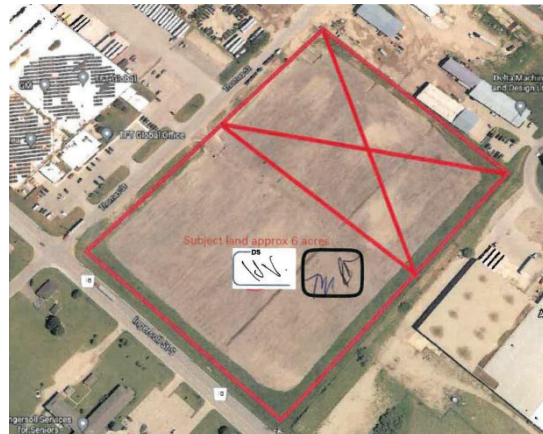
As the most central location in its wide and discontinuous service area, ERTH Power has determined that Ingersoll is the most efficient and cost-effective location to service its customers. In addition to being the most efficient location to service multiple communities in Oxford County, an Ingersoll location also provides convenient access to the 401, Highway 19, and County Road 6 and allows the Ingersoll staff to support after hour emergency response and other work at the remote locations. Ingersoll's proximity to the 401 is also valuable for attracting and retaining ERTH Power employees that commute from neighbouring communities.

B. Proposed Land Acquisition

Although the business planning had just began, a number of opportunities to secure vacant parcels of land that would support the New Operations Centre have been brought to ERTH Power. ERTH management considered the purchase of 5 acres of undeveloped property located at 277-287 Ingersoll St., Ingersoll for which the property owner wanted \$ [REDACTED] (\$ [REDACTED] per acre). ERTH management did not recommend proceeding with the purchase of this property. In late December 2022, ERTH Power was advised about the possibility to purchase property located at 385 Thomas Street, which is pictured below and currently used for parking vehicle overflows from the GM CAMI plant.



ERTH subsequently engaged the property owner's broker (CBRE) in early 2023 regarding the purchase of the westerly portion of the property referenced as the subject land of approximately six (6) acres in the picture below (the "Subject Land").



The Subject Land is currently zoned as Industrial on the Town of Ingersoll's Land Use Plan allowing for a variety of uses. Preliminary discussions with Oxford County's planning division have indicated that there are no floodplain or other building/development restrictions associated with the Subject Property and, more notably, consent to sever the Subject Land pursuant to the Planning Act (Ontario) is not required due to ERTH's municipal ownership structure.

After initial negotiations, ERTH Power submitted a final conditional offer of \$5.4M for the Subject Land (\$900,000 per acre) that was accepted by the property owner on February 8, 2023 (the "Conditional Offer"). The key elements of this Conditional Offer are described in greater detail in the [Offer Details](#) item attached to this report.

C. Next Steps

The Conditional Offer is subject to a number of conditions that are quite broad and provide ERTH Power with sufficient off-ramps to exit the deal without penalty (e.g. ERTH must be "satisfied as to all aspects pertaining to the Subject Property"). The conditions must be satisfied or waived on or before April 11, 2023.

After preliminary approval to proceed from the board of directors at its February 16, 2023 meeting, ERTH Power retained an engineering firm to conduct site due diligence confirming physical condition of the lands. ERTH has also retained a local legal firm to assist with the land division issues, site due diligence, and completing the real estate transaction.

The final condition in the Conditional Offer is approval of the purchase of the Subject Property by two-thirds of ERTH's municipal shareholders, which is required under Section 4.1(6) of ERTH's shareholder agreement. If the due diligence results are satisfactory, the ERTH board of directors will be asked to provide final approval of the purchase and ERTH will request the approval of its nine municipal shareholders at a special shareholder meeting held in conjunction with the CEO Breakfast scheduled for March 23, 2023.

If approved by the shareholders, ERTH will complete the purchase of the Subject Land and proceed with completing the business case for a New Operations Centre and target commencing construction by the end of 2024.

D. Impacts on Shareholders and Customers

If approved, the purchase of the Subject Property will be financed through a separate unsecured facility with Scotiabank or another lender. Once construction on the New Operations Centre commences, a construction loan will be arranged that will be converted to a new loan facility upon completion of the project. The total cost of the project will include interest costs incurred during the design and construction phases. As such, there will be minimal to no impact on the net income of ERTH Corporation in the short-term.

The New Operations Centre will be included in rate base as part of ERTH Power's 2028 Cost of Service (COS) rate application with the Ontario Energy Board, allowing ERTH Power to earn a regulated rate of return on the approved costs. With regards to the new building, based upon the current regulatory environment, the impact to a residential customer is estimated to be approximately \$2.25 per month. However, it is anticipated that the COS rate application will be positively impacted by the cost savings associated with the Goderich Hydro merger in 2019, which may negate the above cost increase associated with the New Operations Centre.

E. Recommendations and Decisions

Given the market value and availability of comparable land in the preferred location for a New Operations Centre, ERTH recommends that the shareholders approve the purchase of the Subject Property, if the results of due diligence are satisfactory, on the terms described in this report at a special shareholder meeting to be held on March 23, 2023.

To this end, ERTH Power recommends that the shareholders pass a Special Shareholder Resolution approving the purchase of the Subject Property in the form attached to this report as Special Shareholder Resolution.

In advance of the special shareholder meeting on March 23rd, 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 purchase of the Subject Property, as reflected in the attached Special Shareholder Resolution.

SPECIAL RESOLUTION OF THE SHAREHOLDERS

Land Acquisition for New Operations Center for ERTH Power Corporation

WHEREAS section 4.1(6) of ERTH Corporation's shareholder agreement requires Special Shareholder Approval of the transaction contemplated in this special resolution.

RESOLVED THAT:

1. ERTH Power Corporation's purchase of a six (6) acre parcel of land located at 385 Thomas Street, Ingersoll, ON for a purchase price of Five Million and Four Hundred Thousand Dollars (\$5,400,000) pursuant to the terms presented at a special shareholder meeting on March 23, 2023 is hereby approved, subject to satisfactory completion of due diligence.

DATED this 23rd day of March, 2023

Moved by: _____

Seconded by: _____

Carried: _____