

# ONTARIO ANNOUNCES MAJOR PLANS FOR THE ONTARIO ELECTRICITY MARKET AND CREATES INFRASTRUCTURE OPPORTUNITIES

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The Ontario Premier's Advisory Council on Government Assets (the "**Advisory Council**"), led by former TD Bank CEO Ed Clark, released its plan for Ontario's electricity market on Thursday, titled "Striking the Right Balance: Improving Performance and Unlocking Value in the Electricity Sector in Ontario" (the "**Plan**").

Released simultaneously with announcements by the Ontario provincial government (the "**Province**"), the Plan sets out several key findings including a proposed merger of provincially-owned Hydro One Brampton Networks Inc. ("**Hydro One Brampton**") with several private local distribution companies ("**LDCs**") in the Greater Toronto and Hamilton Area ("**GTHA**"). The Province also announced that it intends to implement the sale of up to 60% ownership interest in Hydro One through a staggered sale of shares to the public. A substantial portion of the funds from the sale of Hydro One would be used towards the Ontario Trillium Trust and the Province's "Moving Ontario Forward" infrastructure and transit plan.

### **Merger of Hydro One Brampton**

The Province announced that it has accepted the recommendation of the Advisory Council to merge Hydro One Brampton (itself an LDC) with three private LDCs in the GTHA, namely, Enersource Corporation (Mississauga), Horizon Utilities Corporation (Hamilton & St. Catharines), and PowerStream Holdings Inc. (Aurora, Barrie, Markham Richmond Hill, Vaughan). Consolidating these four entities would result in the second largest LDC in Ontario, next to Hydro One itself. The rationale for this merger is to realize on economies of scale and to serve as a catalyst for further consolidation among other LDCs. There are currently over 70 LDCs operating across Ontario.

# Sale of Hydro One

The Advisory Council recommended a sale of a majority stake (60%) of Hydro One through sales of shares to the public over time (allowing the Province to retain 40% of the ownership). The Province intends to start with an initial public offering ("**IPO**") of a 15% ownership stake in Hydro One, with the remaining divestiture to be



staged over time. The Advisory Council has recommended a share ownership restriction such that no shareholder or group of shareholders, besides the Province, could own more than 10% of Hydro One.

Importantly, the Advisory Council recommended the partial sale of Hydro One as an intact entity by maintaining both its distribution and transmission businesses (excluding Hydro One Brampton). This recommendation differs from the Advisory Council's earlier recommendation in its initial report from November, 2014, where it had urged the Province to divest its distribution business and keep only assets related to its transmission function. The rationale for keeping both the transmission and distribution competencies under Hydro One's control was based on the Advisory Council's finding that this would achieve higher value and would be a faster way to unlock the value of Hydro One through an IPO.

## **Infrastructure Opportunities**

The Advisory Council valued Hydro One between \$13.5 billion and \$15 billion; therefore a sale of 60% of Hydro One could result in \$9 billion in additional revenue. The Province's plan for this amount is for \$5 billion to be used to pay off existing debt while \$4 billion is to be used to fund new infrastructure opportunities through the Ontario Trillium Trust and the Moving Ontario Forward plan. The Trillium Trust was established pursuant to the *Trillium Trust Act* which came into force on March 15, 2015. Moving Ontario Forward is one aspect of the Province's investment in public infrastructure of approximately \$130 billion over 10 years, and focuses primarily on transit and transportation.

The investment in Moving Ontario Forward has now been announced as a \$31.5 billion commitment over 10 years, up from the \$29 billion investment announced by the Province in April, 2014. This increase is due to greater realization from certain assets, including the Province's sale of General Motors' shares in February, 2015 for net proceeds of \$1.1 billion (representing \$200 million more than the estimated asset optimization target set in the 2014 Ontario budget).

The Province has allocated approximately \$16 billion of these funds for transit projects in the GTHA and approximately \$15 billion has been allocated for infrastructure projects outside of the GTHA, which represents an increase in \$1.4 billion in the GTHA and \$1.2 billion outside of the GTHA compared to previous spending announcements.

Infrastructure Opportunities in the Greater Toronto and Hamilton Area

Planned projects in the GTHA include the creation of the Regional Express Rail (the "RER"), an electrified rail service running across several core routes. The RER is intended to also serve as the foundation for the City of Toronto's SmartTrack proposal, which requires new funding from private partners in addition to funding earmarked by the Province, the City of Toronto and the federal government.



Other planned projects in the GTHA include:

- Hurontario-Main Light Rail Transit in Brampton and Mississauga,
- a new rapid transit line in Hamilton,
- Dundas Street Bus Rapid Transit (connecting Toronto, Mississauga, Oakville and Burlington),
- Durham-Scarborough Bus Rapid Transit,
- Brampton Queen Street Rapid Transit,
- a subway relief line in Toronto, and
- the Yonge Street North Subway Extension.

Infrastructure Opportunities Elsewhere in Ontario

Projects outside of the GTHA include the Ontario Community Infrastructure Fund which provides \$100 million annually for infrastructure commitments around Ontario, the Small Communities Fund, infrastructure development, including transportation, for the Ring of Fire, funds for a new Connecting Links program to assist in the upkeep of roads connecting to provincial highways, extending access to natural gas networks in rural communities, and several transportation investments including improvements to Highway 7 between Kitchener and Guelph, upgrades to Highway 401 in London and Highway 417 in Ottawa, funding for Sudbury's Maley Drive Extension project and expansion of several sections of Highway 11 and 17 between Thunder Bay and Nipigon.

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### **A Cautionary Note**

The foregoing provides only an overview and does not constitute legal advice. Readers are cautioned against making any decisions based on this material alone. Rather, specific legal advice should be obtained.

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