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Extending the London Hydro Model to the City of London's Water/Wastewater Utility and Other Services

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Outline



1. Overview of London Hydro Inc. (LHI) Structure
2. Extending the Structure to the City's Water/Wastewater Utility and Other Services
3. Structuring Considerations
4. Benefits to the City, Customers and Employees
5. Recommended Next Steps



London Hydro Structure



1. Created as a stand alone corporation in 2001.
 - Wholly owned by the City of London.
 - Governed by an independent Board of Directors appointed by the City.
 - Operates at arms length from the City.
 - Realizes efficiencies through the provision of joint meter reading, billing and customer care services for water/wastewater.
 - LHI raises its own capital for new investment – not a draw on the City’s borrowing capacity.
 - Pays interest and dividend annually to the City.

2. Fully regulated by the Ontario Energy Board.
 - Utility rates cover the full cost of utility service including servicing debt and providing a fair return on the equity invested.



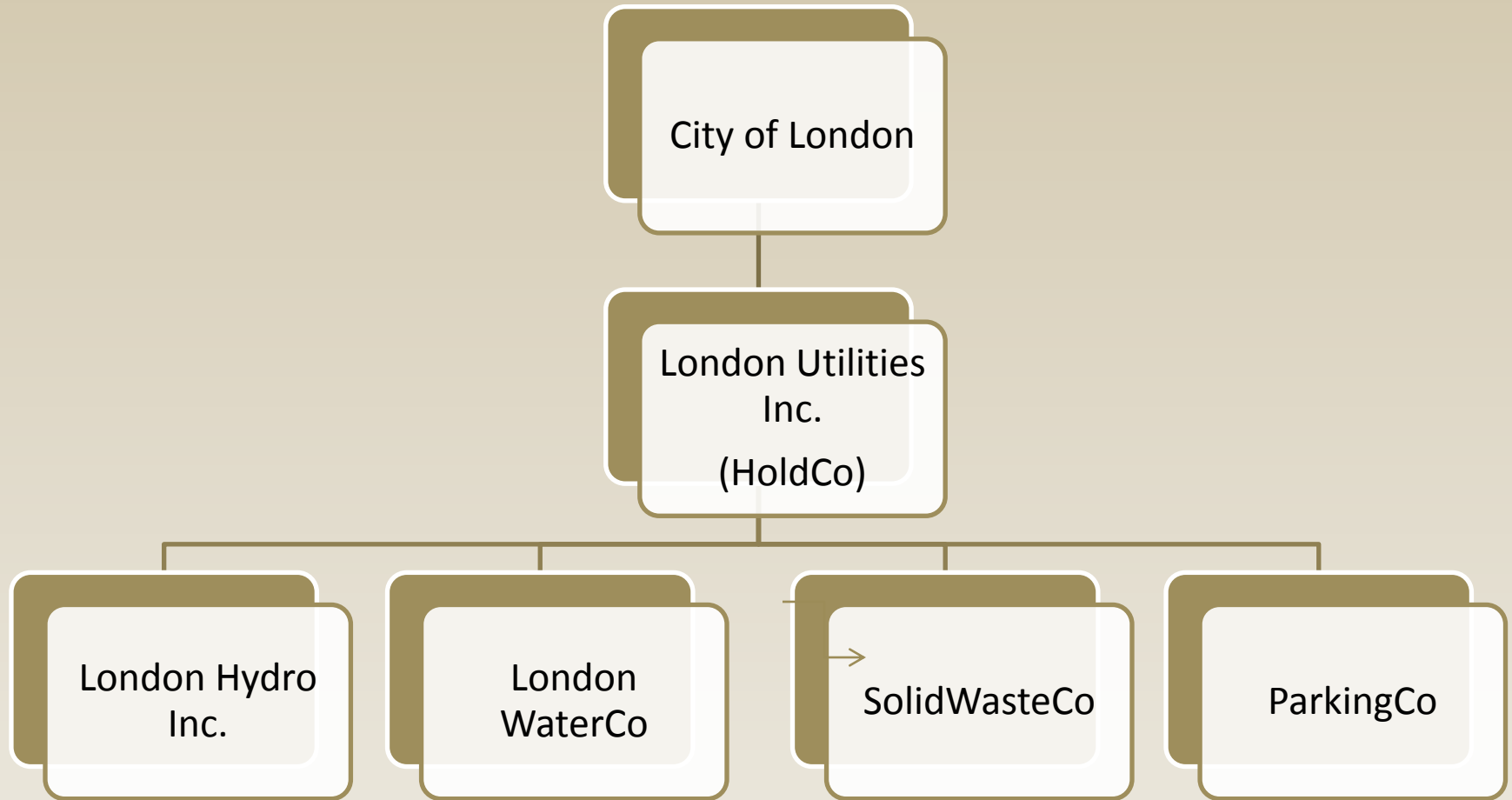
Extending the Structure to the City's Water/Wastewater Utility and Other Services

1. In working with City Administration, LHI has explored the merits of extending the LHI model to other City of London services including the City's water/wastewater utilities, parking and solid waste.
2. We believe there is an opportunity to create value for the City, customers and employees. Main benefits include:
 - **Realizing operating efficiencies** by extending a shared service model across all utilities and services.
 - Moving the water/wastewater utilities to a rate structure that will allow them to raise their own capital for future infrastructure investment **without credit support from the City**. This allows the City to free up borrowing capacity for the municipal infrastructure.
 - Opportunity to create a **London based utility services corporation** that has the capacity to realize significant growth in the future.
 - Advance Council's goals with respect to the parking & solid waste services.
 - This structure should result in **improved returns and dividends** to the City.



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Utility Holding Company Structure





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Structuring Considerations

- 1. Governance** – Utility operations will be overseen by the Holdco Board of Directors – structured along the lines of the London Hydro Board.
 - The Board will be independent and business oriented – Directors will be comprised of personnel with utility and business acumen, subject to requirements of the Electricity Act, the Ontario Energy Board (OEB) Act and the Municipal Act.
- 2. Rate Regulation** – LHI will remain OEB regulated. The sharing of service must adhere to the OEB Affiliate Relationship Code requirements. A new rate approval process will be developed for the Water/Wastewater utilities and other services consistent with the legislative and regulatory requirements – full cost recovery with suitable rate of returns.
- 3. Employees** – City employees will transfer to LHI and other various operating companies, respecting all collective agreements.



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Structuring Considerations – cont'd

4. **Taxation** – LHI will remain taxable under the provincial Electricity Act. All other corporations will be non taxable (subject to final confirmation).
5. **Joint Water Board** – The City's role in the Joint Water Board would have to be reviewed.
6. **Partnering** – The structure should not preclude the ability to take on partners should that be advantageous.
7. **Regulation Changes**
 - Ontario Regulation 161/99 allows LHI to have an affiliate that is an operator of water/wastewater infrastructure.
 - Further regulatory relief would be required to the extent that partnering opportunities are pursued.



How Will the City Benefit?



1. Extending the LHI structure and experience to the City's water/wastewater utilities and other services (waste collection and parking) will allow these utilities to be ***financially self sufficient without credit support from the City.***
2. This structure will allow LHI and the water/wastewater utilities to ***optimize cost efficiencies*** by employing a shared service model across all the corporations.
3. This structure will ***free City administration from day to day responsibility for operating these utility businesses*** that are well suited to be operated on a stand alone commercial basis, similar to LHI – while still retaining full regulatory oversight.
4. Moving the City's water/wastewater utilities to a cost of service rate structure will ***allow the City to realize the full financial value of its investment in these utilities*** – including realizing a dividend that can be used to offset property tax increases.
5. Creation of a business oriented utility services corporation with the potential to ***grow across southwestern Ontario from a London based Head Office.***
6. The structure ***facilitates partnering opportunities*** that provide additional access to capital and business expertise.
7. Any loss in current efficiencies at the City will be offset by increased proceeds from interest and dividends.



How Will Customers Benefit?

1. The transition should be relatively seamless from a utility customer perspective.
 - They will still receive service in the same way from the same people.
 - They will still receive the same multi-service bill and access the same customer care services.
2. Further sharing of corporate services between LHI and the water/wastewater utilities should result in the realization of economies of scale and cost savings for all utility customers.
3. Moving the water/wastewater to full cost of service rates reflects a self supporting financing structure and a fair allocation of shared service costs. Allocation of costs should be offset through reduced impact on the municipal property tax levy.



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How Will Employees Benefit?



Through a shared service model, greater opportunity for career/skills development and cross-training.



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How Will the Community Benefit?



1. Foundation for regional municipal services corporation.
2. A strong corporation will attract high-skilled labour to the region.
3. A uniform and proven approach in providing utility services to the community.
4. Continued expansion of research and development with the University of Western Ontario and Fanshawe College.
5. Community will benefit through overall efficiency gains and the corporate based principle of rate making.



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What is Being Proposed

1. Corporatize water/wastewater and other assets as required.
2. Unlock significant value of municipal assets.
3. A much more efficient and transparent rate making process based upon commercial terms and rate of returns.
4. A strong foundation for potential regional corporation for the municipal services.
5. Streamlining of the governance.
6. Self sustaining corporation business model.



What is Not Being Proposed

1. Water services are a municipal responsibility and under this model they would remain so.
2. No increase in overhead costs of corporation – leverage existing governance as much as possible.
3. We are not proposing any impact on employees – efficiency gains mostly by insourcing the outsourced services and through attrition.
4. Overall oversight is and will always be that of the City Council for all corporations including LHI.



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Recommended Next Steps

That London Hydro and the City Administration be directed to develop a recommended business structure and address all regulatory and process issues. It is anticipated the assessment and recommendation will be brought back for Council's consideration before year-end.