

**Report to the Shareholder of Hydro Ottawa Holding Inc.  
Rapport à l'actionnaire de la Société de portefeuille d'Hydro Ottawa inc.**

**and Council  
et au Conseil**

**28 June 2017 / 28 juin 2017**

**Submitted on June 21, 2017  
Soumis le 21 juin 2017**

**Submitted by  
Soumis par:**

**Bryce Conrad, President and Chief Executive Officer, Hydro Ottawa Holding Inc. /  
Président et chef de la direction de la Société de portefeuille d'Hydro Ottawa inc.**

**Contact Person**

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**Ward: CITY WIDE / À L'ÉCHELLE DE LA VILLE      File Number: ACS 2017-OCC-HOH-0001**

**SUBJECT: HYDRO OTTAWA HOLDING INC. – 2016 ANNUAL REPORT**

**OBJET: RAPPORT ANNUEL DE 2016 DE L'ACTIONNAIRE DE LA SOCIÉTÉ DE  
PORTEFEUILLE D'HYDRO OTTAWA INC.**

## REPORT RECOMMENDATIONS

### That Council:

1. Receive the Audited Consolidated Financial Statements of Hydro Ottawa Holding Inc. for the year ending December 31, 2016 as set out in the Annual Report at Document 1;
2. Appoint KPMG LLP as the auditor for Hydro Ottawa Holding Inc. for the year ending December 31, 2017;
3. Approve the recommendations of the Nominating Committee of the Board of Directors of Hydro Ottawa Holding Inc., specifically, that Council
  - a. appoint the persons identified at Document 2 (immediately follows the report) to serve as members of the Boards of Hydro Ottawa Holding Inc. and Hydro Ottawa Limited for the corresponding terms as specified; and
  - b. request that the Hydro Ottawa Holding Inc. Board of Directors elect Jim Durrell, C.M. as Chair of the Boards of Hydro Ottawa Holding Inc. and Hydro Ottawa Limited;
4. Approve the recommendation of the Board of Directors of Hydro Ottawa Holding Inc. (HOHI), specifically, that the City of Ottawa, as shareholder, authorize HOHI to provide financing arrangements to non-subsidiaries for the purposes of providing energy related services, with the approval of the Board of HOHI, where the payback of upfront costs borne by HOHI is expected to be fully funded through one or more of the following sources as a result of the products or services supplied:
  - a. Energy cost savings to the customer;
  - b. Operational efficiencies;
  - c. Maintenance cost savings;
  - d. Reduced future capital expenditures; and
  - e. Receipt of government-sponsored incentive payments; and
5. Authorize the Mayor and the City Clerk to sign a written resolution on behalf of the City of Ottawa as shareholder of Hydro Ottawa Holding Inc. setting out the resolutions approved by the City Council.

## RECOMMANDATIONS DU RAPPORT

Que le Conseil municipal :

1. Reçoive les états financiers consolidés audités de la Société de portefeuille d'Hydro Ottawa inc. pour l'exercice clos le 31 décembre 2016 présentés dans son Rapport annuel, soit le document n° 1;
2. Nomme KPMG s.r.l./S.E.N.C.R.L. comme auditeur de la Société de portefeuille d'Hydro Ottawa inc. pour l'exercice qui prendra fin le 31 décembre 2017;
3. Approuve les recommandations formulées par le Comité de nomination des membres du conseil d'administration de la Société de portefeuille d'Hydro Ottawa inc., plus précisément que le Conseil municipal :
  - a. nomme les personnes mentionnées dans le document n° 2 (accompagnant le Rapport annuel), afin qu'elles siègent aux conseils d'administration respectifs de la Société de portefeuille d'Hydro Ottawa inc. et d'Hydro Ottawa limitée pour un mandat de la durée précisée ; et
  - b. demande que le conseil d'administration de la Société de portefeuille d'Hydro Ottawa inc. élise Jim Durrell, C.M. comme président des conseils d'administration respectifs de la Société de portefeuille d'Hydro Ottawa inc. et d'Hydro Ottawa limitée ;
4. Approuve la recommandation formulée par le conseil d'administration de la Société de portefeuille d'Hydro Ottawa inc. (Hydro Ottawa), plus précisément que la Ville d'Ottawa, à titre d'actionnaire, autorise Hydro Ottawa à offrir des mécanismes de financement à des organisations autres que ses filiales aux fins de la prestation de services liés à l'énergie, avec l'approbation de son propre conseil d'administration, mécanismes en vertu desquels le remboursement des coûts initiaux pris en charge par Hydro Ottawa devrait être pleinement financé à même une ou plusieurs sources grâce aux produits ou aux services fournis :
  - a. économies d'énergie pour le client;
  - b. gains d'efficacité opérationnelle;
  - c. économie de coûts d'entretien;
  - d. réduction des futures dépenses en immobilisations;
  - e. incitatifs reçus du gouvernement.

- 5. Autorise le maire et le greffier municipal à signer au nom de la Ville d'Ottawa, en sa qualité d'actionnaire de la Société de portefeuille d'Hydro Ottawa inc., une résolution écrite énonçant les résolutions approuvées par le Conseil municipal.**

## **EXECUTIVE SUMMARY**

### **Assumption and Analysis**

Hydro Ottawa Holding Inc. ("HOHI or Hydro Ottawa") was created as a result of the *Electricity Act, 1998*, which required all hydro utilities to operate as business corporations. Under this structure, Hydro Ottawa Holding Inc. is a for-profit company that continues to be wholly owned by the City of Ottawa, and is governed by an independent Board of Directors appointed by its shareholder.

#### Recommendation 1

##### Receive the Financial Statements

Under the Ontario *Business Corporations Act* and the terms of the Shareholder Declaration issued by the City of Ottawa, Hydro Ottawa Holding Inc. is required to place before its shareholder, the City of Ottawa, annual financial statements relating to the corporation. Council is requested to receive the Audited Consolidated Financial Statements of Hydro Ottawa Holding Inc. for the year ending December 31, 2016 as set out in the Annual Report at Document 1.

#### Recommendation 2

##### Appoint an Auditor for the Corporation

Pursuant to Section 149 of the Ontario *Business Corporations Act*, the shareholder is also required to appoint an auditor for the corporation. Council is requested to appoint KPMG LLP as the auditor of Hydro Ottawa Holding Inc. for the year ending December 31, 2017.

#### Recommendation 3

##### Appoint Board Directors

The Shareholder Declaration for Hydro Ottawa Holding Inc. (HOHI) requires that members of the Boards of Directors for HOHI and its wholly-owned subsidiaries, including Hydro Ottawa Limited (HOL), be appointed by the City of Ottawa, with the exception of the President and Chief Executive Officer and the one HOL member of

management appointed by HOHI to sit on the HOL Board. Council is requested to appoint the persons identified at Document 2 to serve on the HOHI and HOL Boards for the corresponding terms as specified.

#### Recommendation 4

Authorize Hydro Ottawa to provide financing arrangements to non-subsiaries in specific circumstances approved by the Board of HOHI for the purposes of providing energy related services

A key element of Hydro Ottawa's five-year strategic plan (2016-2020 Strategic Direction), presented to the City as the company's shareholder in June 2016, is to provide energy cost-saving solutions to municipalities and large institutions. A good example is the LED street light conversion contract with the City of Ottawa, which has reduced electricity usage by an average of 65% in areas that have been converted to date. Hydro Ottawa is well-positioned to perform similar energy-saving projects for road authorities, municipalities, and other operators of large facilities. The financial model used for of Ottawa's streetlight conversion – with Hydro Ottawa bearing the upfront capital cost and the City repaying this cost over several years through cost savings – is becoming more common. For energy cost-saving projects with a capital payback period of between 5 and 10 years, this is becoming a standard industry practice. In order to operate and compete in this business line, Hydro Ottawa will need to be able to offer this type of repayment arrangement to its customers.

The Shareholder Declaration respecting Hydro Ottawa Holding Inc. (HOHI) requires the company to obtain prior written approval from the City of Ottawa in order to “make directly or indirectly loans or advances in excess of fifty thousand dollars (\$50,000) to any Person, other than a Subsidiary”. Hydro Ottawa is requesting the City to provide its approval for such financing arrangements within carefully defined circumstances, namely: 1) with HOHI Board of Directors approval; and 2) for the purposes of providing energy related services, where the payback of the upfront costs borne by Hydro Ottawa is expected to be fully funded through one or more of the following sources as a result of the products or services supplied:

- a) Energy cost savings to the customer;
- b) Operational efficiencies;
- c) Maintenance cost savings;
- d) Reduced future capital expenditures; and
- e) Receipt of government-sponsored incentive payments.

The City Treasurer has reviewed this proposal and is supportive of the above recommendation.

#### Recommendation 5

##### Authorize the Mayor and City Clerk to sign a Written Resolution

To satisfy the requirements of the Ontario *Business Corporations Act* and the terms of the Shareholder Declaration issued by the City of Ottawa, where an annual general meeting of the shareholder is not held, a written, signed resolution of the shareholder is necessary to approve all matters required to be dealt with at the annual general meeting. Council is requested to authorize the Mayor and the City Clerk to sign a written resolution on behalf of the City of Ottawa as shareholder of Hydro Ottawa Holding Inc. setting out the resolutions approved the City Council.

#### **Financial Implications**

##### Recommendation 1

In accordance with the Council-approved dividend policy, Hydro Ottawa delivered a dividend payment of \$20.6 million to the City of Ottawa on April 28, 2017 - the company's highest annual dividend to date.

#### **Public Consultation / Input**

Notice of this meeting will be posted on the City's website as per Section 77 of the City's Procedure By-law.

## **SOMMAIRE**

### **Hypothèse et analyse**

La Société de portefeuille d'Hydro Ottawa inc. (« Hydro Ottawa ») a été créée à la suite de l'adoption de la *Loi de 1998 sur l'électricité*, qui obligeait toutes les compagnies d'électricité à exercer leurs activités en tant que sociétés par actions. Selon cette structure, la Société de portefeuille d'Hydro Ottawa inc. est une entreprise à but lucratif demeurant la propriété exclusive de la Ville d'Ottawa et elle est régie par un conseil d'administration indépendant dont les membres sont nommés par son actionnaire.

#### Recommandation n° 1

##### Recevoir les états financiers

En vertu de la *Loi sur les sociétés par actions* de l'Ontario et de la *Déclaration de l'actionnaire* émise par la Ville d'Ottawa, la Société de portefeuille d'Hydro Ottawa inc. doit présenter à son actionnaire, la Ville d'Ottawa, ses états financiers annuels. Le Conseil municipal est prié de recevoir les états financiers consolidés audités de la Société de portefeuille d'Hydro Ottawa inc. pour l'exercice clos le 31 décembre 2016 présentés dans son Rapport annuel, soit le document n° 1.

Recommandation n° 2

#### Nommer un auditeur pour la Société

En vertu de l'article 149 de la *Loi sur les sociétés par actions* de l'Ontario, l'actionnaire est également tenu de nommer un auditeur pour la Société. Le Conseil municipal est prié de nommer KPMG s.r.l./S.E.N.C.R.L. comme auditeur de la Société de portefeuille d'Hydro Ottawa inc. pour l'exercice qui prendra fin le 31 décembre 2017.

Recommandation n° 3

#### Nommer les membres des conseils d'administration

En vertu de la *Déclaration de l'actionnaire* pour la Société de portefeuille d'Hydro Ottawa inc., les membres des conseils d'administration respectifs d'Hydro Ottawa et de ses filiales à part entière, notamment Hydro Ottawa limitée, doivent être nommés par la Ville d'Ottawa, sauf le président et chef de la direction et le membre de la direction d'Hydro Ottawa limitée nommé par Hydro Ottawa pour siéger au conseil d'administration d'Hydro Ottawa limitée. Le Conseil municipal est prié de nommer les personnes mentionnées dans le document n° 2 afin qu'elles siègent aux conseils d'administration respectifs d'Hydro Ottawa et d'Hydro Ottawa limitée pour un mandat de la durée précisée.

Recommandation n° 4

#### Autoriser Hydro Ottawa à offrir des mécanismes de financement à des organisations autres que ses filiales, dans des situations particulières approuvées par son propre conseil d'administration, aux fins de la prestation de services liés à l'énergie

Un élément clé du plan stratégique quinquennal d'Hydro Ottawa (*Orientation stratégique 2016-2020*), qui a été présenté à la Ville en sa qualité d'actionnaire de l'entreprise en juin 2016, consiste à offrir aux municipalités et aux grands établissements institutionnels des solutions d'économie d'énergie. Mentionnons à titre d'exemple le contrat conclu avec la Ville d'Ottawa pour la conversion de l'éclairage de rue à la technologie DEL, qui a réduit la consommation d'électricité de 65 % en moyenne dans les secteurs où les travaux de conversion ont été menés à bien à ce jour. Hydro Ottawa est bien placée pour réaliser des projets d'économie d'énergie

similaires pour le compte des administrations routières, des municipalités et d'autres exploitants de grandes installations. Le modèle financier appliqué pour cette conversion – en vertu duquel Hydro Ottawa prend en charge les dépenses en immobilisations initiales, que la Ville remboursera sur plusieurs années à même les économies de coût réalisées – est de plus en plus répandu. Pour les projets d'économie de coûts énergétiques pour lesquels le recouvrement des dépenses en immobilisations devrait s'échelonner sur une période allant de cinq à dix ans, ce modèle devient une pratique standard dans l'industrie. Hydro Ottawa devra être en mesure d'offrir à ces clients ce type de modalité de remboursement pour exercer ses activités et rivaliser avec la concurrence dans ce champ d'activité.

La *Déclaration de l'actionnaire* concernant la Société de portefeuille d'Hydro Ottawa inc. (Hydro Ottawa) oblige l'entreprise à obtenir l'approbation écrite de la Ville d'Ottawa pour [traduction] « accorder directement ou indirectement des prêts ou des avances dépassant cinquante mille dollars (50 000 \$) à toute organisation autre qu'une filiale ». Hydro Ottawa demande à la Ville d'approuver ce type de mécanisme de financement dans des circonstances précises, à savoir 1) avec l'approbation du conseil d'administration d'Hydro Ottawa; et 2) aux fins de la prestation de services liés à l'énergie pour lesquels le remboursement des coûts initiaux pris en charge par Hydro Ottawa devrait être pleinement assuré à même une ou plusieurs sources grâce aux produits ou aux services fournis :

- a) économies d'énergie pour le client;
- b) gains d'efficacité opérationnelle;
- c) économie de coûts d'entretien;
- d) réduction des futures dépenses en immobilisations;
- e) incitatifs reçus du gouvernement.

Le trésorier de la Ville a examiné cette proposition et il est en faveur de la recommandation ci-dessus.

Recommandation n° 5

Autoriser le maire et le greffier municipal à signer une déclaration écrite

Pour satisfaire aux exigences de la *Loi sur les sociétés par actions* de l'Ontario et de la *Déclaration de l'actionnaire* émise par la Ville d'Ottawa, si l'actionnaire ne tient aucune assemblée générale annuelle, une résolution écrite de l'actionnaire dûment signée est nécessaire pour approuver toutes les questions devant être traitées dans le cadre de ce type d'assemblée. Le Conseil municipal est prié d'autoriser le maire et le greffier municipal à signer au nom de la Ville d'Ottawa en sa qualité d'actionnaire de la Société



de portefeuille d'Hydro Ottawa inc., une résolution écrite énonçant les résolutions approuvées par le Conseil municipal.

### **Incidence financière**

#### Recommandation n° 1

Conformément à la politique sur les dividendes approuvée par le Conseil municipal, Hydro Ottawa a versé à la Ville d'Ottawa des dividendes de 20,6 millions de dollars le 28 avril 2017. Il s'agit du montant le plus élevé versé par l'entreprise à ce jour au titre des dividendes annuels.

### **Consultation publique – rétroaction**

L'avis de convocation à cette assemblée sera affiché sur le site Web de la Ville conformément à l'article 77 du Règlement de procédure de la Ville.

## **BACKGROUND**

Hydro Ottawa Holding Inc. was created as a result of the *Electricity Act*, 1998, which required all hydro utilities to operate as business corporations. Under this structure, Hydro Ottawa Holding Inc. is a for-profit company that continues to be wholly owned by the City of Ottawa, and is governed by an independent Board of Directors appointed by its shareholder.

## **DISCUSSION**

### **Recommendation 1**

#### **Receive the Financial Statements**

Under the Ontario *Business Corporations Act* and the terms of the Shareholder Declaration issued by the City of Ottawa, Hydro Ottawa Holding Inc. is required to place before its shareholder, the City of Ottawa, annual financial statements relating to the corporation.

The 2016 audited financial statements consolidate financial information relating to Hydro Ottawa Holding Inc. and its subsidiaries. These financial statements were approved by the Board of Directors of Hydro Ottawa Holding Inc. at its meeting on April 20, 2017. KPMG LLP (KPMG), the corporation's independent, external auditors, have provided an unqualified opinion on the corporation's consolidated financial statements.

KPMG's opinion states the consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2016 and the results of its operations and its cash flows for the year then ended in accordance with international financial reporting standards.

Hydro Ottawa achieved positive financial results in 2016, with consolidated net income of \$34.8 million and a consolidated return on equity of 8.4%. In accordance with the Council-approved dividend policy, these 2016 results yielded a dividend payment of \$20.6 million to the City of Ottawa – the company's highest annual dividend to date.

2016 was also the first year of implementation for Hydro Ottawa's refreshed *2016-2020 Strategic Direction*, which was presented to City Council in June 2016. Hydro Ottawa advanced key elements of this corporate strategy during the year, including significant progress on the Chaudière Falls expansion project – the largest capital project in the company's history – which remains on track for an expected 2017 completion.

Results were also positive with respect to the company's core mandate of providing reliable electricity service to Ottawa residents and businesses. Hydro Ottawa achieved its best reliability performance in the last five years, and the three-year rolling averages for both frequency and duration of outages continued to trend down.

Details on Hydro Ottawa's financial results and business achievements in 2016 are documented in the corporation's Annual Report, which has been issued as Document 1 to this submission.

## **Recommendation 2**

### **Appoint an Auditor for the Corporation**

Pursuant to Section 149 of the Ontario *Business Corporations Act*, the shareholder is also required to appoint an auditor for the corporation.

In keeping with good governance practices, a request for proposals (RFP) for external audit services for Hydro Ottawa Holding Inc. and all related entities was issued in 2015 for 2016 – 2018 audit engagements. Following a three-stage evaluation process overseen by a Selection Committee headed by the Chair of the Audit Committee, the firm of KPMG LLP was recommended to and endorsed by the Board of HOHI for a three-year engagement (including two additional one-year options) commencing with the 2016 year-end.

Last year at this time, Council approved the first year of the recommended engagement. Council is now being requested to approve the second year of the recommended engagement appointing KPMG LLP as the auditor of Hydro Ottawa Holding Inc. for the year ending December 31, 2017.

### **Recommendation 3**

#### **Appoint Board Directors**

The Shareholder Declaration for Hydro Ottawa Holding Inc. (HOHI) requires that members of the Boards of Directors for HOHI and its wholly-owned subsidiaries, including Hydro Ottawa Limited (HOL), be appointed by the City of Ottawa, with the exception of the President and Chief Executive Officer and the one HOL member of management appointed by HOHI to sit on the HOL Board. The City considers candidates recommended by the Nominating Committee of the HOHI Board, but is not obliged to select these candidates.

#### *Current Board Vacancies*

The terms of three directors of the HOHI Board and one director of the HOL Board are expiring on June 30, 2017 (see Document 3 for current members of the Boards). The term of the current Chair of both Boards (Jim Durrell, C.M.) is among those appointments that will be expiring this June. These members have served effectively on the respective boards of directors and have contributed to the continued success of these companies. One of the three HOHI Board directors has served two consecutive terms and is not eligible for reappointment given the Council-approved 'two consecutive term' limit established in 2014. Two of the three directors of the HOHI Board, including the Board Chair for both the HOHI and HOL Boards, have only served one term and have expressed an interest in continuing to serve for another term.

#### ***Nominating Committee Recommendation 3a – Appointment of Directors***

As per the selection process set out in the Shareholder Declaration for HOHI, the Nominating Committee of the Board of HOHI has identified and evaluated potential candidates for appointment as directors to the Boards of HOHI and its subsidiary Hydro Ottawa Limited (HOL). At this time, the Nominating Committee is recommending the appointment of a total of three candidates, two to the HOHI Board and one to both the HOHI and HOL Boards for terms as set out in Document 2. The confidential profiles of the recommended candidates are on file with the City Clerk for consultation by the Mayor and Members of Council. Updated profiles of all current members of both the HOHI and HOL Boards are posted on the Hydro Ottawa website at [hydroottawa.com](http://hydroottawa.com).

***Nominating Committee Recommendation 3b – Election of the Chair of the Boards***

As indicated above, the appointment of the current Chair of the Boards of Hydro Ottawa Holding Inc. (HOHI) and Hydro Ottawa Limited (HOL) will also expire on June 30, 2017.

Although City Council has not, by shareholder declaration, assumed the authority to appoint the Chair, it may recommend or request that the HOHI Board appoint a particular individual as Chair (shareholder declaration and organizing by-law provisions relating to the appointment of Chairs to the HOHI and HOL Boards are summarized below).

At this time, the Nominating Committee is recommending that City Council request that the HOHI Board elect Jim Durrell as Chair of both the HOHI and HOL Boards. If elected as Chair, pursuant to the organizing by-law, the term of office will be for four years in respect of both Boards of Directors.

Mr. Durrell is best-known for the significant contribution that he made as Ottawa's mayor from 1985 until retiring from public life in 1991. Since leaving public office, he has been active in the private sector as a successful business executive. Today, Mr. Durrell is president and owner of Capital Dodge Chrysler Jeep FIAT. He has had a long time involvement with Ottawa sports franchises including the Ottawa Senators NHL organization and the CFL's Ottawa Rough Riders. He has served as a governor of the Canada Sports Hall of Fame and as President of the Ottawa Sports Hall of Fame.

Mr. Durrell was appointed to the Hydro Ottawa Holding Inc. Board of Directors in July 2012. In July 2013 he was also appointed to the Board of Directors of Hydro Ottawa Limited and subsequently elected Chair of both Boards. He brings extensive governance experience having served on the Board of Directors of the Business Development Bank of Canada and as the Chair of the Ottawa International Airport's Board of Directors. He continues to volunteer his time and enthusiasm to numerous charities and organizations in the Ottawa community, such as the Ottawa Hospital, the United Way/Centraide Ottawa Campaign Cabinet, the Salvation Army and the Kiwanis Club of Ottawa for over 30 years. In October 2006, he was appointed Chairman of the Ottawa Convention Centre, and in July 2011 was appointed by the Provincial Government to serve as Vice-Chair of the Police Services Board.

In December 2012, Mr. Durrell was appointed a member of the Order of Canada for his decades-long contributions to the City of Ottawa, as a businessman, mayor and

committed volunteer. Also in 2012, Mr. Durrell was awarded the Ottawa Chamber of Commerce's inaugural Lifetime Achievement Award, the Queen Elizabeth II Diamond Jubilee Medal, and the Order of Ottawa.

### **Provisions relating to the appointment of Chairs to the HOHI and HOL Boards**

The Shareholder Declarations for HOHI (passed by City Council in June 2006) and HOL (approved by the HOHI Board effective June 2006), and the organizing by-law for HOHI (approved by the HOHI Board April 2007) include the following provisions as these relate to the appointment of the Chairs for both boards:

- i. **Chairs to be External** – there is a requirement for the Chairs of HOHI and HOL to be external directors, i.e. not a member of City Council or an employee of the City and not otherwise an officer or employee of HOHI or its affiliates;
- ii. **HOL Chair must be member of HOHI Board** – the Chair of HOL can only be selected from the members of the Board of HOL who also serve on the Board of HOHI – this was done to ensure consistency of direction between the parent company and its subsidiary;
- iii. **HOHI Chair is also a member of the HOL Board** - the Chair of HOHI serves as a member of the HOL Board;
- iv. **HOHI Board appoints HOHI Chair** – the Chair of HOHI is appointed by the HOHI Board. This is consistent with good governance practices that recognize that the Chair needs to have the support of the Board of Directors;
- v. **HOHI Board also appoints HOL Chair** – to ensure consistency of direction between the parent company and its subsidiary, the HOHI Board also appoints the Chair of HOL;
- vi. **HOHI and HOL Chairs need not be the same person** – there is no requirement that the Chair of both HOHI and HOL Boards be the same individual;
- vii. **Four-year term of office for HOHI and HOL Chairs** – the term of office for the Chair of both HOHI and HOL is four years; and
- viii. **City Council may recommend / request Chair** – Although City Council has not, by shareholder declaration, assumed the authority to appoint the Chair, it may recommend or request that the HOHI Board appoint a particular individual as Chair.

### *Composition of the Nominating Committee*

The Nominating Committee of HOHI is comprised of the Board Chair, Jim Durrell, C.M., the Mayor, Jim Watson, and the two members of the Council of the City of Ottawa who are directors of the Board of HOHI - Councillors Jan Harder and Marianne Wilkinson. The terms of reference for the Nominating Committee can be found in the charter attached at Document 4.

### *Director Selection Process and Criteria*

In arriving at its recommendation, the Nominating Committee gave due consideration to the requirements for the composition of the Board of Directors of Hydro Ottawa Holding Inc., the selection criteria (attached at Document 5) set out in the Shareholder Declaration, as well as recruiting priorities identified through a board profile review conducted earlier this year to assess current board capacity versus the current and future governance needs of the corporation consistent with its strategic objectives.

#### **Recommendation 4**

##### **Authorize Hydro Ottawa to provide financing arrangements to non-subsidiaries in specific circumstances approved by the Board of HOHI for the purposes of providing energy related services**

In 2016, Hydro Ottawa's subsidiary, Energy Ottawa Inc. (Energy Ottawa), entered into an agreement with the City of Ottawa to convert 58,000 street lights to light emitting diode ("LED") technology with light dimming technology, and to provide streetlight maintenance services. Under this contract, Energy Ottawa pays the upfront capital costs for the streetlight conversion, and the City will repay this cost through electricity savings, maintenance savings (since LED lights last longer), capital cost savings, and receipt of conservation and demand management (CDM) incentives from the province due to the energy savings achieved. The streetlight conversion was expected to reduce energy use by 50% or more, and actual savings have averaged 65% in areas that have converted to date.

A key element of Hydro Ottawa's five-year strategic plan (2016-2020 Strategic Direction), presented to the City as the company's shareholder in June 2016, is to provide similar energy cost-saving solutions to other municipalities and large institutions. Street light conversion opportunities exist with road authorities, municipalities, and other operators of large facilities. Similarly, Energy Ottawa is well-positioned to assist governmental, institutional and commercial/industrial customers to achieve energy cost-savings through building monitoring and control systems, energy retrofits, and other projects that achieve energy savings, building on the company's long experience of providing similar services to the City of Ottawa and other large institutions in the Ottawa area.

The financial model of Ottawa's streetlight conversion – with Hydro Ottawa bearing the upfront capital cost and the City repaying this cost over several years through cost savings – is becoming more common. For energy cost-saving projects where the capital payback period is expected to be between 5 and 10 years, this is becoming a standard industry practice. In order to be able to operate and compete in this business line, Hydro

Ottawa will need to be able to offer this type of repayment arrangement to its customers directly or through a subsidiary.

Section 4.2(d) of the Shareholder Declaration respecting Hydro Ottawa, issued by the City of Ottawa, requires the company to obtain prior written approval from the City of Ottawa in order to “make directly or indirectly loans or advances in excess of fifty thousand dollars (\$50,000) to any Person, other than a Subsidiary”. In order to pursue business opportunities of the nature outlined above, Hydro Ottawa is requesting the City to provide its approval for such financing arrangements within carefully defined circumstances, namely: 1) with HOHI Board of Directors approval; and 2) for the purposes of providing energy related services, where the payback of the upfront costs borne by Hydro Ottawa is expected to be fully funded through one or more of the following sources as a result of the products or services supplied:

- f) Energy cost savings to the customer;
- g) Operational efficiencies;
- h) Maintenance cost savings;
- i) Reduced future capital expenditures; and
- j) Receipt of government-sponsored incentive payments.

Because these opportunities arise quickly and competitive procurement processes are often covered by strict confidentiality, it is not practicable to obtain written City Council approval on a case-by-base basis as such opportunities arise. However, the Hydro Ottawa Board of Directors, appointed by City Council, exercises detailed oversight over this line of business. Such arrangements would require HOHI Board approval and would be offered only in circumstances where there is reasonable assurance that repayment will be realized, thus minimizing any financial risk to Hydro Ottawa.

The City Treasurer has reviewed this proposal and is supportive of the above recommendation.

## **Recommendation 5**

### **Authorize the Mayor and City Clerk to Sign a Written Resolution**

To satisfy the requirements of the Ontario *Business Corporations Act* and the terms of the Shareholder Declaration issued by the City of Ottawa, where an annual general meeting of the shareholder is not held, a written, signed resolution of the shareholder is necessary to approve all matters required to be dealt with at the annual general meeting. Council is requested to authorize the Mayor and the City Clerk to sign a written resolution on behalf of the City of Ottawa as shareholder of Hydro Ottawa Holding Inc. setting out the resolutions approved by the City Council.

## **RURAL IMPLICATIONS**

There are no rural implications associated with this report.

## **CONSULTATION**

Notice of this meeting will be posted on the City's website as per Section 77 of the City's Procedure By-law.

## **COMMENTS BY THE WARD COUNCILLOR(S)**

This item is citywide.

## **ADVISORY COMMITTEE(S) COMMENTS**

This section is not applicable to this report.

## **LEGAL IMPLICATIONS**

There are no legal impediments to implementing the recommendations of this report.

## **RISK MANAGEMENT IMPLICATIONS**

There are no risk implications.

## **ASSET MANAGEMENT IMPLICATIONS**

This section is not applicable to this report.

## **FINANCIAL IMPLICATIONS**

### Recommendation 1

In accordance with the Council-approved dividend policy, Hydro Ottawa delivered a dividend payment of \$20.6 million to the City of Ottawa on April 28, 2017 – the company's highest annual dividend to date.

## **ACCESSIBILITY IMPACTS**

There are no accessibility implications with respect to implementing the recommendations set out in this report.



## **ENVIRONMENTAL IMPLICATIONS**

There are no environmental implications with respect to implementing the recommendations set out in this report.

## **TECHNOLOGY IMPLICATIONS**

There are no technology implications associated with this report.

## **TERM OF COUNCIL PRIORITIES**

This section is not applicable to this report.

## **SUPPORTING DOCUMENTATION**

Document 1 - 2016 Annual Report (including Audited Consolidated Financial Statements) of Hydro Ottawa Holding Inc. (issued separately)

Document 2 - Recommended Appointments to the Hydro Ottawa Holding Inc. and Hydro Ottawa Limited Boards of Directors and Corresponding Terms (immediately follows the report)

Document 3 - Current Members of the Boards of Directors (immediately follows the report)

Document 4 - Nominating Committee Charter (immediately follows the report)

Document 5 - Criteria for Selection of Directors (immediately follows the report)

## **DISPOSITION**

The City Clerk and Solicitor to advise Hydro Ottawa Holding Inc. of the outcome of the City Council meeting.

**Document 1**

2016 Annual Report (including Audited Consolidated Financial Statements)  
of Hydro Ottawa Holding, Inc.

Issued separately

**Document 2**

Recommended Appointments to the  
Hydro Ottawa Holding Inc. and Hydro Ottawa Limited Boards of Directors  
and Corresponding Terms

<b>Name</b>	<b>Board</b>	<b>Term</b>	<b>Effective Date</b>
Jim Durrell, C.M.	Hydro Ottawa Holding Inc. and Hydro Ottawa Limited	*	July 1, 2017
Lori O'Neill	Hydro Ottawa Holding Inc.	Reappointment for 3 years	July 1, 2017
Cyril Leeder	Hydro Ottawa Holding Inc.	Appointment for 3 years	July 1, 2017

\* Pursuant to the organizing by-law confirmed by City Council, in the event that the HOHI Board elects Jim Durrell as Chair of the Boards of HOHI and HOL, the term of office would be four years.

**Document 3**Current Members of the BoardsHydro Ottawa Holding Inc.

<b>Name</b>	<b>Member of the Board Since</b>	<b>End of Term</b>
Bryce Conrad	August 15, 2011	Ex officio
Dale Craig	October 1, 2013	June 30, 2019
Jim Durrell, C.M.	July 1, 2012 Chair since July 1, 2013	June 30, 2017
Councillor Jan Harder	December 1, 2014	November 30, 2018 (serves while in office)
Andrea C. Johnson	July 1, 2015	June 30, 2018
Kalai Kalaichelvan	July 1, 2013	June 30, 2018
Douglas McLarty	July 1, 2012	June 30, 2018
Phil Murray	July 1, 2012	June 30, 2018
Lori O'Neill	July 1, 2014	June 30, 2017
Zaina Sovani	July 1, 2012	June 30, 2017
Councillor Marianne Wilkinson	December 1, 2014	November 30, 2018 (serves while in office)

Hydro Ottawa Limited

<b>Name</b>	<b>Member of the Board Since</b>	<b>End of Term</b>
Bryce Conrad	August 15, 2011	Ex Officio
Jim Durrell, C.M.	July 1, 2012 Chair since July 1, 2013	June 30, 2017
Lance Jefferies	March 1, 2016	Serves while in position

**Document 4****HYDRO OTTAWA HOLDING INC. (HOHI)****Nominating Committee (“NC”) Charter****1. Composition**

- a) The Nominating Committee (“NC”) of Hydro Ottawa Holding Inc. (“HOHI”) is a Board Committee which shall be comprised of up to 5 members of which:
- (i) A majority shall be external directors of HOHI;
  - (ii) One (1) shall be the Mayor of the City of Ottawa;
  - (iii) Until November 30, 2014, two members shall be members of the Council of the City of Ottawa who are members of the Board of Directors of HOHI (as long as the City of Ottawa remains as the sole shareholder of HOHI) and shall be reduced to one member effective December 1, 2014 in the event the Mayor of the City of Ottawa chooses to act as a Director;
  - (iv) One (1) shall be the Board Chair as an *ex officio* voting member.
- b) The following skill set is normally looked for in the selection of NC members:
- Previous Board experience
  - Familiarity with the legal and regulatory requirements of directorships and executive human resources management
  - Previous experience in the recruitment, selection, motivation, evaluation and leadership of directors and senior executives
  - Excellent interpersonal and conflict resolution skills

It is not necessary for any one member of the Committee to possess all of the skill set items. However, each skill set item (and parts thereof) should be present in the NC’s composition.

- c) The Chair of HOHI shall recommend, for HOHI Board approval, the members to serve on the NC.
- d) The Chair of the Nominating Committee shall be the Chair of the Board of Directors.

## **2. Terms of Reference**

- a) The purpose of the Nominating Committee is to identify and evaluate potential candidates for appointment as Directors to the Boards of HOHI and its subsidiaries.
- b) The NC shall make recommendations to the Shareholder of HOHI and its subsidiaries regarding the appointment of candidates as Directors.
- c) For the purpose of carrying out items (a) through (c) in this section, the NC shall:
  - i. review with the Board, or the GMRC, the selection criteria for the appointment of Directors to the Boards of HOHI and its subsidiaries and any suggested changes to the selection criteria set out in the Shareholder Declaration;
  - ii. receive from the Board, or the GMRC, any selection criteria for the appointment of Directors to the Boards of HOHI and its subsidiaries in addition to those set out in the Shareholder Declaration;
  - iii. develop processes to identify, evaluate and nominate potential candidates for appointment as Directors to the Boards of HOHI and its subsidiaries in accordance with the requirements of the Shareholder Declaration;
  - iv. have the authority, in its sole discretion, to retain such outside consultants to help the NC identify candidates and to investigate their suitability for appointment as Directors; and
  - v. examine and report on any other matters necessary to meet the purposes of the Committee.

## **3. Operating Principles**

The NC shall fulfill its responsibilities within the context of the following principles:

### **a) Conduct**

The NC expects its Committee members and nominees for appointment to the Board of HOHI and its subsidiaries to operate in compliance with HOHI's Code of Business Conduct and policies and with all applicable laws and regulations governing HOHI.

b) Communications

The Chair and members of the NC expect to have direct, open and frank communications throughout the year with the Board, Management and other key NC advisors as applicable.

c) Committee Expectations and Information Needs

The NC shall communicate its expectations to the Board, Management and/or Governance and Management Resources Committee (“GMRC”) with respect to the nature, timing and extent of its information needs. The Committee expects that all reasonably required and available information (including minutes) relating to each matter to be dealt with by the NC at its meetings will be received from the Board, Management and/or the GMRC within a reasonable time frame in advance of each Committee meeting.

d) Reliance on Experts

In contributing to the NC's discharging of its duties under this Charter, each member of the NC shall be entitled to rely in good faith upon:

- i) the reports of HOHI represented to him or her by the Board Chair, the Chair of the GMRC, an officer of HOHI or in a written report of external advisors with respect to the recruitment and selection of Board members; and
- ii) any report of a lawyer, accountant, appraiser or other person whose profession lends credibility to a statement made by any such person.

e) In Camera Meetings

The members of the NC shall meet in private session as part of each meeting, (i.e., without Management present). The NC shall meet in private session as often as it deems necessary.

#### **4. Operating Procedures**

- a) The NC shall meet as circumstances dictate to carry out the responsibilities set out in its Terms of Reference. Meetings shall be held at the call of the Chair or upon the request of two (2) members of the Committee;
- b) a quorum shall be a majority of the members;

- c) in the absence of the Chair, the Committee members present shall appoint an Acting Chair;
- d) NC meeting agendas shall be the responsibility of the Chair of the Committee in consultation with the Board Chair, Committee members and Management;
- e) To assist the NC in discharging its responsibilities, the NC may, after consultation with the Board Chair, retain at the expense of HOHI, one or more persons having special expertise that will assist the NC in discharging its responsibilities; and
- f) The NC shall report to the shareholders its recommendations for the appointment of directors to the Boards of Directors of HOHI and its subsidiaries.

#### **5. Limitations on Committee's Duties**

In contributing to the Committee's discharging of its duties under this Charter, each member of the Committee shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in this Charter is intended, or may be construed, to impose on any member of the Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which all Board members are subject. The essence of the Committee's duties is to gain reasonable assurance (but not to ensure) that the nominating policies, procedures and practices of HOHI (i) are being conducted effectively and in compliance with all applicable laws, statutes and regulations; (ii) are reasonable and appropriate in the circumstances given the nature of the organization and its strategy; and (iii) are sufficiently and accurately reported upon to the Board.



**Document 5**Criteria for Selection of DirectorsSection 3.6 of Shareholder Declaration

- i. The process used by the Nominating Committee shall be designed to ensure that each Director satisfies the following criteria:
  - Demonstrates integrity and high ethical standards
  - Has career experience and expertise relevant to HOHI's business purposes, financial responsibilities and risk profile
  - Demonstrates an appreciation of the fiduciary duties of a Director
  - Demonstrates well-developed listening, communicating and influencing skills
  - Demonstrates an interest in and a commitment to devote the time necessary so that the individual Directors can actively participate in Board and Committee discussions and debate
  - Demonstrates an understanding of the role of Hydro Ottawa as a service to local ratepayers
  - Demonstrates an understanding of the role of Hydro Ottawa as an asset of taxpayers
  
- ii. The process used by the Nominating Committee shall be designed to maintain a Board having the following competencies among one or more directors:
  - Strong business background
  - Strong financial background including financial accreditation
  - Industry sector experience in the areas of business of the subsidiary companies
  - Strategic planning and corporate stewardship experience
  - Competitive business experience
  - An awareness of the needs of the Corporation's customers
  - Public or private marketing financing experience
  - Board experience