

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

**and Council
et au Conseil**

**Submitted on June 22, 2022
Soumis le 22 juin 2022**

**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 Hydro Ottawa inc.**

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Ward: CITY WIDE / À L'ÉCHELLE DE LA VILLE File Number: ACS2022-OCC-HOH-0001

SUBJECT: Hydro Ottawa Holding Inc. – 2021 Annual Report

OBJET: Société de portefeuille Hydro Ottawa inc. – Rapport annuel 2021

REPORT RECOMMENDATIONS

That Council:

- 1. Receive the Audited Consolidated Financial Statements of Hydro Ottawa Holding Inc. for the year ended December 31, 2021 as set out in the Annual Report at Document 1 (issued separately and on file with the City Clerk);**
- 2. Receive the 2021-2025 Strategic Direction for Hydro Ottawa Holding Inc. (HOHI) at Document 2 (issued separately and on file with the City Clerk) as adopted by the Board of Directors of HOHI;**

3. **Consider and approve an increase of two (2) independent Directors to the composition of the Board of Directors of Hydro Ottawa Holding Inc. such that said Board shall be comprised of a minimum of five (5) Directors and a maximum of thirteen (13) Directors appointed by the City of Ottawa, and authorize the Mayor and City Clerk to sign the revised Shareholder Declaration on behalf of the City of Ottawa as shareholder of Hydro Ottawa Holding Inc.;**
4. **Appoint KPMG LLP as the auditor for Hydro Ottawa Holding Inc. for the year ending December 31, 2022;**
5. **Approve the recommendation of the Nominating Committee of the Board of Directors of Hydro Ottawa Holding Inc., specifically, that Council appoint the persons identified at Document 3 (immediately follows the report) to serve as members of the Board of Hydro Ottawa Holding Inc. for the corresponding terms as specified; and**
6. **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 Hydro Ottawa inc. pour l'exercice clos le 31 décembre 2021 présentés dans son rapport annuel, soit le document n° 1 (publié séparément et déposé auprès du greffier municipal) ;**
2. **Prenne connaissance de l'Orientation stratégique 2021-2025 de la Société de portefeuille Hydro Ottawa inc. (Hydro Ottawa) adoptée par le conseil d'administration d'Hydro Ottawa, soit le document n° 2 (publié séparément et déposé auprès du greffier municipal) ;**
3. **Examine et approuve l'ajout de deux (2) administrateurs indépendants au sein du conseil d'administration de la Société de portefeuille Hydro Ottawa inc., de sorte que ce conseil d'administration comprenne un minimum de cinq (5) administrateurs et un maximum de treize (13) administrateurs nommés par la Ville d'Ottawa, et 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 Hydro Ottawa inc., la version révisée de la Déclaration de l'actionnaire;

4. Nomme KPMG s.r.l. / S.E.N.C.R.L. comme auditeur de la Société de portefeuille Hydro Ottawa inc. pour l'exercice qui prendra fin le 31 décembre 2022 ;
5. Approuve la recommandation formulée par le Comité de nomination des membres du conseil d'administration de la Société de portefeuille Hydro Ottawa inc., plus précisément que le Conseil municipal nomme les personnes mentionnées dans le document n° 3 (ci-joint), afin qu'elles siègent au conseil d'administration de la Société de portefeuille Hydro Ottawa inc. pour un mandat de la durée précisée ; et
6. 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 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 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 ended December 31, 2021 as set out in the Annual Report at Document 1.

Recommendation 2

Receive the 2021-2025 Strategic Direction for Hydro Ottawa Holding Inc.

The 2021-2025 Strategic Direction for Hydro Ottawa Holding Inc. as adopted by the Board of HOHI on November 2, 2021 is being submitted to Council for information.

Hydro Ottawa's 2021-2025 Strategic Direction, Document 2 to this submission, provides an overview of the company's business strategy and financial projections for the next five years. It is designed to inform the shareholder and all other stakeholders about the most important trends shaping our business environment, and how the company intends to respond to them.

Recommendation 3

Consider and Approve a Two-Member Increase to the Composition of the Hydro Ottawa Holding Inc. (HOHI) Board of Directors

In keeping with good governance practices, and to ensure that the HOHI Board maintains the full range of competencies required to ensure continued success in an increasingly complex business and regulatory environment, including the advancement of Hydro Ottawa's 2021-2025 Strategic Direction, this report contemplates an increase of two independent Directors to the composition of the HOHI Board such that the Board shall be comprised of a minimum of five (5) Directors and a maximum of thirteen (13) Directors appointed by the City of Ottawa.

Recommendation 4

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, 2022.

Recommendation 5

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 3 to serve on the HOHI Board for the corresponding terms as specified.

Recommendation 6

Authorize the Mayor and the 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 City Council.

Financial Implications

Recommendation 1

In accordance with the Council-approved dividend policy, Hydro Ottawa will deliver a dividend of \$23.7 million to the City of Ottawa in 2022, surpassing the floor of \$20 million, and bringing cumulative dividends paid to \$328.7 million since 2005.

Public Consultation / Input

Notice of this meeting will be posted on the City's website as per Section 36 of the City's Procedure By-law.

SOMMAIRE

Hypothèse et analyse

La Société de portefeuille 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 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, Hydro Ottawa 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 Hydro Ottawa inc. pour l'exercice clos le 31 décembre 2021 présentés dans son Rapport annuel, soit le document n° 1.

Recommandation n° 2

Prendre connaissance de l'Orientation stratégique 2021-2025 de la Société de portefeuille d'Hydro Ottawa inc.

L'Orientation stratégique 2021-2025 de la Société de portefeuille Hydro Ottawa inc. (Hydro Ottawa), qui a été adoptée par le conseil d'administration d'Hydro Ottawa le 2 novembre 2021, est présentée au Conseil municipal à titre d'information.

L'Orientation stratégique 2021-2025 d'Hydro Ottawa, soit le document n° 2, donne un aperçu de la stratégie commerciale de l'entreprise et de ses projections financières pour les cinq prochaines années. Elle vise à renseigner son actionnaire et toutes les autres parties intéressées sur les tendances les plus importantes qui façonnent l'environnement commercial où évolue la Société et les mesures qu'elle a l'intention de prendre pour s'y adapter.

Recommandation n° 3

Examiner et approuver l'ajout de deux (2) administrateurs indépendants au sein du conseil d'administration de la Société de portefeuille Hydro Ottawa inc.

Conformément aux pratiques exemplaires en matière de gouvernance, et pour garantir que le conseil d'administration de la Société préserve toute la gamme des compétences nécessaires afin de maintenir son succès dans un environnement commercial et réglementaire de plus en plus complexe et de faire progresser l'Orientation stratégique 2021-2025, le présent rapport prévoit l'ajout de deux administrateurs indépendants au sein du conseil d'administration de la Société, de sorte que ce conseil d'administration comprenne un minimum de cinq (5) administrateurs et un maximum de treize (13) administrateurs nommés par la Ville d'Ottawa.

Recommandation n° 4

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 Hydro Ottawa inc. pour l'exercice qui prendra fin le 31 décembre 2022.

Recommandation n° 5

Nommer les membres des conseils d'administration

En vertu de la *Déclaration de l'actionnaire* pour la Société de portefeuille Hydro Ottawa inc. (« Hydro Ottawa »), 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° 3 afin qu'elles siègent au conseil d'administration d'Hydro Ottawa pour un mandat de la durée précisée.

Recommandation n° 6

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 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 versera à la Ville d'Ottawa des dividendes de 23,7 millions de dollars en 2022. Ce montant, qui dépasse la valeur plancher établie à 20 millions, porte à 328,7 millions les dividendes cumulatifs versés depuis 2005.

Consultation publique – rétroaction

L'avis de convocation à cette assemblée sera affiché sur le site Web de la Ville conformément à l'article 36 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 2021 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 14, 2022. KPMG LLP (KPMG), the corporation's independent external auditor, has 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 consolidated financial position of Hydro Ottawa Holding Inc. as at December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards*".

2021 marked the first year of performance under Hydro Ottawa's refreshed corporate strategy for the 2021-2025 period. This beginning of our new Strategic Direction term unfolded against the backdrop of year two of the COVID-19 pandemic. As COVID-19 progressed through different waves and economic and social activity slowly began to rebound, our focus remained on keeping employees and the community safe, maintaining a reliable supply of power to homes and businesses, and assisting customers experiencing financial hardship.

In 2021, our business and revenues continued to be affected by public health-related restrictions and impacts. However, the financial impacts were smaller in scale relative

to 2020, due to sustained cost controls, productivity gains, higher revenues from generation, and stronger earnings in energy and utility services.

With respect to key financial metrics for 2021, our consolidated net income was \$47.3 million, consistent with our 2021-2025 Strategic Direction commitment. We delivered a consolidated return on equity of 9.6 per cent and in accordance with the Council-approved dividend policy, our 2021 performance will yield a \$23.7 million dividend to our shareholder, the City of Ottawa. This will surpass the floor of \$20 million and bring cumulative dividends paid to approximately \$330.0 million since 2005.

As the public health and economic landscapes continue to evolve in the coming months, we will continue to responsibly manage our business operations and execute on the commitments outlined in our five-year strategy.

Details on Hydro Ottawa's financial results and business achievements in 2021 are documented in the corporation's Annual Report, which has been issued as Document 1 to this submission.

Recommendation 2

Receive the 2021-2025 Strategic Direction for Hydro Ottawa Holding Inc.

The 2021-2025 Strategic Direction for Hydro Ottawa Holding Inc. (HOHI or Hydro Ottawa) as adopted by the Board of HOHI on November 2, 2021 is being submitted to Council for information.

Hydro Ottawa's 2021-2025 Strategic Direction, issued as Document 2 to this submission, provides an overview of the company's business strategy and financial projections for the next five years. It is designed to inform our shareholder and all other stakeholders about the most important trends shaping our business environment, and how the company intends to respond to them.

This refreshed strategy builds upon the strong record of success from our recent strategic planning cycles. Signature milestones have included increasing our renewable energy portfolio by over 500 percent since 2012, achieving industry-leading performance in the reliability of our local grid, and growing our energy and utility service offerings as a core area of business. In addition, a relentless focus on putting the customer at the centre of everything we do has resulted in the highest annual customer satisfaction scores in the company's history.

In formulating our strategy for the 2021-2025 period, Hydro Ottawa identified five key change drivers as defining the strategic context in which we operate: decarbonization; digitization; decentralization; diversification; and demographics. Collectively, and in varying measure, these drivers are shaping the landscape within which we will seek out opportunity and measure our performance, while mitigating risk.

Within this dynamic landscape, we have developed an 8-point strategy for the next five years:

- Achieving net zero operations by 2030;
- Becoming the partner of first choice for signature green energy and carbon reduction projects in our community;
- Accelerating digital transformation to enable sustainable business practices;
- Leveraging and promoting distributed energy resources;
- Continuing to grow and diversify our revenue sources;
- Growing our social license to operate;
- Ensuring organizational capacity, culture, and leadership to deliver in a post-pandemic environment; and
- Continuing to provide best-in-class customer service.

Importantly, this 2021-2025 Strategic Direction continues the journey that Hydro Ottawa has been on for more than a decade in seeking to balance growth with environmental protection and social responsibility. Looking ahead, we are placing a new emphasis on how sustainability and Environmental, Social, and Governance (ESG) factors are integrated into all of our business practices. In addition, our strategy is anchored in bold, decisive action to address the generational challenge of climate change. As noted above, a focal point is the commitment for Hydro Ottawa to achieve net zero operations by 2030, which will make the company the first municipally-owned utility in Canada to reach this critical milestone.

Our financial outlook projects continued growth in shareholder value over the 2021-2025 horizon.

Taken as a whole, the Board and management believe this strategy for the company's future presents a balanced program for solid performance, adaptation to a changing business environment, and sustainable and profitable business growth.

Recommendation 3

Consider and Approve a Two-Member Increase to the Composition of the Hydro Ottawa Holding Inc. (HOHI) Board of Directors

Current Governance Structure – Accountability for the effective oversight of the Corporation and its subsidiaries rests with an eleven-member Board of Directors, which provides direction to the Corporation on behalf of the shareholder, the City of Ottawa. The Board provides leadership for the company within a framework of effective controls that enables risks to be assessed and managed, and is responsible for supervising the management of the business and affairs of the company and its subsidiaries. In carrying out its oversight function, the Board of Directors is guided by a Shareholder Declaration issued by Ottawa City Council and revised from time to time. The company’s Code of Business Conduct, its Director Conflict of Interest and Conduct Guidelines, and a Related Party Transaction Disclosure Policy and Process also govern the actions of the Board.

In 2006, a separate Board of Directors was established to oversee the operations of Hydro Ottawa Limited (HOL), in accordance with the Affiliate Relationships Code for Electricity Distributors and Transmitters issued by the Ontario Energy Board. The powers and functions of that Board are set out in a Shareholder Declaration issued by the Hydro Ottawa Holding Inc. Board of Directors.

On a day-to-day basis, the Corporation is led by an Executive Management Team, comprising the Corporation’s President and Chief Executive Officer, the Chief Financial Officer and the senior executives of the subsidiaries and critical functional areas. This team oversees the alignment of business practices and strategies with the goals of the Corporation, and drives performance by managing risks and opportunities. The Executive Management Team is accountable to the Corporation’s Board of Directors through the President and Chief Executive Officer.

Evolution and Complexity of Business Activity – Over successive strategic planning periods, Hydro Ottawa has achieved consistent and sustained growth in net income and shareholder equity as it continued to pursue opportunities to expand and diversify its revenue streams in its core areas of strength: electricity distribution; renewable energy generation; and energy and utility services.

Hydro Ottawa’s updated Strategic Direction for the 2021-2025 period charts a course for continued innovation and diversification in its business in the face of major shifts in its external environment. Over the past decade, the company has addressed disruption in its sector, transitioned to a more customer-driven model of electricity, and adopted the vision of becoming “a leading partner in a smart energy future.” In this next phase of its evolution, the company is deepening its commitment to sustainability and embracing the ambitious goal of becoming the first municipally-owned utility in Canada to achieve net

zero operations. The company's new strategy fortifies Hydro Ottawa's position at the forefront of the industry when it comes to sustainable business practices and Environmental, Social, and Governance (ESG) performance.

A strong Board with the right competencies (experience, knowledge and expertise) will be key to overseeing the advancement of Hydro Ottawa's 2021-2025 Strategic Direction and the growing complexity of the business. This is particularly germane in the context of emerging business lines involving district energy systems, fibre optic services, distributed energy resources, and advanced energy management services, as well as in relation to the corporation's net zero commitment. The Board will likewise be seized with determining the approach to corporate sustainability governance, i.e. the approach the Board will take to provide oversight and stewardship of the organization's sustainability performance, manage risks, leverage opportunities, create shareholder and stakeholder value and secure the organization's long-term future.

Board Composition – With significant Board turnover and loss of expertise on the horizon in June 2023, including the HOHI and HOL Board Chair, two Committee Chairs (Audit and Governance & Management Resources), and another highly skilled and experienced Board member, steps will need to be taken sooner rather than later to mitigate the anticipated loss and ensure the full range of skills and expertise are represented on the HOHI Board to guide the next stages of the company's evolution in an increasingly complex business and regulatory environment.

Pursuant to its charter responsibilities, the HOHI Board through its Governance and Management Resources Committee (GMRC) annually reviews the Board competency profile including Director terms, identifies gaps and recommends Board recruiting priorities to the Nominating Committee. As part of its last review in November 2021, the GMRC discussed options to help maintain the strength of the Board in light of the number of anticipated second-term expirations in June 2023 and the growing scale and complexity of the Corporation's business operations. It determined that increasing the size of the Board by two Directors and advancing the start of the 2023 Board recruitment process to allow for overlap to help prepare new Directors was appropriate at this time.

In arriving at this conclusion, due consideration was given to good governance practices for determining the number of Board Directors the company needs to function at its best including factoring in the unique needs of the business, the company's size, the type of industry, strategic needs and stage in the business cycle. Businesses change over time

and thus it is prudent to regularly evaluate how many Directors and what competencies are needed.

Consequently, this report contemplates an increase of two independent directors to the composition of the HOHI Board such that the Board shall be comprised of a minimum of five (5) directors and a maximum of thirteen (13) directors appointed by the City of Ottawa. The Shareholder Declaration issued by the City of Ottawa to guide the HOHI Board of Directors, currently provides for a Board comprised of a minimum of five (5) directors and a maximum of eleven (11) directors elected by the City of Ottawa, two (2) of which are members of Ottawa City Council.

The remuneration of the members of the HOHI Board is as determined by the City of Ottawa and the HOHI Board respectively. In addition to reimbursement for reasonable out-of-pocket expenses incurred while performing their duties, Directors receive an annual stipend and meeting fee for service:

- The Board Chair receives an annual stipend of \$40,000;
- All other Board members receive an annual stipend of \$7,000;
- The Board Chair receives \$600 for each board or committee meeting chaired or attended;
- Committee Chairs receive \$800 for each committee meeting chaired; and
- All other Board members receive \$600 for each board or committee meeting attended.

Only one annual stipend is paid where an individual is a Director of both the HOHI and HOL Boards of Directors. Members of the Council of the City of Ottawa as well as the President and Chief Executive Officer, and the one member of management on the HOL Board receive no remuneration in their capacity as Directors of the Boards.

A two-member increase to the composition of the HOHI Board would result in a cost of approximately \$30,000 annually (approximately \$15,000 for each member).

Recommendation 4

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 wholly-owned subsidiaries 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.

The completion of the external audit of the financial statements for the year ended December 31, 2020 marked the expiration of Hydro Ottawa's original agreement with KPMG LLP. The Board and management continued to be satisfied with the firm's expertise and service quality, and in light of the uncertainty and conditions in the economy due to the COVID-19 pandemic, believed that continuity was important, especially if remote auditing were to remain a necessity.

Accordingly, last year the Board of HOHI extended the engagement of KPMG LLP as auditor for Hydro Ottawa Holding Inc. and all wholly-owned subsidiaries for an additional three-year term that would commence on July 1, 2021 and terminate on June 30, 2024. Under this extended agreement, the appointment of the auditor in a given year of the three-year term remains subject to Council approval.

Council is therefore now being requested to approve the second year of the extended engagement appointing KPMG LLP as the auditor of Hydro Ottawa Holding Inc. for the year ending December 31, 2022.

Recommendation 5

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 term of one director of the HOHI Board, Jacqueline Gauthier, is expiring on June 30, 2022 (see Document 4 for current members of the Boards). Ms. Gauthier has

served effectively on the Board of Directors and has contributed to the continued success of the company. She has only served one term and has expressed an interest in continuing to serve for another term.

A number of second terms will also be expiring in June 2023 representing a significant turnover and loss of talent on the horizon. The terms expiring include those for Jim Durrell, the HOHI and HOL Board Chair; Cyril Leeder, the Audit Committee Chair and member of Strategic Initiatives Oversight Committee (SIOC); Yaprak Baltacioglu, the Governance and Management Resources Committee Chair and member of SIOC; and Kim Butler, a member of the Audit Committee and SIOC.

Nominating Committee Recommendation – 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 reviewed the Board competency profile and the gaps that the term expirations both in June 2022 and 2023 would create in terms of breadth and depth of experience, knowledge and expertise. Given the gaps, the Nominating Committee has determined that a level of continuity as well as some overlap in Board membership to help prepare new Directors ahead of the significant turnover in June 2023 would be helpful to the Board at this critical juncture in the company's business. It is therefore recommending the reappointment of two existing HOHI Board members and the appointment of two additional members for a total of four candidates for terms as set out in Document 3. One of the two existing HOHI Board members, Kim Butler, will have reached the Council-approved 'two consecutive term' limit established in 2014 and can only be reappointed should Council choose to grant an exception for a one-year extension. The 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.

Composition of the Nominating Committee

The Nominating Committee of HOHI is comprised of the Board Chair, Jim Durrell, C.M., ICD.D, 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 Cathy Curry. The terms of reference for the Nominating Committee can be found in the charter attached at Document 5.

Director Selection Process and Criteria

In arriving at its recommendation, the Nominating Committee gave due regard to the requirements for the composition of the Board of Directors of Hydro Ottawa Holding Inc., the selection criteria (attached at Document 6) set out in the Shareholder Declaration, as well as recruiting priorities identified through a board profile review conducted late last year to assess current board capacity versus the current and future governance needs of the corporation consistent with its strategic objectives. It also considered the COVID-19 pandemic situation and impacts to Hydro Ottawa operations for the foreseeable future, and the needs of the corporation in this regard.

Recommendation 6

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 will deliver a dividend of \$23.7 million to the City of Ottawa in 2022.

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: 2021 Annual Report (including Audited Consolidated Financial Statements) of Hydro Ottawa Holding Inc. (issued separately and on file with the City Clerk)

Document 2: Hydro Ottawa 2021-2025 Strategic Direction (issued separately and on file with the City Clerk)

Document 3: Recommended Appointments and Reappointments to the Hydro Ottawa Holding Inc. Board of Directors and Corresponding Terms (immediately follows the report)

Document 4: Current Members of the Boards of Directors (immediately follows the report)

Document 5: Nominating Committee Charter (immediately follows the report)

Document 6: Criteria for Selection of Directors (immediately follows the report)

DISPOSITION

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

Document 1

2021 Annual Report (including Audited Consolidated Financial Statements)
of Hydro Ottawa Holding Inc.

Issued separately

Document 2

Hydro Ottawa Holding Inc. 2021-2025 Strategic Direction

Issued separately

Document 3

Recommended Appointments and Reappointments to the
Hydro Ottawa Holding Inc. Board of Directors and Corresponding Terms

Name	Board	Term	Effective Date
Bernie Ashe	Hydro Ottawa Holding Inc.	Appointment for 3 years	July 1, 2022
Kim Butler	Hydro Ottawa Holding Inc.	Reappointment for 1 year	July 1, 2023
Catherine Clark	Hydro Ottawa Holding Inc.	Appointment for 3 years	July 1, 2022
Jacqueline Gauthier	Hydro Ottawa Holding Inc.	Reappointment for 3 years	July 1, 2022

Document 4Current Members of the BoardsHydro Ottawa Holding Inc.

Name	Member of the Board Since	End of Term
Yaprak Baltacioglu	July 1, 2018	June 30, 2023
Kim Butler	July 1, 2018	June 30, 2023
Bryce Conrad	August 15, 2011	Ex officio
Councillor Cathy Curry	December 2021	November 30, 2022 (serves while in office)
Matt Davies	July 1, 2018	June 30, 2024
Jim Durrell, C.M., ICD.D	July 1, 2012 Chair since July 1, 2013	June 30, 2023
Jacqueline Gauthier	July 1, 2020	June 30, 2022
Councillor Jan Harder	December 1, 2014	November 30, 2022 (serves while in office)
Cyril Leeder	July 1, 2017	June 30, 2023
Paul McCarney	July 1, 2020	June 30, 2023
Cyrus Reporter	July 1, 2021	June 30, 2024

Hydro Ottawa Limited

Name	Member of the Board Since	End of Term
Bryce Conrad	August 15, 2011	Ex officio
Jim Durrell, C.M., ICD.D	July 1, 2012 Chair since July 1, 2013	June 30, 2023
Guillaume Paradis	June 1, 2019	Serves while in position

Document 5**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 satisfy itself (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 6Criteria 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