SUBJECT: Establishment of a Joint Advisory Committee to Determine the Future Business Mandate of Hamilton Utilities Corporation (PW09006) - (City Wide)

RECOMMENDATION:

(a) That the creation of a Joint Advisory Committee to Council and to Hamilton Utilities Corporation (“HUC”) be supported, with the objective of assisting in the determination of the future business mandate of HUC;

(b) That the objective of the Joint Advisory Committee be to review and make recommendations on the future business mandate of HUC, including other potential areas of service delivery that could be of benefit to the City by the governance structure of HUC;

(c) That since both the City and HUC have operating interests and plans with respect to energy and energy-related environmental projects, a study be made of the preferred operating model and future strategic opportunities in that business sector;

(d) That the study be conducted in two concurrent phases;
   (i) **Phase One:** An examination of short term options of combining the existing and proposed energy and energy-related environmental projects into a single operating unit that is structured to offer the best financial benefit to the City of Hamilton;
   (ii) **Phase Two:** Investigation of longer term possibilities in other areas of the City that would bring economic and environmental benefits to the City.

(e) That the Joint Advisory Committee membership be comprised of:
   (i) The Mayor and two other Councillors representing the City as voting members;
(ii) The HUC Chair and two other HUC board members representing HUC as voting members;

(iii) The General Manager of Public Works, The City Manager and the Chief Executive Officer of HUC as non-voting members to act as a liaison between the Joint Advisory Committee and the Working Committee;

(f) That the creation of a Working Committee be supported to assist the Advisory Committee in its mandate and to perform the work required and be comprised of HUC staff and City staff, using external resources to the extent necessary;

(g) That the City and HUC dedicate sufficient resources and time of their respective staff, and third party advisors as required, to ensure that the Joint Advisory Committee can report back to Council and the HUC board of directors in Q2 of 2009 on Phase one;

(h) That other City business sectors beyond the energy and energy-related environmental sector be considered for examination in future;

(i) That the Terms of Reference for the Advisory Committee attached as Appendix A to Report PW09006 be accepted and approved.

Scott Stewart, C.E.T.
General Manager
Public Works

EXECUTIVE SUMMARY:

Hamilton Utilities Corporation (“HUC”) is a corporation 100% owned by the City of Hamilton (“City”). It has as its businesses a 78.9% ownership in Horizon Utilities, the former Hamilton Hydro, and 100% ownership of Hamilton Hydro Services Inc. (a hot water heater business and Hamilton Community Energy (“HCE”)). HUC is considering whether its future should be to continue as a holding company, maintaining some or all of its existing asset mix, or whether HUC should pursue strategic growth opportunities. This decision requires assistance from the City, HUC’s sole shareholder. The establishment of a City/HUC Joint Advisory Committee is being recommended to assist in such decision.

At the same time, City Council and the HUC board wish to determine if there are further opportunities for HUC to assist the City by involving HUC in additional existing or proposed new City business sectors. Given the economic situation in North America and the continuing cost pressures on Ontario and its municipalities, this initiative seems particularly timely.

Meetings between HUC and the City took place in the summer and fall of 2008 to define a structure and timetable for examining these possibilities. This report is a result of those meetings.
The energy and energy-related environmental business sector of the City and HUC was recommended as the initial business sector for examination. This sector was selected for two primary reasons: HUC and City staff in this sector already work closely together and independently have recognized opportunities for synergies and reduced costs. Secondly, it was agreed to select a sector that could be studied in a relatively short time frame and that had a high probability of success in developing an improved business model.

**BACKGROUND:**

HCE is a business unit of Hamilton Hydro Services Inc., a corporation wholly-owned by HUC which, in turn, is wholly-owned by the City. HCE supplies thermal energy in the form of hot water to the Hamilton Wentworth District School Board and to Victoria Park Community Homes, and supplies chilled water from the City’s Central Utilities Plant (“CUP”) to the school board. In addition, HCE supplies thermal energy and electricity to CUP, which in turn supplies the electricity and thermal energy to various end-use customers, such as the Hamilton Entertainment and Convention Facilities, Inc. (the Art Gallery and the Ellen Fairclough Building).

Hamilton Renewable Power Inc. (“HRP”) is also wholly-owned by the City. Under the Municipal Act, the City is prohibited from directly producing electricity. HRP was established under the Electricity Act so that the City could undertake the development and operation of the methane fired cogeneration plant at the Woodward Avenue treatment facility and at the Glanbrook Landfill methane fired power generating plant.

In addition to electricity generation and district energy for heating, the City is currently embarking on a project to develop a district cooling system(s) in the downtown core. The City has fourteen (14) chillers in the downtown core that will need to be replaced within the next 2 to 4 years. Through greater energy efficiency, and a chiller optimization potential through a district cooling loop, the City is looking to reduce capital and operating costs. There are also potential loads at the Lister Block and other private customers.

Another element of the energy and energy-related environmental sector, the Niagara/Hamilton WastePlan Environmental Assessment study identified EFW as a preferred alternative over traditional landfill for future management of residual solid waste for the municipalities that could not otherwise be diverted from landfill. The WastePlan study determined that conversion of the residual waste in a modern EFW facility would have significant environmental advantages over disposal of the waste in a traditional landfill. Given the above background, HUC began examining the business case for EFW. In 2007-08, HUC carried out a pre-feasibility study of EFW technologies that would be capable of converting all of the City’s residual solid waste.

The final element of this business sector is Biosolids. Currently, the City’s Biosolids are disposed of by trucking to farms for field spraying. Significant environmental concerns have been raised across Ontario regarding this practice. Therefore, the City began a study in early 2007 to consider thermal methods of disposing of Biosolids.

In the summer of 2008, HUC and the City discussed an “Integration Study” to evaluate the costs and benefits of integrating the City’s long range waste disposal needs with HUC’s EFW project and with the City Biosolids project. The Integration Study was
approved by the City’s Public Works Committee and subsequently by City Council in October 2008 (Report PW08113), and the study is now underway.

**ANALYSIS/RATIONALE:**

HUC is a corporation 100% owned by the city of Hamilton. It has as its businesses a 78.9% ownership in Horizon Utilities, the former Hamilton Hydro, and 100% ownership of Hamilton Hydro Services Inc. (a hot water heater business and Hamilton Community Energy (“HCE”)). HUC is considering whether its future should be to continue as a holding company, maintaining some or all of its existing asset mix, or whether HUC should pursue strategic growth opportunities. This decision requires assistance from the City, HUC’s sole shareholder.

At the same time, City Council and the HUC board wish to determine if there are further opportunities for HUC to assist the City by involving HUC in additional existing or proposed new City business sectors. Given the economic situation in North America and the continuing cost pressures on Ontario and its municipalities, this initiative seems particularly timely.

Meetings between HUC and the City took place in the summer and fall of 2008 to define a structure and timetable for examining these possibilities. The establishment of a City/HUC Joint Advisory Committee and a Working Committee is being recommended to guide this process. A Proposed Terms of Reference is attached as Appendix A to the Report.

The Joint Advisory Committee would be represented by six voting members, three each from City Council and the HUC Board. The General Manager of Public Works, the City Manager and Chief Executive Officer of HUC would be advisors to the Joint Advisory Committee and would serve as a liaison to the Working Committee. The Joint Advisory Committee would report to City Council via the Public Works Committee and to the HUC Board.

The Working Group would assist the Joint Advisory Committee in the completion of its mandate including performing the work required. The Committee would be comprised of staff from both organizations and would also use external resources to the extent necessary.

The objective of the Joint Advisory Committee would be to review and make recommendations on the future business mandate of HUC, including other potential areas of service delivery that could be of benefit to the City by the governance structure of HUC. The study would be conducted in two concurrent phases:

**Phase One:** An examination of options for of combining the existing and proposed energy and energy-related environmental projects into a single operating unit that is structured to offer the best financial benefit to the City of Hamilton.

**Phase Two:** Investigation of longer term possibilities in other areas of the City that would bring economic and environmental benefits to the City.

The study findings would be presented in a report to City Council and the HUC board of directors. It is proposed that Phase One be completed by the second quarter of 2009.
ALTERRNATIVES FOR CONSIDERATION:

Alternative 1 - Set up Advisory Committee - Preferred
This alternative would allow for an exchange of information between the City and HUC and would expose potential synergies or governance models that will assist in determining the future business mandate of HUC.

Alternative 2 - Do Not Set up an Advisory Committee - Not Preferred
This option does not address the issues identified above and will limit the sharing of information necessary to make an informed decision as to the future business mandate of HUC.

FINANCIAL/STAFFING/LEGAL IMPLICATIONS:

Financial Implications:
The cost to carry out a study on the overall business mandate of HUC in relation to the City’s best interest will cost in the range of $60,000 to $80,000 in legal and financial advice from outside consultants. These costs will be shared between the City and HUC. The City’s portion would be funded from the operating budget of the Water and Wastewater Division.

Staffing Implications:
There may be staffing issues associated with the various governance models that may arise from discussions or recommendations of the Advisory Committee that will be addressed as part of the overall study.

Legal Implications:
There may be legal issues associated with the various governance models that may arise from discussions or recommendations of the Advisory Committee that will be addressed as part of the overall study.

POLICIES AFFECTING PROPOSAL:

Corporate Strategic Plan
The recommendations from the Joint Advisory Committee are consistent with the City’s Corporate Strategic Plan in the following areas:

- Focus Area 2 - Financial Sustainability and have the potential to reduce costs to help to address Desired End Result 2.1.
- Focus Area 6 - Environmental Stewardship and have the potential to influence Desired End Results 6.2 and 6.7.
The Public Works Strategy Plan, Innovate Now

The recommendations from this report will assist in meeting the Public Works key goal, to be recognized as a Centre of Environmental and Innovative Excellence in Canada. In addition, implementing the recommendations will also assist Public Works in building on our Strategic Vision Drivers as follows:

- Communities (Services our communities connect with and trust) - Implementing the recommendations in this report will assist the City with providing services that community can

- People (Skilled teams ready for any situation) - Implementing the recommendations in this report will address the need for qualified staff to operate and maintain the various assets that the City owns either directly (CUP, District Cooling) or indirectly (HRP, HCE) in an effective and efficient manner.

- Process (Smart processes to match our needs) - Implementing the recommendations in this report will ensure that synergies are realized between HUC and the City and that all opportunities to streamline processes are realized.

- Finances (Sound finance management for the long haul) Implementing the recommendations in this report will ensure that the City is realizing the best financial benefit from the operation of various assets that it owns either directly or indirectly and that the utilization of those assets are used to create wealth for the City.

**RELEVANT CONSULTATION:**

HUC was consulted in the recommended approach and supports the establishment of the Joint Advisory Committee and Working Committee.

**CITY STRATEGIC COMMITMENT:**

By evaluating the “Triple Bottom Line”, (community, environment, economic implications) we can make choices that create value across all three bottom lines, moving us closer to our vision for a sustainable community, and Provincial interests.

Community Well-Being is enhanced. ☑ Yes ☐ No
Community well being is enhanced through the potential for innovative solutions surrounding a public asset

Environmental Well-Being is enhanced. ☑ Yes ☐ No
Supports the utilization of renewable energy

Economic Well-Being is enhanced. ☑ Yes ☐ No
The intent of this Committee is to maximize the City's financial position

Does the option you are recommending create value across all three bottom lines? ☑ Yes ☐ No

Do the options you are recommending make Hamilton a City of choice for high performance public servants? ☑ Yes ☐ No
City of Hamilton (“City”) and Hamilton Utilities Corporation (“HUC”)

Joint Advisory Committee and Working Group

Terms of Reference

1. Joint Advisory Committee

A City/HUC Joint Advisory Committee is being established to review and make recommendations on the future business mandate of HUC, including other potential areas of service delivery that could be of benefit to the City by the governance structure of HUC.

The review will take to form of a two phase study:

Phase One: An examination of options for combining the existing and proposed energy and energy-related environmental projects into a single operating unit that is structured to offer the best financial benefit to the City of Hamilton.

Phase Two: Investigation of longer term possibilities in other areas of the City that would bring economic and environmental benefits to the City.

The Joint Advisory Committee will make report on the findings of the study to City Council via the Public Works Committee and to the HUC Board of Directors.

2. Working Group

A City/HUC Working Group is being established to advise and support the Joint Advisory Committee. The Working Group is a joint staff group utilizing staff from the City and HUC, and external forces where required, and will undertake the work required to undertake the study.

3. Guiding principles:

i. That anything recommended be in the best interest of the City and its citizens.

ii. That any governance model recommended would contain a “critical mass” of work and provide improved financial and/or operational returns to the City.

iii. That the work be done through the open disclosure of information between the City and HUC.

iv. That there is regular communication between the Joint Advisory Committee and the Public Works Committee through the General Manager of Public Works and the HUC Board of Directors through the Chief Executive Officer (CEO) of HUC.
v. That it be recognized that some service delivery options might require other forms of municipally-owned structure or other changes from the current HUC governance structure.

vi. That the study focuses primarily on the business and financial aspects of the potential service delivery options as well as the any labour related implications required to support the business case analyses.

4. **Review of alternative models**

   The study will consider service delivery models that could provide for service delivery by HUC or the City.

5. **Identify changes to service delivery**

   The Joint Advisory Committee will present recommendations to City Council and the HUC Board on changes to service delivery in the short, medium and long term.

6. **Review Best Practices**

   The study will include a high level leading practice review of current activities, particularly in the Province of Ontario, with consideration being given to other jurisdictions.

7. **Joint Advisory Committee meetings**

   The Committee would meet at least monthly or at the call of the co-chairs in order to review the work and results of the Working Committee. Quorum will be at least two members from both parties.

8. **Working Committee meetings**

   The Working Committee would meet at as required to assist the Joint Advisory Committee with their required mandate.

9. **Timeline**

   It is expected that the Advisory Committee will report their final findings to the Public Works Committee and the HUC board in Q2 of 2009 on Phase 1. The need for the Committees to continue will be addressed in the final report back to City Council and the HUC Board of Directors.

10. **Committee Membership**

    **Joint Advisory Committee:**

    Council - Mayor Fred Eisenberger, two other Councillors, GM of Public Works in a support capacity

    HUC Board of Directors- Chair and two other board members selected by HUC, CEO of HUC in a support capacity

    **Working Committee:**

    City of Hamilton - GM of Public Works, Senior Director of Water and Wastewater; Director of Waste Management; Director of Energy, Fleet and Facilities; Senior Policy and Projects Manager, and any others that the City may feel appropriate.
HUC - CEO of HUC, and Tim Dobbie (Consultant). Additional consulting advice would be available through HUC consultants currently working on this issue: Borden Ladner Gervais LLP, and Pricewaterhouse Coopers LLP.

11. **Chairmanship of Advisory and Working Committee Meetings**

Meetings will be of the Joint Advisory Committee will be co-chaired by the Mayor or a Councillor and the Chairman of HUC.

The Working Committee meetings will be co-chaired by the GM of Public Works and the CEO of HUC.

12. **Member Roles and Responsibilities**

**Joint Advisory Committee:**
- Attend Advisory Committee meetings.
- Give direction, advice and support to the Working Committee.
- Review in detail the information compiled by the Working Committee.
- Seek consensus within the group on the appropriate course of action.
- Recommend to the board of directors of HUC and to Council implementation plan(s) for selected service delivery models.
- Quorum will consist of two representatives from each of the HUC Board and City Council.

**Working Committee:**
- Attend Working Committee meetings.
- Share accurately and openly, information that may pertain to the development of and business cases.
- Seek consensus within the group on the appropriate course of action.
- Make recommendations to the Advisory Committee as to the appropriate course of action.