



# The Corporation of the Town of Milton

Report To:	Council
From:	Meaghen Reid, Director, Legislative & Legal Services/Deputy Clerk
Date:	February 10, 2020
Report No:	CORS-004-20
Subject:	Proposed Governance Changes for Milton Hydro Holdings Inc.
Recommendation:	<p><b>THAT Council approves governance changes to Milton Hydro Holdings Inc., as outlined in this report;</b></p> <p><b>THAT Council directs Milton Hydro Holdings Inc. to proceed with the amended recruitment process for Directors, as outlined in this report;</b></p> <p><b>THAT the Shareholder's Direction relating to Milton Hydro Holdings Inc. be amended to reflect the proposed governance changes, as outlined in this report;</b></p> <p><b>THAT payments to the Directors of Milton Hydro Holdings Inc. and all of its subsidiaries be reported to the Town annually for inclusion in the Town's annual public disclosure of remuneration and expenses;</b></p> <p><b>AND THAT Milton Hydro Holdings Inc. be requested to bring forward a consolidated and updated version of the Shareholder's Direction for Council adoption, subject to the satisfaction of the Town's legal counsel.</b></p>

## EXECUTIVE SUMMARY

The Town of Milton is the beneficial owner of all of the issued shares of Milton Hydro Holdings Inc. (MHHI) and approved a Shareholder's Direction for MHHI in 2000, which established certain principles of governance without restricting the powers of the Board to manage or supervise the management of the Corporation.

As a result of recommendations outlined within the Ontario Energy Board's report, *Best Practices regarding Governance of the OEB Rate-Regulated Utilities*, MHHI has proposed changes to its governance structure and recruitment process, as set out within the existing Shareholder's Direction.



# The Corporation of the Town of Milton

Report #:  
CORS-004-20  
Page 2 of 6

## EXECUTIVE SUMMARY

The proposed governance changes to the Shareholder's Direction include: increasing the total number of Directors (members of Boards) from eight (8) Directors to ten (10) Directors; clarifying the appointments to subsidiaries; and implementing a Director skills matrix and the support of a professional recruiter for the recruitment of skilled candidates for Council's consideration when appointing new Directors.

Also included in this report is a revision with respect to the public reporting of remuneration of Directors for MHHI and its subsidiaries.

## REPORT

### Background

Milton Hydro Holdings Inc. (MHHI) is a corporation existing under the *Business Corporations Act*, which succeeded the electricity business known as Milton Hydro-Electric Commission. The Town of Milton is the beneficial owner of all of the issued shares of MHHI.

On September 18, 2000, the Town of Milton approved a Shareholder's Direction relating to MHHI, which established certain principles of governance without restricting the powers of the Board to manage or supervise the management of the Corporation. Since its adoption, the Shareholder's Direction has been amended by Council a number of times to include necessary changes to board governance and regulatory requirements.

MHHI has three subsidiaries: Milton Hydro Distribution Inc. (MHDl), Milton Energy and Generation Solutions Inc. (MEGS) and Milton Hydro Services Inc.(MHSI). MHHI is the governing body for the three subsidiaries, while MHDl oversees distribution and MEGS oversees the unregulated services. MHSI generally oversees the services provided by Milton Hydro. Milton Council directly appoints Directors to MHHI and MHHI appoints the Directors of the subsidiaries.

MHDl is regulated by the Ontario Energy Board (OEB), among other government and regulatory authorities. Specifically, OEB develops regulatory instruments that govern energy industry (i.e. codes, guidelines and accounting), licenses energy companies, approves utility rate applications, and monitors the market and energy companies in areas, such as performance and compliance.

In December 2018, the OEB released Report "*EB-2014-0255: Best Practices regarding Governance of the OEB Rate-Regulated Utilities*," which was based on studies undertaken by KPMG LLP and Elenchus on behalf of OEB. In Report EB-2014-0255, it was noted that the OEB would be introducing new mandatory governance reporting and record-keeping requirements for rate-regulated utilities. In addition, this report advised that the

## Background

OEB identified best practices in utility governance with regard to director independence, director skills and board structure and function.

Recently, MHHI and its subsidiaries have reviewed the governance structure, in light of the OEB best practices, and they have recommended the following for Milton Council's approval:

- That the total number of members of Boards be increased from eight (8) Directors to ten (10) Directors;
- That MHSI be dissolved and its functions be merged into MEGS for efficiency purposes; and
- That a Director skills matrix and the support of a professional recruiter for the recruitment of skilled candidates be implemented for Council's consideration when appointing new Directors to MHHI.

On September 16, 2019, Milton Council received Staff Report [CORS-058-19](#) and approved the joint venture with Baseload Power Corporation and eventual acquisition by MEGS of a newly incorporated entity owned by Baseload Power Corporation or its principal owner, which is to become a subsidiary of MEGS, subject to terms and conditions that are to the satisfaction of MEGS. The creation of this new entity will need to be reflected within the recommended amendment to the Shareholder's Direction.

## Discussion

### Proposed Governance Changes:

#### Amendment to Boards Size and Structure

Within Report EB-2014-0255, the OEB recommended the following best practices with regard to "Director Independence:"

- A majority of directors at the utility level should be independent from the shareholder and any affiliate;
- A board size should be no less than five directors;
- Shareholder agreements/directions should not limit the board of directors from exercising its independent judgement.

Currently, there are eight (8) Directors appointed by Council to Milton Hydro: six (6) members of the public and two (2) Members of Council for the Town of Milton.

As illustrated in Appendix 1 of this report, the current governance structure for MHHI and its subsidiaries consists of six (6) members of the public and two (2) Members of Council appointed directly to MHHI. Of those members appointed to MHHI, two (2) members of the public and one (1) Member of Council is appointed to MEGS. MHHI the parent

## Discussion

company, is comprised of the Chairs from MHDl and MEGS, the two (2) Members of Council and an additional member from MHDl.

In an effort to adhere to the best practices recommended by the OEB and provide for greater independence between MHDl and MEGS, Milton Hydro and its subsidiaries have recommended the following (as illustrated in Appendix 2):

- That the number of Directors be increased from eight (8) Directors to ten (10) Directors, to now consist of eight (8) members of the public and two (2) Members of Council;
- That, of the ten (10) appointed Directors, four (4) members of the public and one (1) Member of Council be appointed to MHDl and four (4) members of the public and one (1) Member of Council be appointed to MEGS. (Note: Council would appoint the 5 Directors to MHHl, while Directors for the subsidiaries would continue to be appointed by MHHl).

In addition, through a review of the functions of the subsidiaries, Milton Hydro has recommended the following with respect to MHSI:

- That MHSI be dissolved and its functions be merged into MEGS due to overlap and the ability for MEGS to oversee the functions of MHSI.

## Amendment to Recruitment Process

OEB Report EB-2014-0255 made best practice recommendations with regard to “Director Skills,” which include:

- The board, as a whole, should possess the complete range of skills necessary to execute its governance function and discharge its responsibilities effectively;
- A matrix approach should be used to compile an inventory of director skills.

Currently, the Shareholder’s Direction states that vacancies at the end of a Director’s term on MHHl are filled in accordance with the Town’s policy relating to the appointment and recruitment of citizens to boards and committees. As such, interested persons submit their application to Town staff for review with Hydro staff and recommendation to Council for appointment. Council appoints Directors to MHHl only, while Directors for the subsidiaries are appointed by MHHl.

The OEB Report discusses the value of a matrix to assess the skills and experience of Directors to effectively discharge their responsibilities in the oversight of a utility. Studies commissioned by the OEB have stated that directors should be skilled in a variety of areas, including technical skills such as legal, engineering, accounting, regulatory and governance.

It is recommended by staff and Milton Hydro that a Director skills matrix be developed by Milton Hydro in order to assist with future recruitment. It is also recommended that the

## Discussion

process for recruitment of new Directors to MHHI be changed from the Town of Milton advertising in accordance with its policy relating to the appointment and recruitment of citizens to boards and committees. Instead, Milton Hydro has proposed that, going forward, it would advertise for new Directors and implement a Nomination Committee at Milton Hydro to review applications and select a short-list of candidates using the skills matrix and then these applicants be vetted by a professional recruiter with experience in Hydro Board recruitment. The recommendation of the recruiter would then be presented to Milton Council for consideration/approval and Council would continue to approve all public and Council Member appointments to MHHI.

### Amendment to Public Disclosure of Remuneration

Also included in this report is a revision with respect to the public reporting of remuneration of Directors for MHHI and its subsidiaries.

Section 284 of the Municipal Act, 2001 requires a report be submitted to Council by March 31st of each year to outline the remuneration and expenses paid in the previous year to each member of Council in respect of his or her service as:

- a member of Council
- a member of any other body to which the member has been appointed by Council or holds office by virtue of being a member of Council;
- an officer or employee of the municipality or other body described above.

The Town is also required to report for each person, other than a member of Council, appointed by the municipality to serve as member of any body, for his or her services as a member of that body.

Currently, only the remuneration in relation to MHHI is publicly disclosed annually as those are the only director roles that are appointed directly by Town Council. Remuneration and expenses of the subsidiaries is not included in the Town's annual reporting as those roles are appointed by MHHI. The most recent report was presented to Town Council through [CORS-016-19](#).

It is recommended that remuneration and expenses for all directors, including those of the subsidiaries, be reported annually through the Town's public reporting as a means of ensuring transparency for Town appointments (both direct and indirect).

### Next Steps

Should Council approve the proposed governance and recruitment changes for Milton Hydro, the following next steps are anticipated:

- The various sections of the Shareholder's Direction will require amendments and staff recommend that a consolidated version be brought forward to Council's adoption at a later date. There have been a number of amendments



# The Corporation of the Town of Milton

Report #:  
CORS-004-20  
Page 6 of 6

## Discussion

- over the years and it would be appropriate to make any housekeeping amendments at that time, as well.
- Milton Hydro will retain the services of a professional recruiter on behalf of the Town to assist with the recruitment of new Directors and replacing Directors at the end of their term.
  - The Annual General Meeting (AGM) of Milton Hydro will be taking place in May 2020. Milton Hydro has expressed that it would like to appoint new Directors, whose terms are expiring, at this AGM in May 2020, as well as any new Director positions resulting from the proposed governance changes.

## Financial Impact

All costs associated with drafting updated revisions to the Shareholder's Direction, remuneration for new Director (Board Member) positions and for recruitment services will be funded by MHHL.

Respectfully submitted,

Troy McHarg  
Commissioner, Corporate Services / Town Clerk

For questions, please contact: Meaghen Reid, Director of  
Legislative and Legal  
Services/Deputy Clerk      Phone: Ext. 2132

## Attachments

Appendix 1 – Current Governance Structure for Milton Hydro  
Appendix 2 – Proposed Governance Structure for Milton Hydro

CAO Approval  
Andrew M. Siltala  
Chief Administrative Officer

Current- 8  
Total Board  
Members

MHHI ( 5 Members)

**Members:**

Chair MHHI, Chair MEGS, Councillor #1 Councillor #2,  
one additional board member from MHHI  
chair same as MHHI

MHDI ( 8 Members)

**Members:**

Six (6) members from Public and Councillor #1 and #2

Three members deemed as the independents (1/3ARC)  
Elect chair from members

MEGS ( 3 Members)

**Members:**

Two (2) Members from Public and one Councillor  
Elect chair from members

MHSI (3 Members)

**Members:**

Chair MEGS, additional board member on MHHI  
and the other Councillor  
Elect chair from members

10- Total Board  
Members

MHHI (5 Members)

**Members:**

Chair MHDI, Chair MEGS, Councillor #1 Councillor #2, another MEGS board member  
Elect chair from members

Committees include: Audit; Governance / Regulatory; Nominations; Liaison; Risk /Health &  
Safety; HR / Succession Planning / Compensation; Strategic Planning

MHDI (5 Members)

**Members:**

Four (4) members from Public and Councillor #1  
Chair of MEGS is invited guest  
Elect chair from members  
Committees include: None

MEGS (5 Members)

**Members:**

Four (4) Members from Public and Councillor #2  
Chair of MHDI is invited guest  
Elect Chair from members and  
One additional member for MHHI  
Committees include: None

MHSI ( Wound down)

**Members:** **None**

Committees include-None