



The Corporation of the Town of Milton

Report To: Council

From: Glen Cowan, Chief Financial Officer / Treasurer

Date: November 3, 2025

Report No: ES-047-25

Subject: Milton Hydro - Creation of a Trust

Recommendation: THAT Council consider the request received from the Board of Directors for Milton Hydro Holdings Inc. in relation to the creation of a Trust in order to exit the Federal Payment-in-lieu of Tax regime.

EXECUTIVE SUMMARY

- MHHI and the subsidiaries currently pay Federal corporate taxes through payment-in-lieu of taxes (PILs). Tax rates in the PILs regime are equivalent to those in the standard Federal tax regime.
- The PILs regime has geographical limitations regarding where revenue can be derived (no more than 10% from outside of Milton). Should an organization within the PILs regime exceed that threshold or choose to transition to a standard Federal tax regime, a transfer tax is typically assessed.
- In order to prepare for future potential revenue growth opportunities that may extend beyond Milton boundaries, the Board of MHHI is requesting the authority to transition one of the current subsidiaries, Milton Hydro Services Inc. (MHSI), to the standard Federal tax regime. Doing so at this stage will avoid transition tax implications.
- At the same time, The Board of MHHI is requesting the authority to make the necessary changes to transition the branding of MHSI to ENDVR Energy as was outlined at the 2025 Annual General Meeting.
- MHHI has retained external legal counsel to guide and implement the creation of a Trust for the purposes of the federal tax transition.
- Future initiatives that are pursued by ENDVR Energy will seek Council approval prior to proceeding where required by the Shareholder Direction.
- **Resolutions that would require the approval of Council have been provided within the body of this report should Council choose to authorize the creation of a Trust as requested by the Board of MHHI.**

REPORT

Background

The Town of Milton is the sole shareholder of MHHI, which is responsible for hydro distribution across Milton. As the shareholder, the Town provides direction to the MHHI Board of Directors (the Board) through the issuance of a Shareholder Direction. The Shareholder Direction covers a variety of topics such as governance, board recruitment, financial management, and organizational objectives.

The current Shareholder Direction was directly updated in 2014, with Milton Town Council subsequently passing several resolutions to amend the direction in the years that have followed. In 2025, for example, Council endorsed a number of proposed amendments through report ES-014-25, and also revised the borrowing authorization through report ES-044-25.

At its most recent meeting, the Board supported a revised structure for the organization. As the Shareholder Direction requires Shareholder approval for such changes, the Board is now requesting Town Council approval of the revised structure. As such, Town staff have prepared this report to relay the Board's request and related supporting documentation to Council for consideration.

Representatives from MHHI will be in attendance at the Council meeting to provide any additional clarity that Council may require to consider the Board's request.

Discussion

Attached to this report is a correspondence from the Board Chair for Milton Hydro Holdings Inc. that has been presented to Town Council on behalf of the Board. In it, MHHI outlines for Council:

- A summary of the PILs regime relative to the standard federal tax regime, including transition considerations;
- A summary of the existing organization structure for MHHI and its subsidiaries Milton Hydro Distribution Inc. (MHDl), Milton Energy & Generation Solutions Inc. (MEGS) and Milton Hydro Services Inc. (MHSI);
- Commentary regarding the Ontario Energy Market and MHHI's growth plans;
- A summary of an alternate organizational structure that may protect MHHI and its subsidiaries in the future from potential transition taxes that can be associated with a change in federal tax regimes;



Discussion

- An explanation of the Trust, which is proposed as part of the revised organizational structure, including the designation of the Trustee as well as the beneficiary;
- An overview of next steps, including the transition of MHSI to ENDVR Energy.

Should Council as the Shareholder wish to authorize MHHI to proceed as requested by the Board, the following resolutions could be moved and approved by Council:

THAT Milton Hydro Holding Inc. be authorized to undertake the necessary actions to constitute a Trust, for the purposes of, and in manner that is consistent with, the correspondence from the Chair of Milton Hydro Holdings on behalf of the Milton Hydro Holdings Board (dated October 3, 2025).

THAT Milton Hydro Holding Inc. be authorized to execute any agreements required to establish the Trust, subject to legal review.

THAT Milton Hydro Holding Inc. be authorized to exit Milton Hydro Services Inc. from the payment-in-lieu of tax regime.

THAT Milton Hydro Holding Inc. be authorized to transition Milton Hydro Services Inc. to ENDVR Energy as outlined in the correspondence from the Chair of Milton Hydro Holdings on behalf of the Milton Hydro Holdings Board (dated October 3, 2025).

THAT the establishment of the Trust and transition to ENDVR Energy be reflected in the Shareholder Direction as part of the next consolidated update.

As outlined in report ES-014-25, a revised Shareholder Direction that includes the amendments that were previously endorsed by Town Council is expected to be presented to Council during 2026. Should the resolutions above be approved by Council, the authority to proceed will be effective immediately and the Trust and ENDVR Energy will be reflected in the updated Shareholder Direction as part of the 2026 update.



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Financial Impact

The creation of the Trust is intended to reduce MHHI's exposure to a potential transition tax in the future, which would have the effect of reducing the cost to the organization and therefore increasing the overall return on equity.

Once the Trust is created and MHSI has transitioned to ENDVR Energy, future initiatives that are considered will still be required to seek Town Council approval as may be necessary in accordance with the Shareholder Direction.

Respectfully submitted,

Glen Cowan
Chief Financial Officer / Treasurer

For questions, please contact: Glen Cowan

Phone: Ext. 2151

Attachments

Schedule 1 - Letter from Milton Hydro Holdings Inc.

Schedule 2 - Letter from the Ministry of Finance

Approved by CAO
Andrew M. Siltala
Chief Administrative Officer

Recognition of Traditional Lands

The Town of Milton resides on the Treaty Lands and Territory of the Mississaugas of the Credit First Nation. We also recognize the traditional territory of the Huron-Wendat and Haudenosaunee people. The Town of Milton shares this land and the responsibility for the water, food and resources. We stand as allies with the First Nations as stewards of these lands.



MILTON HYDRO HOLDINGS INC.

200 Chisholm Drive, Milton, Ontario L9T 3G9
(905) 876-4611 www.miltonhydro.com

Memorandum To: Town of Milton as the Shareholder of Milton Hydro Holdings Inc.

From: George Minakakis, Chair of Milton Hydro Holdings on behalf of the Milton Hydro Holdings Board of Directors

Date: October 3, 2025

Subject: Milton Hydro Holdings Inc. subsidiary Milton Hydro Services Inc. exiting the PILs Tax Regime

Recommendation: THAT a new share structure is created for Milton Hydro Services Inc. through the introduction of a Trust, holding one non-voting preferred share which would exit Milton Hydro Services Inc. from the PILs tax regime and adopt the standard Federal tax regime where it can then do business outside the boundaries of Milton.

RECOMMEDATION SUMMARY

- Milton Hydro Holdings Inc. (MHHI) is 100% owned by the Town of Milton (the Shareholder) and owns 100% of the shares of three subsidiary companies: Milton Hydro Distribution (the regulated electricity distribution company), Milton Energy and Generation Solutions (doing business as "MEGS" and currently operating a number of non-regulated assets and services within Milton) and Milton Hydro Services Inc. (currently dormant);
- Milton Hydro Holdings and its subsidiary companies pay Federal corporate taxes through a mechanism known as PILS (Payment in Lieu of Taxes). This form of Federal tax structure is unique to the Ontario energy sector. The PILS tax regime is parallel in function and taxation rates to the standard Federal tax but has been set up specifically in the Ontario energy sector for Local Distribution Companies. Milton Hydro and its subsidiaries were set up initially within the PILS regime when the Company was incorporated as part of market deregulation;
- The PILs tax regime has geographical limitations regarding where revenues can be derived. Currently, no more than 10% of revenues can be derived from outside of Milton without forcing an exit from the PILS regime into a standard Federal tax regime. During this transition, a transfer tax is typically assessed, based on the value and assets of the exiting Company. MHSI does not currently attract a transfer tax as there are no assets within the Corporation;

- The Board and Management are accelerating the growth and value of the Milton Hydro group of Companies through further expansion of the non-regulated service offerings within the energy sector. Milton Hydro Distribution has been the first customer of many of the services developed and delivered by MEGS; however, to realize its full potential, expanding the service offerings beyond the borders of Milton will provide a much larger opportunity universe for growth that is not limited by the PILS structure. Expanding the territory enables these services to be offered to other utilities and broader market segments. This can only be achieved by exiting MHSI from the PILS regime to a standard federal income tax regime and growing any future business within MHSI that serves customers outside of Milton, thus creating a Corporation that can function and grow revenues derived from outside of Milton;
- Council Report ES-014-25 recommends changing the Shareholder Direction to remove the limitation that Milton Hydro can operate only in Ontario and replace it with “the permissible geography be expanded to anywhere they are legally permitted to operate, subject to Shareholder approval.” By transitioning from a PILS tax regime to a standard Federal tax regime, MHHI will better enable that Shareholder directive;
- Borden Ladner Gervais (BLG) has been retained by MHHI to provide advice and guidance on the PILS regime exit. The recommendations contained in this report have been provided to MHHI by BLG;
- To exit the PILS regime, the addition of a Trust is required within the group of Milton Hydro Companies. This Trust would own a single share of Milton Hydro Services as the mechanism to transfer into the Federal Tax regime. The Trust does not convey any benefits, value or voting rights to the Trustee and accrues all benefits of that single share back to Milton Hydro Holdings;
- The initiative carries no material financial impact, as MHSI is currently inactive and asset-free; confirmation from the Ontario Ministry of Finance indicates the projected transfer tax cost is **zero dollars**. (Refer to Letter from Ministry of Finance). Should MHSI grow its value as a PILS-paying entity and subsequently change to a standard Federal tax entity, at a later date, a transfer tax would be associated with that transaction. Therefore, this would be the ideal time for MHSI to transfer to the Federal tax regime and avoid a future transfer tax;

The Board of Directors of MHHI recommends to the Shareholder that it approve the Corporate Restructuring as outlined to:

- Authorize MHHI and its Board to undertake the necessary actions to constitute the Trust, execute a Trust Deed, and issue the preferred shares to the Trust;
- Exit MHSI from the PILS tax regime and enter the Federal Income Tax regime;
- Make the necessary updates to the Corporate records, including changing the name of MHSI to ENDVR Energy;

The MHHI Board has approved this structure at the most recent Board meeting. In taking this step, Milton Hydro can continue to further expand its business and deliver accelerated growth while creating enhanced Shareholder value through a diversified and growing set of service offerings within the energy sector that builds on Milton Hydro's already-strong reputation.

Respectfully Submitted on behalf of the Board of Directors of Milton Hydro Holdings Inc.

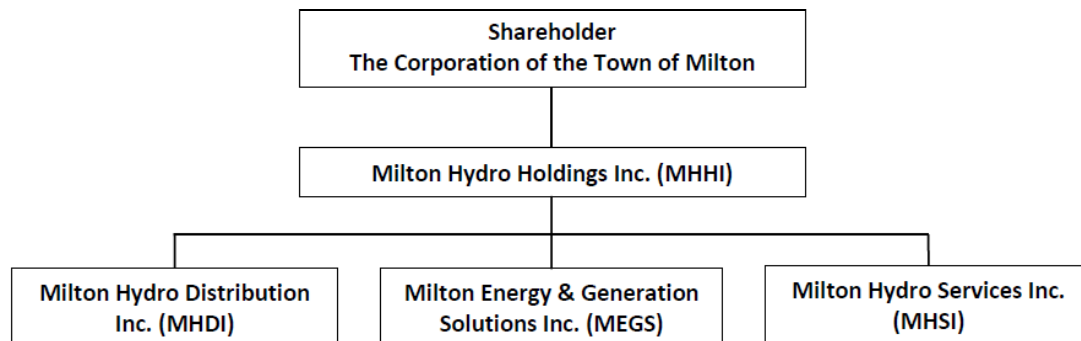
George Minakakis

Board Chair,
Milton Hydro Holdings Inc.

Background

Corporate Structure:

Milton Hydro's Corporate structure is as outlined in the following diagram:



Milton Hydro Holdings Inc. (MHHI): 100% owned by the Town of Milton as the sole Shareholder. This is a holding company that owns the other affiliate Companies of Milton Hydro, including: Milton Hydro Distribution (MHDI), Milton Energy and Generation Solutions (MEGS) and Milton Hydro Service Inc (MHSI).

Milton Hydro Distribution Inc (MHDI): 100% owned by MHHI and carries on the business of electricity distribution within the geographic borders of Milton. MHDI has approximately 44,000 electricity customers. MHDI is a “regulated” business and is subject to oversight by the regulator, the Ontario Energy Board. The OEB is responsible for establishing service metrics, electricity rates, allowable rates or return (return on equity) and overall compliance with the rules set out by the energy board. Growth is set by the electricity rates approved by the energy board along with the underlying customer growth from the community serviced by MHDI. Effectively, MHDI has a single service offering from which it is able to generate income – electricity to homes and businesses within Milton. MHDI represents the majority of the value of assets, Shareholder value, and dividend generation within the MHHI group of companies.

Milton Energy and Generation Solutions (MEGS): 100% owned by MHHI and carries on business outside the Ontario Energy Board’s regulatory oversight where it is able to develop assets and services on a competitive basis. Currently, MEGS contains a basket of income-generating services that include regional water billing, FIT solar assets, a combined heating and power plant, as well as a number of smaller income-generating initiatives. In the past 12 months, a number of other services have been developed, including service locates and utility asset testing and reporting. A significant effort in developing new and growing businesses to service this sector is currently underway. Through recent efforts, MEGS has experienced significant growth in its newly developed services.

Milton Hydro Services Inc. (MHSI): 100% owned by MHHI. This Corporation is currently dormant with no activity. This was used to house Milton Hydro Telecom prior to its divestiture.

The Growing Electricity Market:

The Ontario energy market has seen a rapid increase in demand and growth. The Independent Electricity System Operator (IESO) forecasts electricity demand to increase by 75% by 2050. To put this into context, it took the electricity sector over 100 years to reach its current size. A 75% increase in system capacity will need to be delivered within a 25-year timeframe. This is a pace of growth that the electricity sector in Ontario has not seen before.

This rapid growth is being driven by industrial expansion, data centres, increased electrification of everything and population growth. This means that there will be a significant increase in investment in all facets of the electricity sector in Ontario over the coming years including consumers, distributors and generators that range from investments in technology, capacity, and ancillary support services. In addition, companies that supply and deliver electricity are challenged by increasingly severe weather, innovation challenges and asset management and maintenance demands.

The challenges outlined above also represent opportunities for growth inside the energy sector, much of which would take place outside the regulated utility (MHDl).

To date, Milton Hydro has been pursuing growth opportunities through its affiliate, MEGS. There has been success to date, and over the past 12 months, an increased emphasis has been placed on growing the 'unregulated' business and in doing so, there has been a meaningful uptick in revenues and income. This has been accomplished by developing a number of utility service solutions and supplying these offerings to MHDl through formal public bids. While the utility-facing services will continue to grow, having MHDl as a single customer will ultimately be limiting. Further growth will need to come from both an expansion of services and an expansion in market territory. Currently, the market is limited to Milton only.

Corporate Structure Restrictions on Growth:

MHHI, MHSI and MHDl were incorporated at the electricity market opening in 2002 as per the guidance of Borden Ladner Gervais (BLG). MEGS was subsequently incorporated following the same template as the previously established affiliate companies.

All companies were incorporated in a similar manner; however, these were set up as part of market deregulation, and their tax structure was set up on a mechanism referred to as Payment in Lieu (PILS). This is a Federal tax structure that is the same in function and rates as Federal tax, but unique to the Ontario electricity market. This structure allows for municipally owned utilities to operate and pay federal taxes as any normal Corporation would. There is a limitation within this tax regime however, wherein 10% or less of revenues can be derived from outside the municipality. If revenues exceed this amount, it will trigger a transfer of the Corporation from the PILS tax regime into a standard Federal tax regime. In doing so, any assets within the exiting company could be subject to a transfer tax assessment based on the value, which could create a significant tax event at the transition.

Currently MEGS has a number of assets and services that operate within Milton. These include water billing services on behalf of the Region of Halton, rooftop solar assets, a Combined Heat and Power (CHP) plant and a number of other income producing assets.

These have a material book value which would be subject to a transfer tax if exiting the PILS regime. As these assets are contained within Milton, they can remain that way and continue to exist with MEGS under the current PILS regime.

MHHI also owns MHSI, a Corporation that has been dormant for over a decade. This Company has no existing operations or assets contained within it. This Corporation can be used as a vessel to have one of the MHHI Companies exit the PILS tax regime and enter the standard Federal tax regime, which would not have any restrictions on where and how it operates from a taxation perspective. The Milton Hydro Holdings Board is recommending that the Shareholder authorize the Board to revamp the Corporate structure as outlined below to exit PILS. Once that is complete, a set of services, assets and capabilities would be built within MHSI to allow it to operate utility and energy-oriented services to a much broader market where it can continue to grow with many more opportunities available to it, as the very narrow geographic restriction will no longer be a limitation. In doing so, it will add income diversity and accelerated growth potential over what is available via the current structure.

The benefits include:

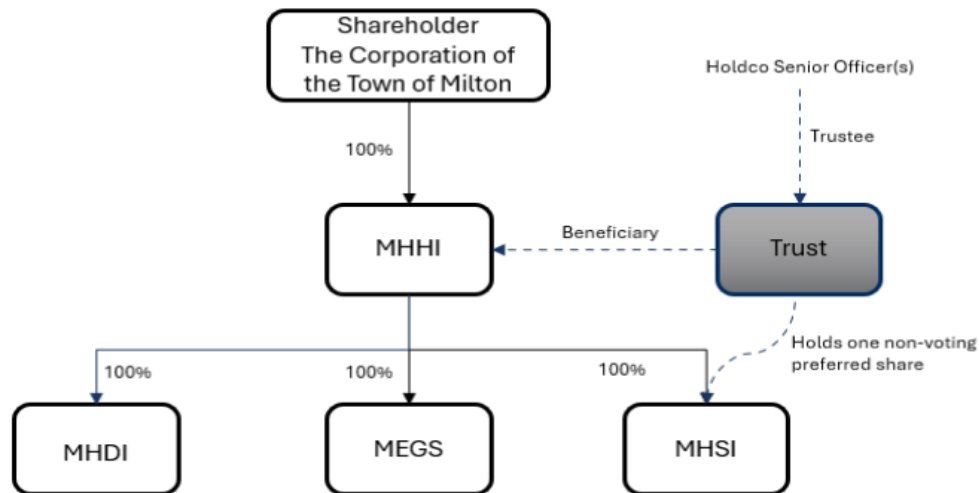
- **Diversification** of income and territory to enhance growth and value.
- **Increased Shareholder value** through enterprise growth and potential growth and new sources of dividends;
- **Mitigates risk** from a taxation perspective

Furthermore, the desire for additional growth is reinforced in Council report ES-014-25 wherein a number of changes to the Shareholder Direction have been recommended. These include a less limited geographic scope recommendation as well as encouragement of additional growth in the regulated and non-regulated companies. By making these changes with regard to the tax regimes, MHHI will have the flexibility to more fully meet these changes to the Shareholder Direction.

Exiting the PILS Tax Regime:

In order for MHSI to exit the PILS tax structure, the current corporate structure requires modification in which MHSI is not 100% owned by MHHI. This can be accomplished by introducing a Trust (the **Trust**) in which a single share is held by a designated trustee, which would be the MHHI CEO or Chair. This single share would always stay with the title and not a named individual. This ensures that the share remains within the control of MHHI. In addition, MHHI would be the beneficiary of the single share, and no ownership, rights, income, or benefit would be conveyed to the trustee. It is simply there to hold the share for the benefit of MHHI.

The Trust, which is a flow-through vehicle but not tax-exempt, is established for the sole purpose of holding a preferred share in MHSI. As outlined, this will cause MHSI to exit the PILS regime. Given MHSI is not currently active and does not hold any assets, exiting PILS at this stage will have immaterial implications.



Once outside of the PILs regime, for so long as the Trust (or some other non-tax-exempt entity) continues to hold an interest in MHSI, MHSI will remain outside of PILs and will pay standard Federal corporate income tax. Operating outside of PILs will permit MHSI to expand its business freely beyond Milton. Additionally, operating in this structure would add flexibility where other non-tax-exempt outside investors could be strategically considered to further accelerate growth without triggering the transfer tax.

BLG has provided direction and guidance to MHHI throughout the process, and this proposal is reflective of their advice. Furthermore, this is the same approach that a number of other utilities within Ontario have taken when exiting specific businesses to pursue larger growth opportunities.

Next Steps:

Once this structure has been approved by the Shareholder, MHHI will begin taking the necessary steps to implement the proposed changes outlined in the Executive Summary.

As a part of the housekeeping items, the unregulated Company will begin to operate under the brand “ENDVR Energy,” which has been developed as a refreshed brand identity to support the evolution of its energy services portfolio. The brand has been designed to reflect the scale, credibility, and innovation expected of a modern energy company, while remaining grounded in Milton’s legacy and values. This brand was introduced to members of Council at the Milton Hydro Annual General Meeting of the Shareholder in May of this year. The name Milton Hydro Services Inc. will be updated with the new name, ENDVR Energy Inc., in the incorporation documents.

Ministry of Finance

Account Management and
Collections Branch

33 King Street W
Oshawa ON L1H 8H5
Tel. : 289 928-0976

Ministère des Finances

Direction de la gestion des comptes
et de la perception

33, rue King O
Oshawa ON L1H 8H5
Tél. : 289 928-0976



June 23, 2025

MILTON ENERGY AND GENERATION SOLUTIONS INC.
c/o IGOR RUSIC
200 CHISHOLM DR
MILTON, ON L9T 3G9

VIA: mail and email

Dear Mr. Rusic

RE: Sale of Assets

Transferor:

**Milton Energy and Generation Solutions Inc.
200 Chisholm Dr
Milton ON L9T 3G9
Account # 864996566TW0001**

Transferee:

**Milton Hydro Services Inc.
200 Chisholm Dr
Milton ON L9T 3G9
Account # 895730414TW0001**

Description of interest in property to be transferred: "Fencing, Vehicle, Locates software and material."

Sale Price: \$36,648

Estimated amount payable under Subsection 94(1): NIL

We acknowledge receipt of your transfer notice dated June 5, 2025, made under O. Reg. 124/99 section 4, in which you stated the transfer that will occur on July 30, 2025, and the Transfer Tax payable is \$0.00 due to s.94(3)(21) of the Electricity Act, 1998.

Therefore, please note that the Minister will not be issuing a certificate for the transfer under O. Reg. 124/99 section 6 because neither security nor payment was required or provided under section 5 and due to the operative use of the word "and" in section 6.

Any actual transfer tax liability remains subject to verification and audit.

Yours truly,

A handwritten signature in black ink, appearing to read "Dave Gerald".

Dave Gerald
Manager Specialty Tax Administration
Program Delivery & Benefits
Account Management & Collections Branch