



Report to: General Committee

Report Date: November 28, 2011

SUBJECT: Markham Enterprises Corporation Equity Injection Extension
PREPARED BY: Mark Visser, Manager of Financial Strategy & Investments

RECOMMENDATION:

1. That the report entitled “Markham Enterprises Corporation Equity Injection Extension” be received;
2. And that the Town’s subscription for Markham Enterprises Corporation shares, as set out in this report, to facilitate Markham Enterprises Corporation equity injection into PowerStream for their solar business, be extended to December 31, 2013, subject to the terms and conditions set out in this report;
3. And that staff be directed to do all things necessary to give effect to this report.

EXECUTIVE SUMMARY:

N/A

PURPOSE:

The purpose of this report is to obtain Council approval to extend the timeframe for Markham’s investment into PowerStream’s Solar Photovoltaic (PV) project through the purchase of additional shares in Markham Enterprises Corporation.

BACKGROUND:

In 2009, PowerStream management mobilized a team to assess the opportunities offered to Local Distribution Companies (LDCs) by the *Green Energy and Green Economy Act, 2009* in renewable generation and the Feed-in-Tariffs (FIT) program, and concluded that PowerStream should invest in a portfolio of solar generation projects.

In September, 2009, PowerStream indicated that it was formulating a specific “ask” to its shareholders (Markham Enterprises Corporation (“MEC”), Vaughan, Barrie) for approval of a funding mechanism that would allow PowerStream to invest in solar generation. The original proposal was for a \$400 million investment, with the first phase being \$150 million.

The \$150 million investment by PowerStream was to be funded through external debt (\$90 million) and shareholder equity (\$60 million) in accordance with the preferred debt to equity ratio of 60-40. The shareholders contributions were to be made in proportion to their existing interest in PowerStream. MEC’s share of that equity injection was approximately \$20.5 million (34.185% of the \$60 million).

The equity injections were to be linked to PowerStream's signing of Ontario Power Authority (OPA) FIT contracts in 2010 and 2011. Therefore MEC's \$20.5 million of equity was to be injected in tranches over those two years as FIT contracts were approved, with the shareholder's commitment to the equity injection to be reviewed at the end of 2011 if all the funds had not been spent.

MEC's investment in the PowerStream solar project was to be funded by the Town's purchase of additional MEC shares. MEC would use the proceeds of the Town's share purchase to then purchase an equal dollar amount of new "Class A" non-voting shares to be issued by PowerStream.

The MEC Board of Directors approved the equity injection in December 2009. The Town of Markham then approved the required equity injection from the Town to MEC in June of 2010, with the following resolution:

"That the Town of Markham subscribe for an additional 5,000 Common Shares of Markham Enterprises Corporation over the next two years, at a price of approximately \$20.5M, the actual price to be determined jointly by the Treasurers of the Town of Markham and Markham Enterprises Corporation; the funds for this purchase to be funded from the Lifecycle Reserve."

OPTIONS/ DISCUSSION:

PowerStream has made a significant number of FIT applications to the OPA, however the popularity of the FIT program and uncertainty surrounding the October 2011 Provincial election created significant delays in the FIT contract approval process. As such, Markham has only purchased \$1.5 million of MEC shares to facilitate MEC's equivalent equity injection into the Solar PV project as of October, 2011.

The most recent projections presented by PowerStream indicate that the full amount of the equity injections will take longer than initially projected. As such, PowerStream have sought approval from its shareholders to extend the timeframe of the equity injection.

Based on the expected rate of return on the Solar PV initiative and the expected OPA contracts that PowerStream are expected to sign, it is recommended that the Town agree to extend the timeline of the equity injection commitment for projects with a signed lease and viable FIT contract applications, or executed asset purchase agreement, that meet the agreed upon internal rate of return, to the end of 2013.

FINANCIAL CONSIDERATIONS AND TEMPLATE: (external link)

Based on the guaranteed FIT rate on the solar power generation, it is estimated the Town will recoup its investment by 2022 in the form of increased dividends from PowerStream, with additional dividends being received until approximately 2033.

ENVIRONMENTAL CONSIDERATIONS:

Not Applicable

ACCESSIBILITY CONSIDERATIONS:

Not Applicable

ENGAGE 21ST CONSIDERATIONS:

Not Applicable

BUSINESS UNITS CONSULTED AND AFFECTED:

Legal, Finance

RECOMMENDED BY:

15/11/2011

X 

Joel Lustig
Treasurer, Acting Commissioner, Corporate Se...

11/15/2011

X 

Catherine Conrad
Town Solicitor