

Markham holds key vote on energy merger

Divided council to vote on merger that could form energy distribution company serving nearly one million customers.



DAVID COOPER / TORONTO STAR file photo

Markham Mayor Frank Scarpitti called the proposed merger of local electrical distribution companies a “win-win.”

By: [Noor Javed](#) News reporter, Published on Tue Nov 17 2015

A multimillion-dollar deal involving six municipalities that would see the creation of one of the largest electrical distribution companies in Ontario hinges on the decision of a deeply divided Markham council.

Markham council will vote Thursday on whether to merge its local distribution company PowerStream with three others and invest up to \$47.3-million in a new company that will be called MergeCo, and will serve almost a million customers in York Region, Peel Region, Hamilton, Simcoe County and St. Catharines.

In April, the province announced a plan to have PowerStream, Enersource and Horizon Utilities merge and acquire Hydro One Brampton for \$607 million. Last month, Hamilton was one of the last cities to endorse the merger — leaving Markham as the lone hold out.

The deal requires support from all shareholders in order to proceed.

Since April, councillors have been participating in marathon meetings for the business arm of the city, Markham Enterprise Corporation, discussing the pros and cons of the deal. At the one of the recent meetings, a vote on the merger ended in a deadlock.

Markham Mayor Frank Scarpitti, who is vice-chair of PowerStream's board, called the merger a "win-win."

"The City of Markham will get increased shareholder value and customers will have lower distribution rates as compared to the status quo," he said Tuesday.

But Jack Heath, the deputy mayor who also sits on the board, said he is against the deal.

"Our Council is very close to evenly divided on the matter. The deal is extremely complicated and none of us are MBAs. We had dozens of meetings, asked for improvements, got some, but many of us are still not convinced. I trust my instincts when I feel uncomfortable at council. They tell me this is not for Markham."

In a presentation at a special general committee meeting last week for the public, city staff outlined the deal's risks and benefits:

- Markham will give up its 34 per cent stake in PowerStream for a 15 per cent stake in MergeCo, which will give it "less control and influence over projects and acquisitions."
- Markham currently gets \$12 million from annual dividend and interest revenue earned from PowerStream, which goes into the city's capital reserve. That's estimated to increase by \$8-13 million after a merger.
- The savings for an average resident is estimated to be approximately \$24 to \$30 per year, with the first significant savings occurring in 2021. It would be much higher for commercial and industrial companies in the city.

And despite the staff recommendation to endorse the merger, there were warnings:

"Staff negotiated significant amendments to the Transaction to reduce risk, but it is still not financially compelling given the remaining risk," the presentation reads. "The Transaction cannot be recommended by City staff solely on an investment basis."

Rather, the city's staff endorsed the plan on the basis of savings to the customer, said Brian Bentz, the CEO of PowerStream, which is jointly owned by Barrie, Vaughan and Markham.

Bentz says the issues affecting Markham are the same as those in other municipalities (both Barrie and Vaughan voted unanimously for the deal), but the city is doing its own due diligence.

The city retained independent consulting and legal services to help councillors wade through the complex deal.

"It's a really difficult decision," said Councillor Valerie Burke (Ward 1). "I have a lot of concerns with it. It appears to be not a lot of benefit for our residents. It may benefit us several years from now. That's not very convincing."

Regional Councillor Nirmala Armstrong, said she believes the deal is a good one for Markham.

“I have had an opportunity to gather information, research other mergers, speak with residents, ask questions during the meetings and I must say that 95 per cent of the residents I spoke to are in favour of this deal,” she said, adding she will be voting for it.

The province is hoping the rest of council follows Armstrong’s lead.

“City councils in Vaughan, St. Catharines and Hamilton have already recognized that residents will benefit from the merger through improved efficiencies resulting in ratepayer savings, strengthened service and reliability, and modernization of the local distribution system,” said a spokeswoman from the Ministry of Energy, adding that this deal is independent of the Hydro One sell-off.

“The government hopes that Markham’s council will recognize the positive impact that this merger will have for Markham residents.”