TOWN OF LUNENBURG

COUNCIL MEETING AGENDA

April 25, 2023 | 6 pm

Lunenburg Town Hall – Council Chamber

Notice: Council meetings are held in person at Town Hall. Members of the public can attend meetings in person, view meetings through the Zoom livestream, or view meeting recordings on YouTube at any time. To live-stream this meeting starting at 6 pm, use this Zoom link:
https://us06web.zoom.us/j/88956545878

1. **CALL TO ORDER**

2. **LAND ACKNOWLEDGEMENT**

   Acknowledgement of Mi'kma'ki, the ancestral and unceded territory of the Mi'kmaq People.

3. **APPROVAL OF AGENDA**

   Draft motion: Moved and seconded that Council approve the agenda for the April 25, 2023 meeting as presented.

4. **APPROVAL OF MINUTES**

   Draft motion: Moved and seconded that Council approve the minutes of the April 11, 2023 meeting as presented.

5. **PUBLIC HEARINGS, PRESENTATIONS AND QUESTIONS**

6. **CORRESPONDENCE, PETITIONS AND PROCLAMATIONS CONSIDERATION**

   6.1 VON Proclamation and Flag Raising

   Draft motion: Moved and seconded that Council proclaim May 21 – May 27, 2023 as VON Week in the Town of Lunenburg, and that Council approve raising the VON flag at the UNESCO World Heritage Site flagpoles during this week; and that Council agree to proclaim VON Week and raise the VON flag during this week each year in May until 2027 as requested in the Commemorative Flag Raising/Proclamation Request Form.

7. **BUSINESS ARISING FROM THE MINUTES/UNFINISHED BUSINESS**

8. **COMMITTEE MEETING MINUTES, RECOMMENDATIONS, REPORTS & NOTICES OF MOTION**

9. NEW BUSINESS

9.1 Presentation: Civic Volunteer Appreciation

9.2 Presentation: Electric Utility Financial Evaluation and Sustainability Assessment of Future Options – CIMA Canada Inc & BDR

9.3 Contract Award: Skate Park Capital Project

Draft motion: Moved and seconded that Council award the 2023/24 capital skate park project to Propour Concrete Services Inc. in the amount of $121,293 + HST.

9.4 Nova Scotia Strong Award Nomination

Draft motion: Moved and seconded that Council approve nominating the Burg Classic Committee for the 2023 Nova Scotia Strong Award.

9.5 Workplace Harassment Prevention Policy – Notice

Draft motion: Moved and seconded that Council give notice of the Workplace Harassment Prevention Policy as presented, and that the policy be considered for approval at the May 9, 2023 regular meeting.

10. ADJOURNMENT

TOWN OF LUNENBURG

COUNCIL MEETING MINUTES

April 11, 2023 | 6 pm

Lunenburg Town Hall – Council Chamber

Present	Mayor Matt Risser, Deputy Mayor Peter Mosher, Councillors Melissa Duggan, Stephen Ernst, Ed Halverson, Jenni Birtles and Susan Sanford
Also present	Jamie Doyle, Chief Administrative Officer Tyson Joyce, Director of Public Works Arthur MacDonald, Director of Community Development Trevor Hume, Planner/Development Officer Hilary Grant, Senior Planner/Heritage Officer Michael Best, Communications Manager Kayla Byrne, Municipal Clerk Lauren Isabelle, Planner
Call to Order	The Mayor called the meeting to order at 6 p.m.
Land acknowledgment	The Mayor recognized Lunenburg's location on the unceded territory of the Mi'kmaq people.
New staff introduction	The Mayor introduced and welcomed Lauren Isabelle, the new planner with the Community Development Department.
Approval of Agenda	Moved and seconded that Council approve the agenda for the April 11, 2023 meeting as presented.
Approval of Minutes	Moved and seconded that Council approve the minutes of the March 28, 2023 meeting as presented.
Public Hearing: Amendment to Land Use By-law	Council held a public hearing for a proposed amendment to the Land Use By-law to remove Schedule G – Vending. There were no concerns from the public specifically about the proposed amendment to the Land Use By-law, however, 21 people, which included numerous business owners, provided their feedback on the proposed Vending By-law. Some concerns expressed include traffic and parking congestion, increased garbage, noise pollution from generators, a lack of public washrooms for a potential increase to foot traffic, and that

	recommended permit fees were too low. Additionally, the business community felt that more consultation was needed. Moved and seconded that Council close the Amendment to Land Use By-law public hearing portion of the meeting. **Motion carried unanimously**
Lyme Disease Awareness Month Proclamation	Moved and seconded that Council proclaim May 2023 as Lyme Disease Awareness Month. **Motion carried unanimously**
Vending By-law – presentation and second reading	Council deferred making a decision on the proposed Vending By-law and directed staff to make various edits to the by-law, and to consider the concerns addressed at the public hearing. Once edits have been made, the draft by-law will return to Council for further discussion and consideration.
Amendment to Land Use By-law	Council deferred making a decision on an amendment to the Land Use By-law to remove Schedule G – Vending. Staff noted this amendment should happen when and if a new Vending By-law is approved.
Committee Recommendations & Notices of Motion	None.
Recess	The Mayor called a recess from 8:20 p.m. until 8:30 p.m.
Old Town Lunenburg Heritage Conservation Plan and By-Law Update	Council received a staff update on the progress of a new Heritage Conservation Plan and By-law. Staff have a draft of the new plan and by-law and are completing a final review. Council and the public can expect to see the proposed plan and by-law in the near future.
Sustainable Services Growth Fund	Moved and seconded that Council approve that the Mayor and CAO sign the Sustainable Services Growth Fund Agreement Form. **Motion carried unanimously**
Regional Anti-Racism & Anti-Discrimination Committee	Moved and seconded that Council approve the Terms of Reference (TOR) for the Lunenburg County Anti-Racism and Anti-Discrimination Committee as presented; and that Council approve the new Regional Equity, Diversity, and Inclusion Coordinator position, a two-year term

shared position with the other five municipal units based on the funding formula and budget as presented;

That Council direct the CAO to work with the other five municipal units to develop a Memorandum of Understanding (MOU) for the Regional Equity, Diversity, and Inclusion Coordinator position; and that the MOU be presented to all participating Councils for approval; and

That Council approve the dissolution of Town of Lunenburg's Anti-Racism Special Committee.

Motion carried unanimously

Adjournment

There being no further business, the April 11, 2023 Council meeting adjourned at 8:43 p.m.

_____

Minutes were read and approved.

April 11, 2023

Mayor Matt Risser
119 Cumberland St, Box 129
Lunenburg, NS B0J 2C0

Dear Mayor Risser,

Every year, VON Canada marks a special week to thank our dedicated staff and volunteers, and celebrate the caring home and community support they deliver. As this week approaches, we ask you to officially declare VON Week and celebrate VON's contribution and commitment to the home and community care sector in Lunenburg County.

VON Week this year is May 21-27, and our theme – Together we are making a difference – celebrates VON's long history and bright future of leading home and community care in Canada's health care system, and the outstanding VON employees and volunteers who contribute to life-changing moments every day.

We would be honoured if you would participate in a small gathering with VON staff in Lunenburg and support us in celebrating VON Week in our community, by:

- **Proclaiming the opening of VON Week**
- **Raising the VON Flag at Town Hall**
- **Share our social media posts to demonstrate your support**

VON Week is an opportunity to recognize the resilience, courage and strength of VON staff and volunteers who work tirelessly to provide caring support to those who need it most in the face of diverse challenges.

We are very proud to be part of an organization that has been making a difference in people's lives for over 125 years – in fact, VON is Canada's longest-serving charitable organization offering home and community care. We are proud to be supporting the health and safety of Lunenburg County.

I will follow up with your office to discuss your interest and availability in declaring VON Week and joining us in our celebrations.

Thank you in advance for considering our invitation and support.

Sincerely,

Kathy Thomas, Program Coordinator, VON Lunenburg

TOWN OF LUNENBURG APPLICATION:
COMMEMORATIVE FLAG RAISING/PROCLAMATION REQUEST

Applications are to be submitted four (4) weeks in advance of the requested date(s).
Requests will be considered by Council at regular, open meetings of Council.
Completed applications can be submitted to: hmccallum@townoflunenburg.ca

1	Type of commemoration requested	X Flag X Proclamation
2	Name of Organization	VON Canada Lunenburg Site.
3	Contact Name Email Phone	Kathy Thomas [redacted]
4	Name of Flag/Proclamation *- If flag, please include description or image of flag and background information* *- If proclamation, please include text and background information*	
5	Requested Date and/or Alternate Date *- If flag, what is requested duration for it to fly*	5/23/23 if possible. 5/23/23 – 5/27/23.
7	Relevance of the Flag/ Proclamation to the Town of Lunenburg	VON week

Applications can request for the flag/proclamation to be repeated annually for up to five years. Please indicate below yearly dates, if desired:

Year 1: 5/23/23.
Year 2: 5/21/24
Year 3: 5/20/25
Year 4: 5/19/26.
Year 5: 5/25/27

Please note: Applications will be considered on a first-come, first-served basis. You will be advised by staff of Council's decision regarding your request. Flags and necessary hardware to hang a special purpose flag must be provided by the requesting organization.

PROCLAMATION

VON Week
May 21 – 27, 2023

WHEREAS	The Victorian Order of Nurses (VON) for Canada is a charitable community-based health care organization that has addressed community health and social needs for over 125 years.
WHEREAS	VON Lunenburg site nurses, community service coordinators and many other staff and volunteers have been caring for the lives and well-being of residents of Lunenburg County; and VON's nursing, health promotion and support services contribute to the health care system in Nova Scotia.
THEREFORE, BE IT RESOLVED	That I, Matt Risser, Mayor of the Town of Lunenburg, proclaim May 21–27, 2023 as VON Week in the Town of Lunenburg.

Date: April 25, 2023

Signature:

Matt Risser
Mayor of the Town of Lunenburg

CIMA+ Engineering for people 30 YEARS

BDR

Town of Lunenburg

Electric Utility Financial Evaluation and Sustainability Assessment of Future Options

Presented by
Darin Lamont, Senior Engineer CIMA+
Paula Zarnett, Vice President, BDR
Trent Winstone, Senior Consultant. BDR
February 28th, 2023

Agenda

1. Introduction
2. Lunenburg Electric Utility's (LEU) Current Situation
3. Option 1 – Sale of LEU
4. Option 2 – Retain Ownership & Renew NSPI Service Contract
5. Option 3 – Retain Ownership & Re-establish In-house Field Staff
6. Comparison of Options
7. Other Considerations
8. Summary

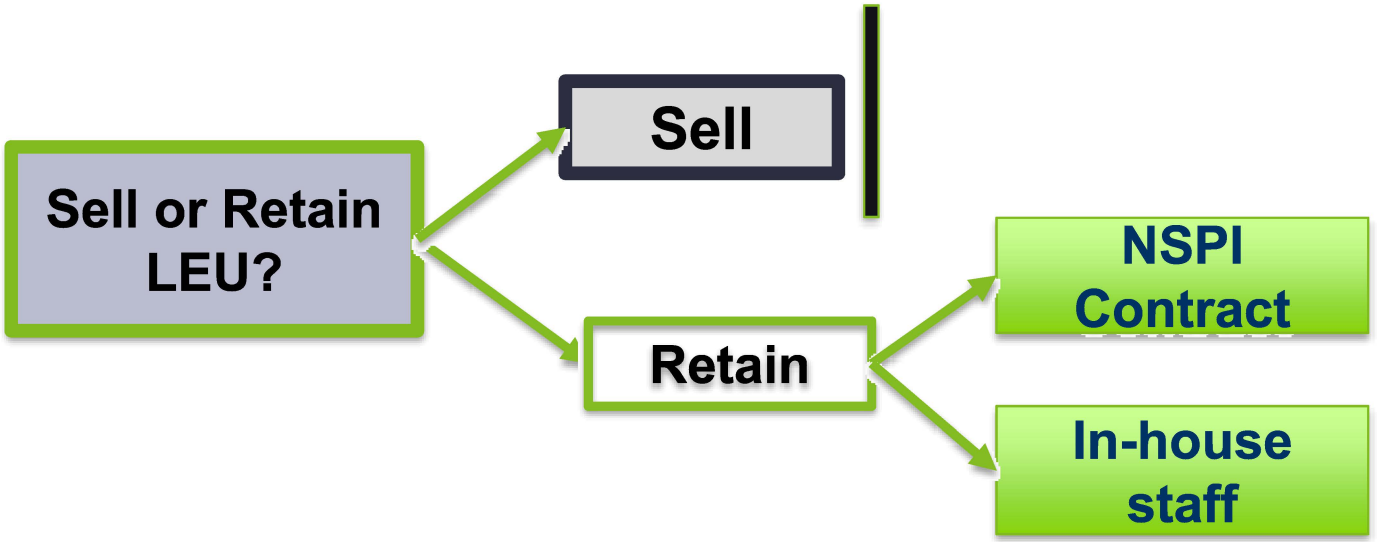
1. Introduction

- CIMA+ and BDR (the “Consultants”) have been retained by the Town of Lunenburg (the “Town”) to prepare an independent report that provides:

  “a comparative assessment of the sustainability, risks, and potential impact on customer rates under different potential paths forward regarding the future ownership and operation of the Town of Lunenburg electric utility (LEU)”

1. Introduction

- **The three alternatives that were reviewed are:**
  1. **Sale of the utility to NSPI or another third party,**
  2. **Retain ownership and renew the service contract with NSPI or another provider, and**
  3. **Re-establish the Town's in-house field staff.**



2. LEU's Current Situation

- LEU Ownership - the Town owns and operates LEU which provides residential and commercial services in its service territory within the Town of Lunenburg and surrounding areas in the Municipality of the District of Lunenburg (MODL)
  - Financial Status – at end of 2022, LEU has a net asset base of utility plant of $3.2 million, and only $500,000 of related debt.
    - LEU's current revenues are just enough to cover current annual operating expenses. To provide for future cost increases, LEU would need to apply to Utility and Review Board for a rate increase.
  - Administrative / office support is provided by Town staff
    - The Town benefits [redacted] from sharing of staff with LEU which is recovered through electricity rates. [redacted]
  - Field Work - utility services, capital work and other related services are provided by NSPI under a contract which expires May 31, 2023. This has been extended until May 31, 2024. Arrangement ensures a reasonable and qualified resource for the work.

2. LEU's Current Situation

Challenges

- Existing LEU plant and equipment is approaching end of life
  - Potential higher risk of outages due to aging equipment or storm related damage
  - Operating and maintenance cost increases can be expected
  - Various sections of the existing system (feeders) operate at non-standard voltages. There is a risk of lengthy outages in the event this equipment fails given it cannot be replaced easily ("off-the-shelf") and requires a custom design and order to be manufactured.
- Capital Investment Plan - a significant investment of $15 million is required over the next 10 years.

  - The owner of LEU will have to make this investment to allow the utility to provide service to its customer in a safe and reliable manner.

3. Option 1 – Sale of LEU

- ***Fair Market Value: the price established in a transaction between an informed, willing buyer and an informed, willing seller***
- **In the absence of actual offers, the Consultants have used two methods:**

1. **Discounted Cash Flow Analysis – valuation based on the present value of future cash flows, plus a terminal value (a financial model)**
2. **Valuation Benchmarking - review of prices established by actual market transactions for other electric utilities. The benchmarks used include multiples of:**
    - **Regulated Rate Base, Net Book Value, and Earnings multiple**

[redacted]

3. Option 1 – Sale of LEU - Summary of Analysis

* the low / high value is the average of the four values (rounded)

If the Town elects to sell, it should be aware that actual purchase offers may vary considerably over time, and also between prospective bidders.

4. Option 2 – Retain Ownership & Renew NSPI Service Contract

- **Based on High Level Review:**
  - NSPI is providing satisfactory service, however
    - Not all service orders are completed within NSPI's level of service times
    - The contract is administratively burdensome to manage, particularly around communications between LEU and NSPI for weekly Power Line Technician (PLT) work schedules and project status updates.
  - Contract cost is reasonable
    - LEU's costs are higher than average but are within a reasonable range
    - Prudent for LEU to extend contract to May 31, 2024
- **Recommendations:**
  - Hire an Electrical Engineer (retiree) or Engineering Firm with utility experience to assist with the management of the contract, and to research alternative suppliers or sharing of resources with other utilities
  - Pursue alternative arrangements if current service levels can be acquired at a cost savings

5. Option 3 – Retain Ownership & Re-establish In-house Field Staff

- Re-establishing in-house field staff and operations would require:
  - Significant capital investment to purchase a new utility bucket truck, service vehicle, tools and associated equipment along with the material for distribution utility work.
  - Hiring (potentially five) and training qualified utility workers (mainly operating and maintenance budget), and likely to exceed costs of service from NSPI.

Conclusions:

- This alternative is achievable over time, but would need to ensure the system upgrades and capital investments can be completed under the terms of the NSPI contracts using a combination of LEU and NSPI staff
- The Town should also investigate any potential synergies or cost saving opportunities with neighbouring towns/ communities.

6. Comparison of Options: NSPI versus Own Workforce

	NSPI	Own Workforce
Level of Service	Satisfactory under normal conditions. LEU is not a priority for normal regular service under extreme conditions, such as a major storm if LEU is not impacted.	Good under normal conditions. LEU is always a priority. Resources may be stretched if a major storm affects LEU. However LEU can have an external contractor on retainer for storms.
Administrative	Administrative flow needs improvement. Contract management is a burden on staff.	Administration under control of Town Staff.
Cost	Prudent and known.	To be determined, and may vary significantly over time.
Workforce availability	Resources are available.	Town would need to recruit and retain. Needed skill sets may not always be available for hire.
Planning	Challenging under present arrangement. Recommend Town have its own qualified Utility Engineer or Engineering firm for budgeting, planning and administration of contract.	Recommend Town have its own qualified Utility Engineer for budgeting, planning

6. Comparison of Options – Retain versus Sell

	Retain	Sell
Financial:	[redacted]	Town has cash proceeds of sale.
	Town receives benefit [redacted] from sharing of staff with LEU.	These benefits terminate on sale. Town may be able to downsize one position.
Business Risks:	Town has all risks and obligations associated with an electricity distribution business.	Town has no further business risks.
Business Opportunity:	Town could choose to invest in related ventures, such as appliance rental or renewable generation for profit.	Opportunities are not necessarily terminated, but less likely without the support of the distribution business.
Customer Rates:	Model shows rates could remain below NSPI over time, however if the capital upgrades increase it will put pressure on this ability.	If sold to NSPI, rates will be NSPI rates. If sold to another purchaser, impact on rates unknown.
Community:	Town has a branded service providing value to the Community. Town has operational control over LEU.	These benefits terminate on sale.

7. Other Considerations

The decision to sell or retain ownership of LEU (either using NSPI or in-house field services) is an individual decision to be resolved by each community. Some other non-quantifiable factors to be considered include:

Town's perspective

- Financial situation, and potential use of the proceeds from the sale of LEU
- Tolerance of the Town for financial, business and regulatory risks
- Ambitions for wider business involvement, including related services and generation, for profit
- Availability of business allies and partners who can support the utility in improving value to the municipality

Community perspective

- satisfaction with LEU versus a potential purchaser as provider of this key service
- pride and desire for locally based service

7. Other Considerations continued

The decision to sell or retain ownership of LEU (either using NSPI or in-house field services) is an individual decision to be resolved by each community. Some other non-quantifiable factors to be considered include:

Customer perspective: Rates and service quality

- **Financial Model shows it is likely Domestic rates will remain below NSPI over time, even with the $15 M capital investment.**
  - **Short-term –rate reduction for 2022 to 2024 of 5.4%, 8.0% and 2.7%**
  - **Long-term – projected 4.4% rate reduction on average from 2025 to 2043**
- **Risks – actual rate differences are subject to changes in capital costs, O&M etc. Factors contributing to LEU having lower customer rates as compared to NSPI:**
  - **LEU has a higher customer density (customers/ km of line) => lower cost to serve**
  - **LEU is tax exempt whereas NSPI is subject to corporate taxes => taxes are recovered through rates**
- **Service Quality – how does the preferred service level compare to what is provided from LEU and NSPI. Under the retain option, LEU has control to adjust service levels to customer preferences**

7. Recommended Next Steps

If the Town chooses to sell:

- a competitive bidding process is recommended to obtain multiple bids and achieve the best possible combination price and guarantees for customers.

7. Recommended Next Steps continued

If the Town chooses to retain:

- **the financial plan inherent in the valuation model should be reviewed and used as a basis for planning to fund needed capital expenditures, through operating cash flows and some borrowing.**
- **The Town should also actively pursue alliances that can help in reducing costs, including the costs of purchased power, and thereby rates to customers**
- **the Town should engage an external/internal resource to aid with the development and execution of the capital investment plan, and to mange any external utility contracts.**

Choosing to retain LEU now does not limit the Town's ability to re-visit the sale option in the future

Note: the above recommendations apply for both LEU operating options: 1) NSPI Contract and 2) in-house field staff

8. Summary

- The first decision for the Town is to either sell or retain LEU.
- This decision will depend on the unique circumstances of the Town with consideration of:
  - the need for and potential use of the sale proceeds,
  - the risks of operating LEU (including implementation of the capital investment plan),
  - customer rate impacts and
  - the community

If it is decided to sell LEU, it is recommended that the Town:

- **Conduct an auction process in an effort to obtain multiple competitive bids to ensure the best combination of sale price and customer guarantees**

8. Summary

If it is decided to retain LEU, it is recommended that the Town:

- Implement the capital investment plan
- Hire a qualified "Utility Engineer" (retiree or consultant), to help execute the capital plan
- Transfer ownership of the 69 kV transmission line that serves Highliner Seafoods to NS Power. **Eliminates $1.4 M from capital investment plan, which would in-turn lower LEU customer rates.**
- Pursue shared service arrangements with neighbouring municipalities/ utilities

8. Summary

Under the Retain ownership option, the Town will need to evaluate the two alternative operating arrangements for LEU:

- Renew NSPI Services Contract, or
- Re-establish inhouse field staff and/or share resources

It is recommended that:

- **the Town continue with the NSPI Services contract in the short-term**
- **monitor the level of satisfaction/ cost with the NSPI Services contract**
- **Investigate hiring in-house field staff and/or alternative shared service arrangements with other municipalities**

Appendix

- Slide info to be included in anticipation of potential questions:
  A. Details on costs of NSPI Service Contract – as referenced on slide 7
  B. Details of in-house staffing – as referenced on slide 8
  C. Domestic customer rate impacts
  D. O&M cost summary

Appendix A

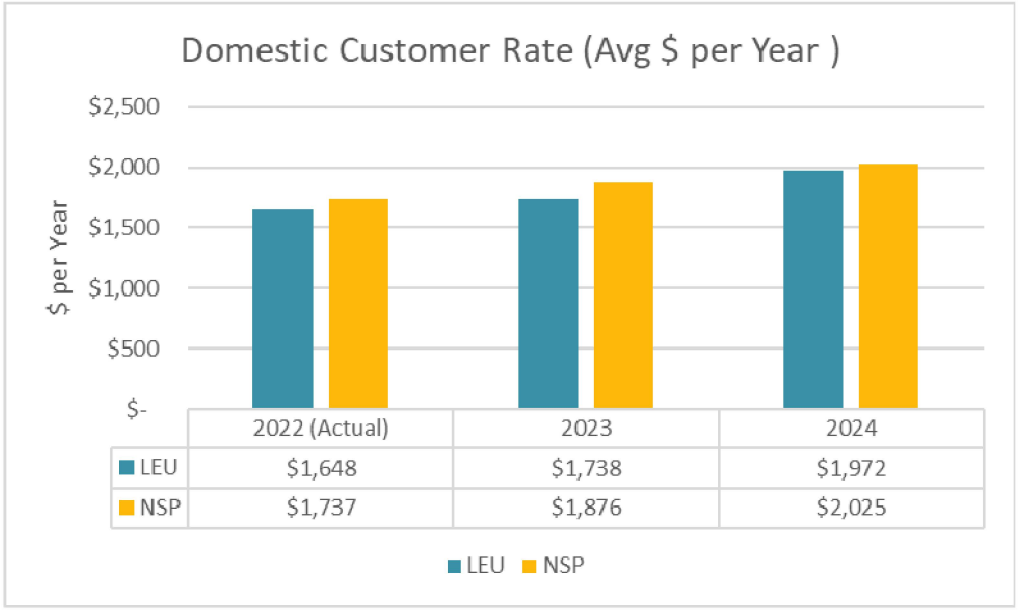
- NS Power Contract
  - Rates will increase under new contract arrangements.
  - Town to get comparison quotes for similar work
  - Can another entity perform all of the tasks ideneified in the current NS Power contract.

Appendix B

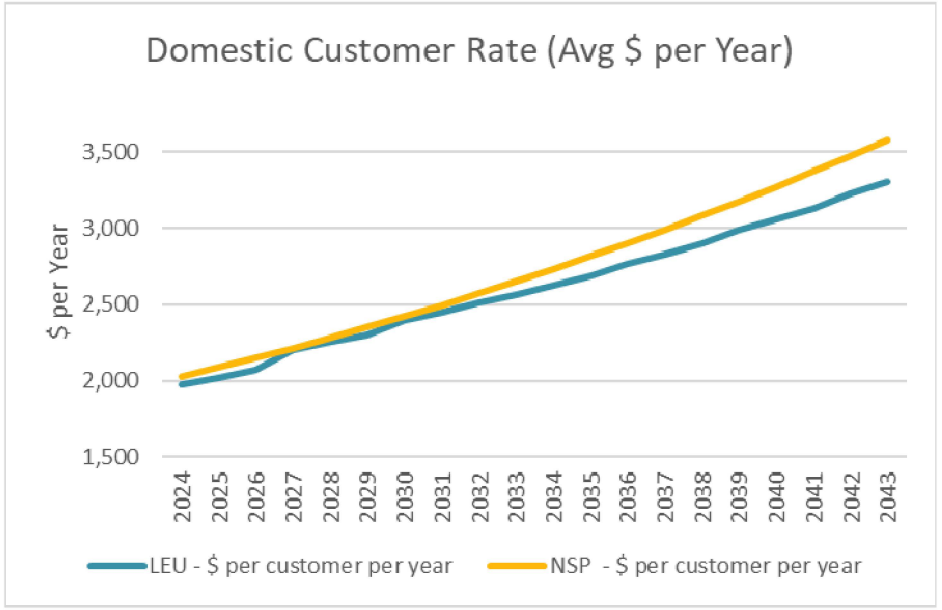
- Details of in-house staffing
  - App cost for new line truck is $450k and delivery time is at least two years
  - Staff costs are $50/hr for PLT, metering personnel $20-$30/hr, super vispr

Appendix C – Domestic Customer Rate Impacts

Short-term 2022 to 2024



Long-term 2025 to 2043 (avg. of 4.4%)



Short-term rate reduction for 2022 to 2024 of 5.4%, 8.0% and 2.7%

Appendix D – Operating and Maintenance Cost Comparison

	O&M per Customer
Ontario Maximum	$ 254.96
Ontario Minimum	$ 40.26
Ontario Average	$ 140.49
Nova Scotia Utilities	
Lunenburg	**$ 209.46**
Berwick	$ 319.87
Mahone Bay	$ 293.81
Riverport	$ 292.11

Town Of Lunenburg

Electric Utility Financial Evaluation and Sustainability Assessment of Future Options

Final Report

February 3rd, 2023

SUBMITTED BY CIMA CANADA INC. & BDR

CIMA CONTACT
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BDR CONTACT
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pzarnett@bdrenergy.com

Table of Contents

1 EXECUTIVE SUMMARY

1.1 *Scope of Report*

This Report is the work product of CIMA+ and BDR North America Inc. (the "Consultants") for the Town of Lunenburg (the "Town"). The Consultants were retained by the Town on September 16, 2022, as the successful proponents in response to its Request for Proposals RFPTOL2022017.

The assignment scope as defined in the Request for Proposals was the preparation of an independent report that provides a comparative assessment of the sustainability, risks, and potential impact on customer rates under different potential paths forward regarding the future ownership and operation of the Town of Lunenburg Electric Utility (the "utility: or "LEU"), as follows:

• Sale of the utility to NSPI or another third party (subject to approval of the provincial utility regulator, the Nova Scotia Utility and Review Board)
• Retain ownership and renew the service contract with NSPI or another provider
• Re-establish the Town's in-house field staff (presumably under the Town's continued ownership).

In considering the option of a potential sale, the Town required the Report to include an updated financial market evaluation of LEU using various valuation methodologies, including book value, in order to help in determining the fair market value of a potential sale price for LEU.

Work carried out therefore included:

- Valuation of the utility, carried out by both discounted cash flow modeling and by value benchmarking based on both actual sales of Canadian municipal distribution utilities and share prices of utility companies in the stock market; Valuation results are detailed in Section 2. Methodology and assumptions for the valuation are in the Appendix Section 7.2.4.
- High level review of the services received, and amounts paid under the present contract with NSPI to operate and maintain the distribution system, with benchmarking and review of alternatives; This review is documented in Section 3.
- Preparation of an "environmental scan" of the Canadian and Nova Scotia electricity industry and the issues and risks to which an electric utility business, and specifically a small utility, would be subject. The environmental scan findings are included in the Appendix Section 7.4 to 7.7 within this report.

This Report sets out the information obtained, analysis methodology and approaches, results, issues identified, and conclusions.

1.2 *Fair Market Value of Lunenburg Electric Utility (LEU)*

Fair Market Value is defined as the price established in a transaction between an informed, willing buyer and an informed, willing seller. For income-producing assets (such as an investment, business, or property), in the absence of actual offers from purchasers or acceptance of offers from sellers, Fair Market Value is estimated by one of two methods, or a combination of them:

1. Discounted cash flow analysis, which determines the present value of cash flows forecast over time; and
2. Review of the prices established by actual market transactions in which a similar business, investment or property was sold under relatively similar conditions.

Both methods were used by the Consultants to value LEU.

The discounted cash flow analysis used data and assumptions based on the expertise of the Consultants and input from Town staff to forecast 20 years of operations of LEU assuming:

- Continued ownership by the Town and investment in the system as required; and
- Ability to recover all prudent costs through rates approved by the Nova Scotia Utility and Review Board.

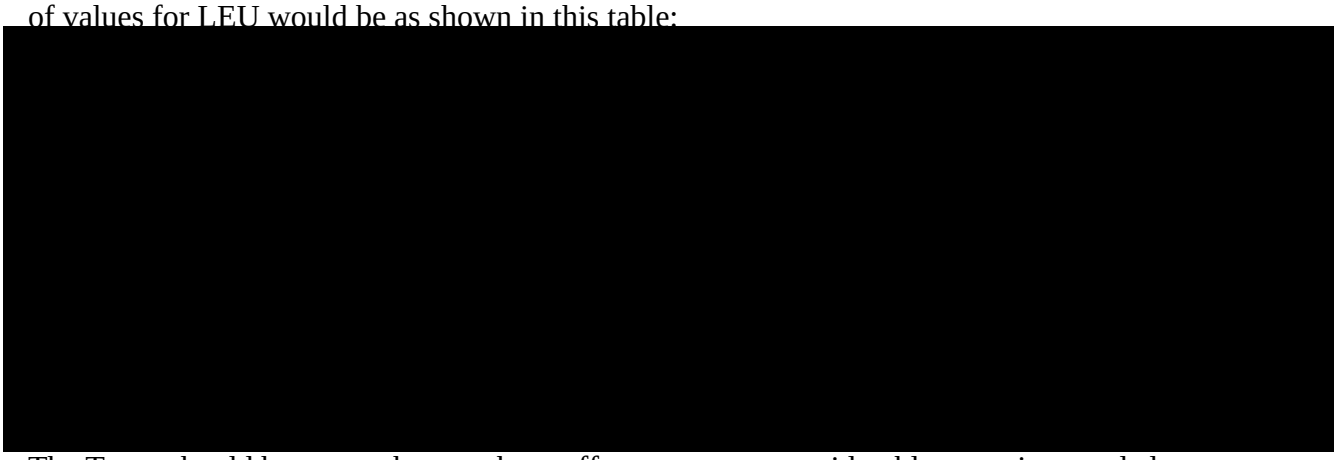
To represent the value of operations continuing beyond 20 years and the business assets in place after 20 years, a "terminal value" was estimated, using a multiple of earnings. This methodology has been used by the Consultants in numerous valuations of other electricity utilities for more than 15 years. Cash flows and the terminal value were then discounted back to a valuation date of December 31, 2023. This assumes that if the Town were to decide to offer LEU for sale, the transaction might close at about that time.

[redacted]

The modeling verifies that needed capital expenditures of about $15 million over the next 10 years can be financed in a large part by the operating earnings of the utility (assuming increased rates are approved by the NSUARB), and that the continued capital investments will ultimately increase the value of LEU in the event that the Town decides to retain it now, and sell at some point in the future.

The results of the discounted cash flow modeling were verified by a market benchmark review, including 10 sales of similar distribution utilities in Ontario and one (Kentville) in Nova Scotia. The review indicated that over time, such utilities command prices in the range of [redacted] the regulated asset base ("rate base"), or [redacted] book value. In the capital markets (stock market), utility share prices at current values are about [redacted] earnings, however earnings multiples are typically [redacted] or higher for sales of small utilities.

Applying these multiples to the regulated asset base, book value and earnings of LEU, the range of values for LEU would be as shown in this table:



The Town should be aware that purchase offers may vary considerably over time, and also between prospective bidders. This is because the value that may be placed on LEU by a purchaser depends on the purchaser's ability to operate LEU profitably, and on the strategic value to the purchaser (how ownership of LEU fits with the purchaser's other business objectives).

1.3 *Nova Scotia Power Incorporated (NSPI) Contract or Alternative Supplier*

The Consultants reviewed the contract between LEU and NSPI from the standpoint of their operational experience with electric utilities and discussed with Town Staff to determine their level of satisfaction with the work done and ease of doing business.

It was concluded that NSPI under their current contract is completing the field work satisfactorily; however not all service orders are completed within NSPI's level of service times. In addition, the contract is administratively burdensome to manage, particularly around communications between LEU and NSPI for weekly Power Line Technician (PLT) work schedules and project status updates.

It also appeared that while work proceeds satisfactorily under ordinary conditions, the terms of the contract divert NSPI's resources away from LEU when an extreme event (such as major storm) has taken place. This clause could become a drawback if the Town experiences a similar event at that same time as NSPI or LEU is not affected by such an event, but they still require work to be completed within the LEU territory. The risk of major storm events is not going away, and climate change must be considered as a major factor as more severe weather events are occurring in Eastern Canada and the Town needs to ensure that their interests are looked after.

To assess the reasonableness of costs incurred under the contract, the Consultants collected statistics for operations and maintenance expense per customer for a sample of utilities in Nova Scotia and Ontario[1] with fewer than 10,000 customers.

By comparison with the Ontario utilities, LEU's annual operation and maintenance costs at $209 per customer are higher than average, but lower than several of the utilities. By comparison with the Nova Scotia utilities for which current data was available, LEU's operation and maintenance costs are the lowest.

The Consultants have therefore drawn the conclusion that the operations and maintenance costs of LEU, incurred through its contract with NSPI, are reasonable and continuation with the NSPI contract is a prudent choice for LEU.

Therefore, if the Town wishes to continue operating the LEU, it is prudent for LEU to continue with its current arrangement of contracting out services to NSPI. LEU should consider alternative arrangements only if the required level of service can be achieved at equal or lower cost.

While other potential external suppliers for the service exist, LEU's operations are already integrated with NSPI's. Similar integration with another supplier may be challenging. Therefore, based on continuing operations in a problem-free manner, service level and cost, it is a reasonable course of action for LEU to continue the NSPI contract at the present time.

However, while the NSPI contract is in place the LEU should hire an individual (such as a retired utility engineer) or consulting firm (with utility experience) to help manage the contract and research alternatives, including sharing of resources with nearby towns and communities. This individual or firm could also provide value by overseeing long term capital planning and work with finance staff to coordinate capital spending with the financial plan for LEU.

1.4 *Maintain with In-house Field Staff*

To maintain the LEU and re-establish with in-house staff there will have to be a significant operating & maintenance outlay to hire, maintain, train, and keep qualified staff, as well as capital expenditure for vehicles and equipment. This potentially could be an achievable task by the Town. Establishment and integration of the in-house team would need to move forward gradually to ensure that necessary work including system upgrades can proceed without interruption. The NSPI contract would need to allow LEU staff to work with NSPI staff to complete the tasks outlined in the capital plan should the Town wish to pursue this path. The Town should reach out to neighboring towns/communities to assess if there are synergies such as

[1] Ontario data was used for comparative purposes because: (a) there are more than 50 municipal distribution utilities to provide a diverse sample; and (b) the data are publicly available.

possible sharing of field or planning resources, vehicles, and equipment that enable some reduction in overall costs.

1.5 *Comparison of Alternatives*

A detailed table comparing the retain alternative with the sell alternative is included in Appendix Section 7.3.

In the opinion of the Consultants, the key considerations are as follows:

	Retain	Sell
Financial:	[redacted]	Town would receive cash proceeds from a sale.
	Town receives benefit [redacted] from sharing of Administrative, Finance and Council expenses with LEU.	These benefits terminate on sale. Town may be able to downsize one position.
Business Risks:	Town has all risks and obligations associated with an electricity distribution business.	Town has no further business risks.
Business Opportunity:	Town could choose to invest in related ventures, such as appliance rental or renewable generation for profit, and/or the benefit of LEU customers.	Opportunities are not necessarily terminated, but less likely without the support of the distribution business.
Customer Rates:	Modeling shows it is likely rates could remain slightly below NSPI over time.	If sold to NSPI, rates will transition to NSPI rates. If sold to another purchaser, impact on rates unknown.
Community:	Town has a branded service providing value to the Community. Town has operational control over LEU.	These benefits terminate on sale.

The following table summarizes the comparison between continuing to contract with NSPI for services and rebuilding an in-house operations staff.

	NSPI	Own Workforce
Level of Service	Fair under normal conditions. Contract allows NSPI to postpone regular service to LEU in favour of work in NSPI service territory, under extreme conditions, such as major storms.	Good under normal conditions. LEU is always a priority. Resources may be stretched if a major storm affects LEU.
Administrative	Administrative flow needs improvement.	Administration under control of Town Staff.
Cost	Prudent and known.	To be determined and may vary significantly from one year to the next.
Workforce availability	Resources are available.	Town would need to recruit and retain. Needed skill sets may not always be available for hire.
Planning	Not adequate under present arrangement. Recommend Town have its own qualified system planner for budgeting, planning and administration of contract.	Recommend Town have its own qualified system planner for budgeting, planning and administration of the capital plan.

1.6 *Further Issues for Consideration*

In the experience of the Consultants, even small utilities can remain viable and provide good service to their communities under good management. The decision to retain, sell, or even to merge the electric utility is a very individual decision, to be resolved by each community. Some decision factors that cannot be quantified by an analysis of the utility itself include:

- Financial situation of the municipal government, and proposed use of a lump sum of cash from possible sale;
- Community satisfaction with the utility and view of the potential purchaser(s) as provider of this key service;
- Community pride and desire for locally based service;
- Tolerance of the municipal government for financial, business, and regulatory risks; and
- Ambitions, if any, of the municipal government for wider business involvement, including related services and generation, for profit; and
- Availability of business allies and partners who can support the utility in improving value to customers and the municipality.

Both courses have been followed by other communities over time, with success.

If the Town chooses to actively consider sale, the Consultants recommend that an effort be made to obtain multiple competitive bids through a structured auction process, in order to assure that the Town receives the best combination of price and guarantees for customers. The Town should bear in mind that choosing to retain now does not limit its ability to consider sale again in the future.

If the Town chooses to retain for the present, the financial plan inherent in the valuation model should be reviewed and used as a basis for planning to fund needed capital expenditures, through increased operating cash flows as the result of rate increases and some capital borrowing.

The Town should also actively pursue alliances with other utilities that can help in reducing costs, including the costs of purchased power, and thereby rates to customers.

Regarding the 69 kVA high voltage line presently owned by LEU, the Consultants also recommend that the Town transfer ownership of this line to NSPI. This line serves only one customer, which is a customer of NSPI. Relinquishing ownership would mean that the needed capital expenditure for the line would no longer be LEU's responsibility. This would reduce LEU's capital investment requirements by ≈10%. The [redacted] in operating revenue per year that the LEU receives is not adequate compensation for the cost and risks associated with the line.

2 Fair Market Value of LEU

2.1 *Valuation Approaches Used*

The scope of work for this Report as requested by the Town includes valuation of LEU using multiple approaches. These include both discounted cash flow analysis and valuation by reference to financial measures of LEU, such as net book value of assets.

This section of the Report documents the results of these approaches and draws a conclusion as to the Fair Market Value of LEU.

The Consultants believe that a forward-looking financial model, with cash flows discounted, is the best methodology to determine the Fair Market Value of utilities. This modeling has been carried out. The results are reported in Section 2.2, and further documentation of the assumptions, approach, and description of the model are provided in Section 7.2.

Certain alternative methodologies could be considered as reference points against which the validity of the results flowing from the long-term financial model are considered. It is common practice for sale prices of utilities to be made comparable by showing the sale price as a multiple of a financial metric of the utility—specifically:

- Net book value of fixed assets;

- Rate base (a regulatory construct that includes net book value of assets and an allowance for working capital); and
- Earnings, specifically earnings before interest, taxes, depreciation, and amortization.

By looking at the multiples of these metrics for the sale price of other Canadian distribution utilities, an analyst can establish a range of sale prices for LEU, based on the net book value of assets, rate base or earnings of LEU. The result can be used in two different ways:

- Independently of the results of the discounted cash flow model, to establish an expected range of sale prices for LEU based on the assumption that the same market factors applicable to the other sales would apply to the sale of LEU; and
- As a check on the reasonableness of the results of the discounted cash flow model. If the model does not produce a valuation result in the range established in other transactions, the analyst would need to look for explanations in the workings of the model or in the specifics of LEU's financial and business situation.

In Section 2.3, the relationship between financial metrics and sale price for other Canadian distribution utilities sold is used to verify the reasonableness of model results and add market perspective to the Consultants' conclusions as to valuation.

In Section 2.4, the same type of financial metrics of utilities are compared with share prices for Canadian utilities that are publicly traded. The value and limitations of this analysis are discussed.

In Section 2.5, the results of all these components of the valuation analysis are summarized and a conclusion is drawn as to the fair market value of LEU.

In presenting these results and conclusions, the Consultants note that the final determinant of LEU's value to a prospective purchaser is the price offered by one or more willing purchasers. These prices are affected by timing and by the future cash flows, which may be different for different purchasers, and different for all purchasers than they are for LEU as owned and operated by the Town.

2.2 *Results of Discounted Cash Flow Modeling*

The results of the discounted cash flow model analysis are summarized in the table below which includes valuations results for a range of discount rates from 4.0% to 4.75%, and a range of terminal value multipliers from 8 to 10. The total valuation (3) is the sum of the Net Present Value of cash flows (1) and the discounted terminal value (2).

[redacted]

The Net Present Value of Cash Flows (1) is negative and reduces the total valuation. This is a result of LEU's current situation where all operating earnings will be re-invested in capital infrastructure. Further detail is provided in Section 4.0, but LEU needs to invest approximately $15 million over the next 10 years to modernize the distribution system infrastructure and will need to use operating earnings to finance the capital program.

The $15 million capital investments over the next 10 years results in a higher plant and equipment value, and ultimately increases the value of LEU in the event the Town decides to sell the utility in the future.

2.3 *Sale Prices of Other Municipal Utilities*

In this Section, a selection of comparable transactions is reviewed in terms of the following ratios:

- Sale Price to Regulated Rate Base
- Sale Price to Book Value; and
- Sale Price to Earnings (before interest, taxes, amortization, and depreciation).

These utilities are all larger, and in a few cases significantly larger than LEU, but are similar to LEU in the following respects:

- Their business, prior to the sale, was entirely, or almost all, electricity distribution;
- Except for Hydro One Brampton, which was owned by the Government of Ontario, all were municipally owned before the sale;
- All are regulated as to their rates; regulation is therefore the determining factor in their ability to be profitable as businesses.

The benchmark ratio values provide an indication of trends in the market value of such utilities, on a basis that ignores the size of utility. The sizes of a selection of the utilities sold is shown in the table below. On the basis of experience over two decades in the sector, the Consultants have concluded that size is not a major determinant of the relative price a utility can be sold for. Timing and strategic value for the purchaser appear to be more important.

Purchase Price to Book Value for a Range of Utilities of Different Sizes Sold in 2015-2017			
Utility Acquired	**Month and Year**	**Enterprise Purchase Price ($MM)**	**Purchase Price to Book Value**
COLLUS Power	December, 2017	37.0	1.76
Midland Power	May, 2017	27.9	1.92
Peterborough Hydro	September, 2016	105.0	1.40
Orillia Power	August, 2016	41.3	1.50
Hydro One Brampton	June, 2015	607.0	1.52
Average			**1.62**

For the analysis, the Consultants examined the sales of utilities in Ontario between 2012 and 2017, and have also included Kentville, Nova Scotia, sold in 1997. Canso, Nova Scotia utility was sold more recently for one dollar, under special circumstances, and has therefore been excluded.

The next table below summarizes statistics collected for ten transactions in which an Ontario municipal utility was sold for cash (rather than merged) between 2012 and 2017. Conclusions are as follows:

- Floor pricing seems to have held at about 1.5 x regulated rate base or about 1.4 x book value, with typical values about 1.5x to 1.6x. A few sales have taken place at higher values, but none above 2.0x.
- Sale price to earnings before interest, taxes, depreciation, and amortization is in most cases between 13x and 22x. Since earnings can vary widely year over year, this measure is less stable.
- In the Consultants' experience, in the Canadian sector price to regulated rate base is a widely accepted benchmark for both buyers and sellers, because the profit potential of the utility is determined by the rate base in most regulatory models.
- The Kentville transaction, although 25 years in the past and in Nova Scotia rather than Ontario, seems very consistent with recent sale pricing.

Benchmark Statistics Based on Sale of Small and Medium Size Canadian Utilities					
Utility Acquired	**Purchaser**	**Date**	**Sale Price/Rate Base**	**Sale Price/Book Value**	**Sale Price/Earnings** (before interest, taxes, depr and amort)
COLLUS Pwr	EPCOR	2017	1.90	1.76	15.4
Midland Pwr	Newmarket	2017	1.69	1.92	18.6
Peterborough	Hydro One	2016	1.50	1.40	19.1
Orillia Power	Hydro One	2016	1.52	1.50	31.8
Hydro One Brampton	Consortium	2015	1.50	1.52	13.6
Haldimand Hydro	Hydro One	2014	1.47	1.47	14.2
Woodstock	Hydro One	2014	1.52	1.38	15.5
Brant County	Cambridge	2014	1.77	1.65	16.8
Norfolk Power	Hydro One	2013	1.60	1.63	21.3
COLLUS (50%)	PowerStream	2012	1.57	1.56	12.5
Kentville NS	NSPI	1997	1.66 (est)	1.79	17.2

2.4 *Value Indications from the Stock Market Benchmarks*

A related benchmarking approach is called a **"Comparable Company Analysis."** This methodology involves a statistical comparison of the values that the capital markets are placing on "similar companies" that are publicly traded (i.e., in the stock market). The price that an investor is willing to pay for a share of stock, given the history and expectations about the company's earnings, applied to all outstanding shares, is taken as the value of the company. In sales of small utilities, the fair market value is determined when a sale takes place. In publicly traded companies, the market renegotiates the company's value every business day in the form of changes in the share price.

In the recent low interest environment, utility stocks have had high values relative to earnings, because this sector is considered to have low risk compared with many other types of businesses.

In making the following analysis of companies with shares traded in capital markets, it is recognized that while the companies are similar to each other and to LEU in that they are energy businesses with a significant regulated component, there are also important differences. The companies are of significantly greater scale than LEU, have a different or wider scope of business and in some cases, operate in multiple jurisdictions. However, the Consultants have concluded that these represent the best available comparators, and that the comparison is useful in forming a judgment about the value that an investor would place on LEU.

For these companies, only the Enterprise Value to Earnings metric is used as a value benchmark.

Publicly Traded Utilities: Enterprise Value to Earnings Ratio		
Company	**Enterprise Value to Earnings, before interest, taxes, Depreciation and Amortization**	
	2021	**2022[2]**
Algonquin Utilities	14.1	20.55
Canadian Utilities	12.4	10.63
Emera (parent company of NSPI)	11.9	13.01
Enbridge	13.2	13.13
Fortis Inc.	13.1	12.79
Hydro One	13.0	13.80
TC Energy	12.1	12.47

Typical values for these companies are multiples of earnings between about 12.0x and 14.0x, fairly consistently over the group of companies. This range is slightly lower than the ratios seen for the municipal utilities sold. The analysis can be used to support a "floor" value of about 13.0x earnings before interest, taxes, depreciation and amortization, as a benchmark based on the stock prices of Canadian utility companies, that can be used to consider the reasonableness of a value for LEU.

2.5 *Conclusions as to Fair Market Value of LEU*

- The financial model forecasts LEU's net book value at [redacted], and its regulated rate base at [redacted] at year end, 2023, the Valuation Date. Earnings before interest, taxes, depreciation and amortization for the year 2023 are forecast at [redacted]

[redacted]

[redacted] current quarter published results.

3 OPERATING LEU UNDER CONTINUED OWNERSHIP BY THE TOWN

3.1 *Contracted Out Field Services*

3.1.1 Existing NSPI Arrangement and Contract Terms

The Town has a contract with NSPI for utility services, capital work and other related services which runs out on May 31, 2023. NSPI has agreed to extend this contract until May 31, 2024. The Town recognizes that NSPI is required to perform a significant number of tasks, and while the existing contract can be difficult to manage, the field work has been completed satisfactorily. Overall, the contract seems fair, and the Town is receiving the required services as per the contract terms. Looking beyond the extension, the contract terms could potentially be renegotiated, preferably with the assistance of a negotiator with utility experience. This same individual could also work with the town in the future to assist with capital planning and other distribution system related projects.

3.1.2 Assessment of Performance and Costs

As noted in Section 1.3 the field work carried out by NSPI is satisfactory, but the contract is administratively burdensome to manage. There is an extreme event condition in the contract (Section 3.8 (c, d)).

> During any Major Events or Extreme Events, previously-scheduled Capital and Other Services and Wiring Inspection Services will be postponed until such time as NSPI has completed all system restoration work associated with such event and its personnel are available to resume the performance of such previously- scheduled Services, and NSPI will only perform those Utility Services for the Town as are required for the restoration of service to customers of the Lunenburg Electric Utility or to address safety-sensitive conditions affecting the Lunenburg System.

This clause could become a drawback if the Town experiences a severe weather event at the same time as NSPI, or even if the Town is not affected by such an event, but LEU still requires work to be completed at a time when NSPI is affected by damage from severe weather. These events are not going away, and climate change must be considered as a major factor as more severe weather events are occurring in Eastern Canada, and the Town needs to ensure that their interests are looked after.

The costs for LEU to operate with field services provided by NSPI include the rates charged for labour, vehicles and materials supplied, and the level of effort involved. What is important is whether the total cost LEU is incurring under the arrangement is reasonable.

To assess this, the Consultants collected statistics for operations and maintenance expense per customer for a sample of small Canadian distribution utilities. Operations and maintenance expense is the annual amount spent by the utility for work done to operate the distribution system and to maintain the existing assets in good working condition, including the labour and materials necessary to do that. This expense excludes:

- Customer service and administrative activities of the utility, such as call centre, billing and collecting, accounting and finance, and utility management; and
- Labour and materials for capital programs, including replacement of old or obsolete assets and addition of assets to provide for customer growth.

Note that operations and maintenance expense is only one component of the total cost a utility recovers through rates. The utility also needs to consider its cost of purchased or generated power, depreciation expense, and administration costs in setting rates. Therefore, the utility with the lowest operations and maintenance cost in any particular year, or even in the longer term, is not necessarily the utility that will have the lowest overall rates to customers.

There are many reasons why operations expense per customer can vary for different utilities, including factors that do not reflect on the efficiency of the work. These include the geography of the location; density of customers (distance between customers); age and design of the system; climate; and the proportion of time of the labour force that is spent on maintenance rather than capital work in any particular year.

However, with a sufficiently large sample, and by including data for more than one year, comparing operations and maintenance expense per customer across utilities is an accepted benchmark in the industry to draw conclusions about the efficiency and cost effectiveness of operations.

Because NSPI provides LEU with operations and maintenance services under the NSPI contract, the Consultants believe a comparison of this expense between LEU and other small and medium size distribution utilities will provide an indication of whether the costs are reasonable for the work that is being performed.

The sample includes three[3] Nova Scotia municipal utilities other than LEU, and 15 Ontario distribution utilities, all with 10,000 or fewer customers.

To prepare the table, the Consultants obtained data for the operations and maintenance expense and the number of customers for each utility over two recent years. The two-year average expense was divided by the two-year average number of customers, to compute an average expense per customer for comparison.

The Ontario utility data is arranged in order from the lowest operations and maintenance expense per customer to the highest. All Ontario distributors in the size range were included except one, Algoma Power. Algoma Power was excluded because its geographic situation and large service territory for very few customers make its operation and maintenance cost very different from any other Ontario utility.

By comparison with the Ontario utilities, LEU's operation, and maintenance costs at $209 per customer are higher than average, but lower than several of the utilities. By comparison with the Nova Scotia utilities, LEU's operation and maintenance costs are the lowest.

The Consultants have therefore drawn the conclusion that the operations and maintenance costs of LEU, incurred through its contract with NSPI, are reasonable and continuation with the NSPI contract is a prudent choice for LEU.

[3] The fourth Nova Scotia municipal utility other than LEU is Antigonish Electric Utility. At the time this report was prepared, the needed data for three utilities had become publicly available through filing with the Nova Scotia Utility and Review Board. Since Antigonish had not made such a filing recently, the data was not available for its operating and maintenance cost or number of customers.

Operations and Maintenance Expense for a Sample of Small Electricity Distribution Utilities, Nova Scotia, and Ontario 2019 and 2020 Data

	Years 2019 and 2020		
	Avg Customers 2 Years	Avg O&M 2 Years	O&M per Customer
Ontario Utilities			
Hydro 2000 Inc.	1,259	50,668	$ 40.26
Cooperative Hydro Embrun Inc.	2,388	97,075	$ 40.66
Hydro Hawkesbury Inc.	5,512	228,449	$ 41.45
Renfrew Hydro Inc.	4,335	437,802	$ 100.99
Centre Wellington Hydro Ltd.	7,220	813,993	$ 112.75
Tillsonburg Hydro Inc.	7,424	856,785	$ 115.41
Niagara-on-the-Lake Hydro Inc.	9,594	1,136,135	$ 118.42
Rideau St. Lawrence Distribution Inc.	5,905	773,892	$ 131.07
Chapleau Public Utilities Corporation	1,223	196,676	$ 160.88
Wellington North Power Inc.	3,845	622,537	$ 161.93
Hearst Power Distribution Company Limited	2,680	460,399	$ 171.82
Fort Frances Power Corporation	3,767	738,987	$ 196.17
Espanola Regional Hydro Distribution Corporation	3,319	718,175	$ 216.42
Northern Ontario Wires Inc.	5,953	1,453,804	$ 244.21
Sioux Lookout Hydro Inc.	2,845	725,248	$ 254.96
Ontario Maximum			$ 254.96
Ontario Minimum			$ 40.26
Ontario Average			$ 140.49
Nova Scotia Utilities			
Lunenburg	2,156	451,596	$ 209.46
Berwick	1497	478,850	$ 319.87
Mahone Bay	821	241,072	$ 293.81
Riverport	845	246,691	$ 292.11

3.1.3 Alternative Suppliers for this Service

The Consultants have researched the market for other alternative suppliers that may have an interest in working with the Town. From the review there are many contracting firms located within Nova Scotia (Connect Atlantic Utility Services (CAUS), K-Line, Holland Power, ARC Power) and surrounding area that would be willing to perform these required tasks requested by the Town. The Town could potentially break down the existing contract into smaller pieces to ensure they get the best desired outcome. There are nearby towns/communities that perform some of these tasks and LEU can potentially share in the costs to acquire these services.

3.1.4 Conclusions

On review, it appears that NSPI is providing the needed level of service to LEU under the contract. The cost, on a per customer basis, is the lowest by comparison with the three other Nova Scotia small utilities for which data was available, and within the range of operations and maintenance costs for small electricity distribution utilities in Ontario. The Consultants have therefore concluded that the costs to LEU of services under the NSPI contract can be considered prudent.

If the Town were to keep the status quo, they would have to re-negotiate the contract with NSPI. As the contract covers a large area of required work for the LEU, and NSPI has currently provided this work over the past four years, it would be challenging for LEU to integrate its own workforce or another external supplier. Therefore, based on continuing operations in a problem-free manner, service level and cost, it is a reasonable course of action for LEU to continue the contract at the present time.

However, while the contract is in place LEU should hire an individual (such as a retired utility engineer) or consulting firm (with utility experience) to help mange the contract and research alternatives[4], including sharing of resources with nearby towns and communities.

3.2 *Operate with In-House Field Staff*

The Town can operate the LEU with in-house staff. This is the approach used by LEU before entering into the contract with NSPI. To resume in-house operations, LEU would have to hire five (5) utility workers, two (2) meter readers, one (1) support staff and one (1) supervisor. The complement of five utility workers is required to cover off vacation and potential sick time. The utility workers can perform several distribution and substation tasks that are required to keep the

[4] This person or firm would also be responsible, on a continuing basis, for functions related to system design and planning of major capital projects.

LEU functioning on a day-to-day basis. The meters are currently read monthly. To perform this task, the Town pays NSPI a premium to have the meters read monthly and these employees could be assigned other tasks at the LEU when not reading meters.

3.2.1 Analysis of Performance and Cost Issues

The management of these new employees can become complicated as the rate of pay for the LEU workers would need to be competitive with the existing NSPI and local contractor rates, otherwise they may lose the employees to these outside agencies. There is also the need to purchase a new/used utility bucket truck, support vehicle, tools, and provide associated training, which in turn will increase the capital, operating & maintenance costs within the LEU.

3.2.2 Conclusions

The Town can manage its own destiny and become sustainable, work with other communities and towns to achieve their goals by keeping the utility under the Town. Most importantly, the Town needs to commit to the capital plan and implement it. Once the plan is executed the town will become a reliable, innovative, storm hardened utility ready for the future and a more proactive utility, providing service and rates that meet the requirements of the rate payers.

In addition to contracting out, there is also the AREA group of utilities that can be contacted to determine if there is a fit for the LEU to join and evaluate if there are benefits for the Town. The Town can then choose whether they want to employ their own crews and staff to support some of the work on a cooperative basis with the other communities.

4 IMPACTS OF LEU CAPITAL REQUIREMENT

4.1 *Capital Requirements as Identified by Strum Engineering*

It is recommended that utilities have at least a 10-year capital plan. The current plan outlined in this document is for a $15M dollar capital plan over 10 years. This plan sets forth the capital expenditures and allows for the conversion of the distribution and substation systems to meet the demands of today's market. The plan includes the construction, engineering and purchasing of long lead time items, and enables LEU to grow, prosper and can support the integration of renewables into the distribution system.

Since COVID-19 most manufacturers and vendors have extended delivery times for equipment in the range of 50-100% longer, and as such the capital plan will need to include extended delivery periods. A sound capital plan enables LEU to ensure mechanisms are in place to reduce the risk of expense overruns and meet the requirements of the proposed budget.

CIMA+ reviewed the reports from Neil & Gunter, Stantec, Strum Engineering and NSPI. Out of the review there was a common theme throughout. The reports identified significant capital investments that are required on the distribution and substation systems to maintain a safe reliable supply of energy to the LEU. CIMA+ agrees that these upgrades are required to be completed in a timely manner as the current system is getting older and becoming more difficult and costly to maintain.

4.2 *Assessment by CIMA+*

As CIMA+ reviewed the reports provided it became apparent that significant work on the distribution and substation systems were required.

These include upgrading the two (2) 5.333 kV feeders to 12.47 kV, adding a new substation or upgrading the existing substation to accommodate the new 12.47 kV feeders. This feeder work involves the upgrading of transformers (dual primary voltage), poles, wire, and associated equipment as the existing voltage is a non-standard voltage in North America and the equipment utilized on this system is only manufactured as a specialty order. Continuing at the existing voltage would therefore result premium costs and probable longer lead times for delivery of equipment. Additional work is also required to upgrade three (3) 4.16 kV feeders and upgrade the substation to 12.47 kV. Higher voltage assets can also save costs by reducing system losses.

The two 5.33 kV feeders 81W-321 (Old Town) and 81W-322 (Industrial/Blue Rocks) require upgrading prior to the substation conversion. The capital plan recommends that these two feeders to be converted in the first two years of the plan 2023 & 2024. In the third year the two feeders would then be energized to 12.47 kV. This also would require a new substation or an upgrade to the existing substation to the 69 kV to 12 kV standard voltage. This upgrade would also help with the identified deficiencies and clearance issues within the existing substation.

There was also a government mandate that requires LEU to remove all PCB transformer equipment by 2025. It is recommended that a testing program be in place and executed over the next three years to eliminate all PCB distribution transformers on the system.

The recommendation in the capital plan is for the two 5.333 kV feeders to be completely converted by purchasing dual primary rated transformers 12.47/5.333 kV which will facilitate the transition to 12.47 kV. By doing this there is no need to test the transformers while on the poles. The transformers can be removed from service and then tested at the LEU yard or offsite if their manufacture date falls under the specified date by the regulation at a lower cost. As the transformers are being replaced the poles and electrical equipment on those poles can be upgraded to 12.47 standards at the same time. It should be noted that some of these transformers have already been purchased and are installed within the LEU service territory. These units would not have to be tested for PCBs.

The remaining three 4.16 kV feeders can then be tested accordingly and if they fail testing, they can be upgraded also to a dual primary voltage transformer 12.47/4.16 kV.

To accommodate the substation upgrades, investments must be made within the next three (3) years to secure the long lead time items such as the power transformer, 12.47 reclosers, 69 kV switches, cabling, and associated buss work. This work will accommodate the conversion from 5.333 kV to 12.47 kV.

With respect to the transmission line feeding Highliner Seafoods, the 10-year capital plan has identified a $1.4 million dollar upgrade that is required in 2031 & 2032. The Consultants recommend that the Town transfer ownership of this line to NSPI. This line serves no other customers. Transfer of ownership would transfer the responsibility for the cost of the required upgrade to NSPI, thereby reducing LEU's planned capital investment by ≈10%. The [redacted] in operating revenue per year that the LEU receives for this line does not adequately compensate LEU for the cost and risks associated with the line.

4.3 *Impact of Capital Plans on Sale Option*

If the Town sells LEU in the next 1-2 years, it will avoid having to arrange funding and carry out about $15 million in necessary capital expenditures. As well as avoiding the financial management issues, the Town would avoid the effort of managing this significant capital program. All investment requirements and responsibilities would be turned over to the purchaser. If the purchaser is a large utility like NSPI, costs would be socialized across its system and would not directly affect the rates of local customers.

In considering an offer to purchase, the Town should clarify what the purchaser commits to do to maintain the safety and reliability of the distribution system serving customers in Lunenburg. It is not uncommon for a purchaser to reduce or defer capital programs in a purchased utility in order to recover any acquisition premium paid. In approving a sale, the Utility and Review Board will also want to be satisfied that customers will not be harmed by the sale.

If the LEU is sold, the Town must ensure that the benefits outweigh the short term influx of cash to the Town. The Town will lose the control of the utility. This loss can include the ability to allow integrated renewables (solar, wind, batteries) and EV chargers on the distribution system without complicated procedures, policies, and loss of benefits to the citizens. The sale may leave the Town with issues around reliability, response time for outages and service requests. The sale has the potential to affect a sustainable, environmentally friendly town. The rates will most likely rise over a period of time as they are harmonized with the purchasing utility.

4.4 *Impact if LEU is Retained by the Town*

If the LEU is retained, there is a significant level of flexibility given to the Town. The Town can keep the NSPI contract in place and potentially renegotiate some of the clauses, and/or contract out some capital and operational work to other contractors who are prepared to set up an office in the town or nearby.

In retaining LEU, the Town needs to invest in and carry out the needed capital work, the costs of which, at $15 million over ten years, are more than three times the current net book value of assets. While this is very significant financially, modeling shows that most of the cost can be funded from the operating cash flows of LEU as supported by future rate increases. The Town would in effect be reinvesting the earnings of LEU to sustain and build value in the future. Amounts and timing of debt requirements are estimated in the discounted cash flow model.

This will also enable the Town to have the ability to integrate renewables into the distribution system at their own rates and enable consumers to have more choice (sale of heat pumps, water heaters, community solar). The Town can also work with communities in the area to form a collaboration of shared services that meets the needs of all parties.

No capital cost for investment in renewables or rental assets were included in modeling the LEU retention option.

5 BENEFITS, COSTS AND RISKS OF RETAINING LEU VS. SALE

5.1 *Overview*

This section summarizes a table comparing retaining LEU and selling, in terms of costs, benefits and risks to three categories of stakeholders:

- The Town of Lunenburg as owner of LEU and as a municipal government
- LEU itself; and
- The customers and community of Lunenburg.

All of these stakeholders will experience potential effects based on this decision, some of which are immediate, and some longer range. Effects can be quantifiable in financial terms, or entirely qualitative. For example, customers' preference for locally based service is qualitative and cannot be stated in financial terms. However, changes in rates to customers can and are quantifiable.

The comparative table includes quantifiable financial benefits and costs but does not provide estimates of magnitude. These are outside the scope of the current study, but the most significant can be explored in follow-on work, once the Town has made initial decisions as to direction. The full table is included as Appendix Section 7.3.

5.2 *Benefits, Costs and Risks to the Town*

From the standpoint of the Town, the value that can be achieved by selling LEU is approximately the same as the value that can be realized by holding and operating LEU. See Section 2.5 for that analysis. The key difference is that the hold option leaves the **risks** of different financial outcomes with the Town. By selling, the Town locks in the financial value of LEU and transfers all the risks of the distribution utility business to the purchaser. The Town

gives up the chance of benefits that are greater than forecast, in return for eliminating the risk that benefits will be less than forecast.

In selling, the Town avoids the financial risks of funding a $15 million capital program and managing completion of the program. However, there are risks that a seller may not commit to renewing and maintaining the system with the same dedication as would be the case under local control.

The discounted cash flow model indicates that a large component of the capital needs can be funded from operating cash flows of LEU at rates that are not expected to increase above NSPI rates.

If LEU is sold, the Town will lose the benefit of sharing staff, who perform necessary duties for the Town, with LEU, and having part of the salaries of such staff paid by the electricity rates.

[redacted]

5.3 *Benefits, Costs and Risks to the Utility*

Benefits of retaining LEU under ownership by the Town primarily arise from the opportunity to manage revenues and costs directly to increase profitability.

One benefit of retaining LEU under ownership by the Town include the cost savings to the utility resulting from sharing staff with the Town. If desired, LEU would also, as an independent utility, have the option to pursue cost savings in its purchased power. As part of a larger utility under different ownership, it is possible that equal, or even greater cost efficiencies would be realized in the operation of the LEU service territory; however, under Town ownership all cost savings are applied to reduce rates to Lunenburg customers instead of being shared among a larger customer base.

Conversely, all costs including both capital and operating costs of the utility under ownership by the Town must be borne directly by the LEU customers, instead of being socialized to a larger customer base if it were sold. This makes it important, under Town ownership, for LEU to have a good multi-year plan for large expenditures to keep rate changes smooth and predictable for customers, and to support financial planning.

One possible major cost risk is damage to the system from a **major storm**, causing LEU to have unplanned and unbudgeted costs for restoration. If the amount of damage is very significant, LEU could apply to the Nova Scotia Utility and Review Board to allow recovery of the storm damage costs from customers, so that the costs and related risks are actually with the customers rather than with LEU as a utility. However, if the amount of storm damage is not enough to warrant an application for recovery, or if the Nova Scotia Utility and Review Board does not approve the total amount of the cost, storms could impose a risk on LEU itself. Under the Town's ownership, the cost of a storm causing local damage on LEU's system are with LEU and its customers. If sold, the costs would be socialized to a larger customer base. Conversely, if there is a storm that does not specifically affect LEU, under present ownership LEU does not

incur any storm costs. As part of a larger system (if sold), LEU customers would have to pay the costs of storm damage wherever it occurs.

If LEU is sold, all costs and risks associated with loss of revenues or unexpected expenses specific to LEU's system are transferred to the purchaser, and recovered through rates to a larger customer base, which would include Lunenburg electricity consumers.

5.4 *Benefits, Costs and Risks to Customers and the Community*

Local ownership provides certain benefits to customers and community stakeholders. These generally include service from a local base, and use of the utility to support local programs and events. As well, the discounted cash flow analysis indicates that despite the major capital program needed by LEU, rates to Domestic customers if retained by the Town are still slightly lower than those forecast for NSPI.

If LEU is sold, these benefits may be lost, unless the Town is able to negotiate guarantees for some of them, in the sales agreement.

Risks associated with costs to LEU's system, and benefits arising from LEU's initiatives to reduce costs, affect customers through the rates, and were discussed in Section 5.3.

6 CUSTOMER IMPACTS OF OPTIONS

6.1 *Rates*

6.1.1 Introduction

The electricity rates that customers pay is a key consideration in the evaluation of future options for LEU. From the perspective of electricity customers, the option that provides the lowest rates would be the preferred alternative assuming an equivalent level of service.

Historically, LEU customers have paid lower rates as a result of the Town of Lunenburg ownership and operation of the utility as compared to NSPI. For the purpose of evaluating customer rate impacts, the Consultants have used NSPI rates as a comparator to rates assuming the continued ownership and operation by the Town of Lunenburg. The NSPI rates are assumed to be the rates customers in Lunenburg would pay if the Town chose to sell LEU, and NSPI is the purchaser.[5]

The Consultants have compared LEU's Domestic customer rates with NSPI's Domestic rates on 1) a short-term basis for the term of NSPI's current General Rate Application and Settlement Agreement (M104301 dated November 24, 2022) which sets out rates for 2022 through 2024, and 2) for the 20-year term of the valuation model. Details of the assumptions and inputs to the calculation of the difference in rates are provided in Section 7.2.5.

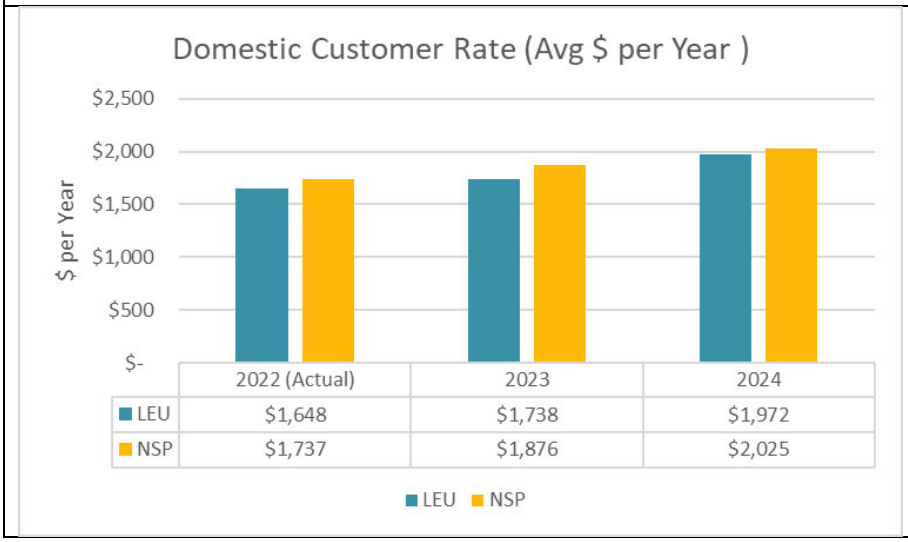
[5] If the purchaser is a utility other than NSPI, rates could be either higher or lower than NSPI rates.

6.1.2 Short-term Rate Comparison 2022 to 2024

The chart below provides a comparison of Domestic rates starting with the current rates in effect for 2022, and projected rates for 2023 and 2024. LEU's 2023 and 2024 rates are based on the results of the valuation model and reflect the rates needed to support the required investment in capital infrastructure, operating and maintenance costs, as well as the projected increases in the cost of power as per the Settlement Agreement (i.e., Municipal Tariff increases of 5.4% and 6.1% in 2023 and 2024 respectively). NSPI Domestic rate increases of 6.9% and 6.8% for 2023 and 2024 are also as detailed in the Settlement Agreement.[6] The results of the rate comparison are presented in the chart below. On a percentage basis, LEU's Domestic customer bills are estimated be lower than NSPI by 5.4% in 2022, 8.0% in 2023 and 2.7% in 2024 on average. The decrease in the magnitude of the savings from 8.0% to 2.7% is due to an assumed increase in LEU rates effective in 2024.

[6] Approval of the Settlement Agreement by the Utility and Review Board is required for these rates to come into effect. At the time of writing, such approval had not yet been received.

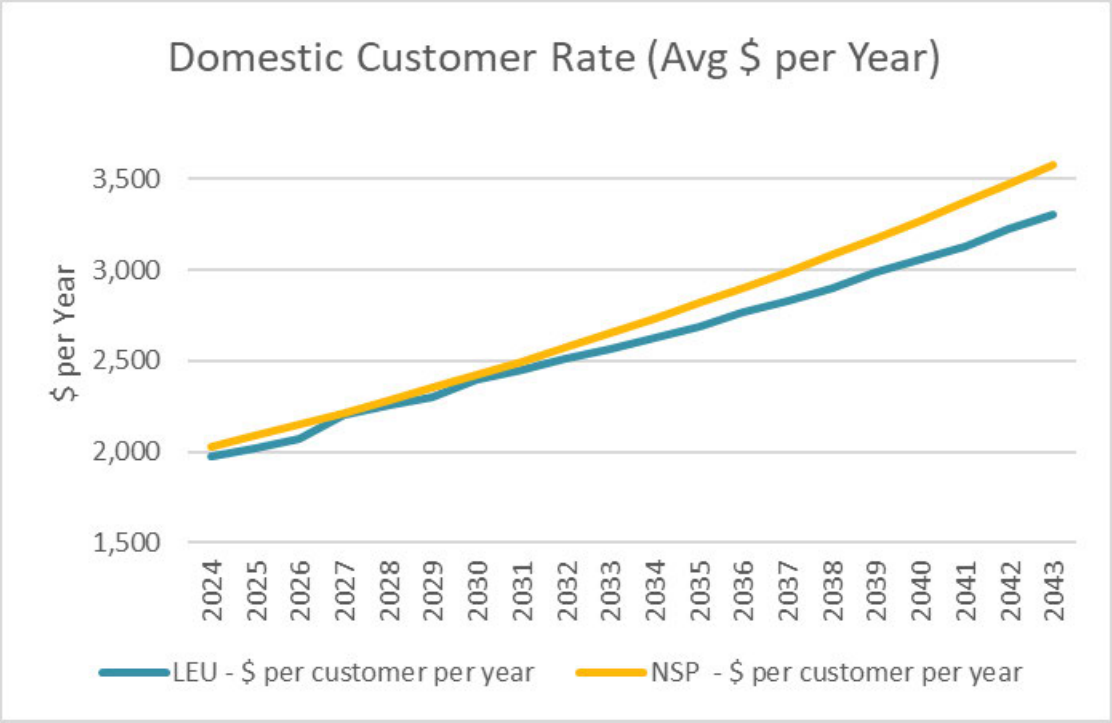
Short Term Comparison of Domestic Rates, LEU owned by the Town, vs. NSPI



6.1.3 Long-term Rate Comparison 2025 to 2043

Similar to the section above for short-term rates, LEU's Domestic rates in the long-term are also derived from the valuation model and reflect revenues required to support the forecast capital expenditures, operating and maintenance costs needed to provide service. It is assumed that power will continue to be supplied by NSPI, and LEU will rely on the UARB to ensure the Municipal Supply Tariff is just and reasonable. As presented in the chart below, Domestic LEU customer rates are forecast to be modestly lower than NSPI Domestic rates by an average of approximately 4.4% from 2025 to 2043, with differentials ranging from a minimum of 0.6% to a maximum of 8.5%.

Long Term Comparison of Domestic Rates, LEU owned by the Town, vs. NSPI



It should be noted that distribution costs, and relative changes in rates for the two utilities (LEU & NSPI), are difficult to forecast over the long-term and the results could vary significantly. Factors potentially impacting rates include differences in capital investment or operating and maintenance costs, including the effects of cost efficiencies LEU could achieve through shared services or partnering agreements, or alternative electricity supply arrangements. As an example, if the estimated cost for capital investments were to be increased by 25% (starting in 2025), the long-term average savings for LEU Domestic customers would be reduced from 4.4% to 2.2%. Conversely, a reduction in capital investments or operating and maintenance costs would provide a higher level of savings to LEU customers.

As previously stated, this comparison and quantification of rate advantage under ownership by the Town assumes that the purchaser would be NSPI. Even if NSPI as the purchaser were able to reduce the costs of operation of the LEU system and related customer service through economies of scale, the cost savings would not be sufficient to affect NSPI's province wide costs

of serving Domestic customers. It is expected that NSPI's preference would be to move Lunenburg customers to the same rate as NSPI's other customers elsewhere in Nova Scotia, as soon as approved by the Utility and Review Board. They might, however, subject to approval by the regulator, agree as part of the contract to purchase LEU, to give lower rates to Lunenburg customers for some agreed period, for example, until NSPI's next General Rate Application is approved (say, 2026). This has been done in acquisitions of small utilities by Hydro One in Ontario as a support for their being no harm to customers as a result of the sale, and Kentville, NS had a domestic rate transition period with their sale. However, it is unknown if such an agreement would be acceptable to the Nova Scotia regulator in this potential circumstance.

If the Town entertains competing offers to purchase LEU, it is also possible that the successful purchaser would be a party other than NSPI. In that case, rates would likely be determined separately for the LEU service area under the new ownership. If the new owner could bring efficiencies to the operation of LEU, it is possible that rates could be just as low as under Town ownership, or even lower. However, if the purchaser is investor-owned, other costs might be added that are not relevant to a municipality as owner. These include a commercial rate of return on investment and related income taxes. That could force rates up to the NSPI level or above. In this case as with NSPI as the purchaser, the Town could ask for a commitment on rates as part of the agreement for purchase and sale and evaluate the customer rate impacts on the basis of such commitment from the purchaser. Given the role of protecting the interests of rate payers, the UARB would not look favourably on a proposed acquisition that would increase rates above the NSPI rates and could potentially disallow the acquisition on this basis.

6.2 *Service*

With respect to utility service if the LEU is sold there is a potential for service quality, response times, reliability, and service order request to drop. The Town would not have a say in the matter as these would then fall under the new owners' criteria. Some of the items may be negotiated into the sale but after a period of time, they would fall under the new owners' policies and guidelines.

By keeping LEU within the Town, the Town has control of what can and cannot be done. There is a benefit to the customers in that the Town owns and manages the utility, and the control is local. There is a local office that customers can recognize. Services can be offered to customers that can bring income to the LEU. Renewables, EV charging stations, can be integrated into the distribution system without requiring complex policies and procedure to manage, as long as all Safety Codes and CSA Standards are followed.

7 APPENDICES

7.1 *Scope of Work and Understanding of the Town's Needs*

7.1.1 Scope of the Assignment

This Report is the work product of CIMA+ and BDR North America Inc. (the "Consultants") for the Town of Lunenburg (the "Town"). The Consultants were retained by the Town on September 16, 2022, as the successful proponents in response to its Request for Proposals RFPTOL2022017.

The assignment scope is defined in the Request for Proposals as the preparation of an independent report that provides a comparative assessment of the sustainability, risks, and potential impact on customer rates under different potential paths forward regarding the future ownership and operation of the Town of Lunenburg electric utility (the "utility: or "LEU"), as follows:
• Sale of the utility to NSPI or another third party (subject to approval of the provincial utility regulator, the Nova Scotia Utility and Review Board)
• Retain ownership and renew the service contract with NSPI or another provider
• Re-establish the Town's in-house field staff (presumably under the Town's continued ownership).

In considering the option of a potential sale, the Town required the Report to include an updated financial market evaluation of LEU using various valuation methodologies, including book value, in order to help in determining the fair market value of a potential sale price for LEU.

Work commenced on September 16, 2022, with an initialization meeting between the consulting team and Town staff involved in operation and administration of the utility. Over the period between September 16, 2022, and the beginning of December 2022, the Consultants collected, and reviewed data provided by Town staff, including:

- historic financial and budgeted costs,
- approach to operations, including sharing of management, customer service and administrative resources with the Town's other functions;
- carrying out of operations, maintenance, capital work and system planning under current contract with NSPI;
- customer base, rates and revenues; and
- issues of concern to the Town with regard to the future of the utility.

In addition to reviewing documents, the Consultants met frequently with Town staff to clarify information and analysis approaches. The consultants also reviewed documentation provided by NSPI to the Town to understand the scope and approach for the work to be carried out under the current contract.

The analysis then proceeded on three parallel tracks:

- Valuation of the utility, carried out by both discounted cash flow modeling and value benchmarking based on both actual sales of Canadian municipal distribution utilities and share prices of utility companies in the stock market;
- High level review of the services received, and amounts paid under the present contract with NSPI to operate and maintain the distribution system, with benchmarking and review of alternatives; and
- Preparation of an "environmental scan" of the Canadian and Nova Scotia electricity industry and the issues and risks to which an electric utility business, and specifically a small utility, would be subject.

The Consultants then proceeded with the preparation of this Report, setting out the information obtained, analysis methodology and approaches, results, issues identified, and conclusions.

7.1.2 Exclusions and Disclaimers

All information supporting the analysis made and conclusions drawn by the Consultants as documented in this Report are based on:

- documentation provided by Town staff
- discussions held with Town staff
- public domain documents; and
- the Consultants' expertise in the electricity sector, their subject disciplines, and general knowledge.

The Consultants have relied on documentation provided by the Town and discussions with the Town. The Consultants did not audit the Town's, or the utility's financial or operating information and have not performed site inspections or testing on the distribution system or any of its assets.

Information from third parties and public sources such as websites was also used and considered in the context of the Consultants' experience with and knowledge of the sector, but without specific independent verification.

The basis of assumptions and estimates used in analysis, especially in discounted cash flow valuation modeling, have been discussed with Town staff. Reflecting the level of uncertainty associated with certain key forecasts and variables, scenario modeling has been used to identify forecast risk and support decision-making.

This Report is intended to be used to support decision-making by the Town as to the future of its utility, with the understanding that the situation of every community is different, and every community may weigh relevant factors differently.

The Consultants make no representations or warranties as to the use of this Report by any party other than the Town, or by the Town for any purpose other than the purpose for which it was prepared.

7.1.3 Understanding the Needs and Challenges of LEU

As owner and operator of an electric distribution utility, the Town is faced with certain risks that are common to every such utility in the twenty-first century. These include:

- Maintaining standard of service and reliability;
- Managing distribution planning and design;
- Legislative and regulatory compliance;
- Changing standards related to supply, especially toward low emitting and renewable sources;
- Meeting changing expectations of customers as to level of service, rate and supply options, and information;
- Technology in supply, distribution infrastructure, information; and electricity uses (including electric vehicles);
- Ability to recruit and retain qualified employees or contractors;
- Managing costs to control customer rates; and
- Obtaining financing since electricity distribution is a capital-intensive business.

As discussed further in Section 7.3, some of these challenges can be especially difficult for small utilities, that cannot afford dedicated internal experts in a range of specialized functions, and that may not be able to obtain funding on the same terms as a large company.

It is possible for a small local electric utility to be successful in meeting its customers' needs at reasonable cost, by contracting out or sharing resources. To date, LEU has continued in operation by doing both. The utility's field operations are contracted out to NSPI, which also procures power supply for LEU at a regulated rate. The cost of customer and back-office services such as management, accounting and treasury, human resources, contract management, telephone response to customers, and billing, are controlled by sharing resources with the Town.

However, the challenges are significant, and the option is available to the Town to exit the electricity distribution business entirely by selling LEU. In the last 25 years, two municipal electric utilities have been sold in Nova Scotia (Canso and Kentville). Four other small utilities continue to operate in Nova Scotia: Riverport, Mahone Bay, Berwick and Antigonish.

The Town has decided the timing is right to explicitly consider whether it is in the best interest of the community overall, and of the residents, businesses, and institutions in the community, for this vital service to be provided by the Town, as compared with some other entity as the owner and manager.

The Town has two questions facing it:

(a) Should electricity distribution and related customer service assets continue to be owned by the Town; and

(b) If so, how should the assets be operated and maintained, and services provided, in order to ensure service levels and pricing that are satisfactory to the customers?

Across Canada as well as in Nova Scotia, other municipalities, especially but not only small ones, have faced these same questions, and have reached different conclusions because the situation and needs of each community are different. Also, factors affecting these decisions change over time.

There is no clear order for consideration of these questions that is the same for all municipalities, in the experience of the Consultants. Sometimes the review of these options starts with a clear preference in terms of whether or not to sell and exit the electricity business.

A wish to sell may be motivated by the financial situation of the municipality and its need for funds for non-electricity services and projects, or by concerns about the risks created by changes in technology or regulatory requirements. In such cases, the need of the municipality as a seller is simply to find the best potential buyer, and to be able to evaluate the financial offer by comparison with the market, and with the value that the electricity business has for the community in the present "hold and operate" scenario. The municipality may choose to change operating methods, to go through processes to raise rates, or to invest in assets if analysis shows there will be a return on these costs through an improved sale price.

Many municipalities prefer to hold and operate their utility for reasons that are not financial, or not in the municipality's finances. These may include values such as:

- Operating cost synergies that benefit other municipal activities;
- Local control, decision-making and branding (having the municipality's name on the utility;
- Ability to maintain lower rates to consumers;
- Local base of service, for faster response to outages;
- Local office and telephone answering, for convenience and friendliness to customers;
- Ability to maintain service policies that reflect local values and economic development;
- Support for community and charitable activities focused on local initiatives.

If these concerns are dominant, the municipality and the electricity customers may prefer local service as long as rates, levels of service and range of services available are the same as, or at least not significantly worse than an alternative provider. The municipality may then be less active in seeking improvements to the effectiveness and efficiency of its operations.

In the case of the Town of Lunenburg, the Consultants understand that the decision on ownership will depend on both the value of the utility as an asset for potential sale, and the ability to continue providing good quality service at rates that are no more than, and preferably less than would be approved for and charged by any purchaser of the utility. For this reason, the Consultants have considered not only the current operating contract with NSPI, but other aspects of the utility's costs and operations which might be changed to control costs and keep rates competitive now and into the future.

The value of a business to the owner is typically determined using a discounted cash flow approach, which includes forecasts of revenues, expenses, and other cash flows such as capital expenditures. A for-profit business owner acts to maximize value by increasing revenues and minimizing expenses. As a result of the regulatory framework that determines LEU's rates to customers, combined with a desire on the part of the Town to maintain the lowest rates to consumers consistent with the cost of providing service, rates might not be maximized in the same way they are in a competitive, for-profit business. As a result, the Consultants, in discussing the "value" of the utility to the Town, will consider value provided indirectly, through lower rates and sharing of resources, in its discussion.

7.2 *Valuation Methodology and Modeling*

7.2.1 Purpose

This Section documents at a detailed level the discounted cash flow analysis that the CIMA+/BDR consulting team carried out in order to compute value for LEU. This documentation includes:

- Explanation of the discounted cash flow methodology;
- Assumptions made; and
- Detail of the Excel-based model developed for LEU.

Discounted cash flow is the "gold standard" for business valuations, and involves estimating value based on the cash flow that the business will provide from operations over time. The Consultant's overall valuation methodology also includes:

- Review of assets for any impairment;
- Benchmarking value by reviewing proceeds of value as compared with assets or rate base of Canadian electric utilities; and
- Benchmarking of value by reference to share price of electric utilities in the stock market.

The Consultant's summary range of values for LEU take into account the results of all of these analyses.

7.2.2 Description of the Discounted Cash Flow Approach

Discounted cash flow valuation takes the approach that the source of value in any business is the cash stream that is produced year after year, as a business continues in operation. Discounted cash flow modeling therefore involves projecting cash flows for a series of years, and then turning them into a value at the Valuation Date by discounting.

Cash flows involved include revenues, cash expenses, income taxes where applicable, capital expenditures, and changes in working capital. Interest, borrowings and repayment are not relevant cash flows in an "enterprise" approach, because this approach ignores the capital structure (debt and equity) of the business.

Cash flows are modeled for a period that reflects the type of business. Businesses that are new, have an uncertain future, or are known to have a limited life are modeled for a short period, for example 5-10 years. A business like an electric utility, which is assumed to be needed by its customers for decades to come, is modeled for a long duration, for example 20 years. In addition, the valuation estimates a "terminal value", which means a summary amount representing the value of the business beyond the years that are modeled in detail.

The model was developed by tailoring for LEU a valuation model developed by BDR (part of this Consulting team) specifically for use with electricity distribution utilities. BDR's utility valuation model has been used many times.

Where there has been an actual transaction (i.e. BDR's client for the valuation work actually proceeds to sell or purchase a utility), the valuation model is sometimes provided to the advisors for the other party (i.e. for the buyer if BDR's client is the seller, or for the seller if BDR's client is the buyer). These advisors, who have included some major accounting firms, have reviewed and commented on the model. This is called a "peer review". Acceptance of the modeling methodology and results in a peer review provides high confidence in the valuation work.

Based on historical data, all cash flows are projected for a future period of 20 years. BDR's experience in the electricity sector, in combination with information and insights from Town of Lunenburg staff, were applied to create future financial detail and statements for the utility. Cash flows are then summarized and discounted, including terminal value, to compute value at the valuation date.

The value that results from these computations depends on the forecast made of each component of cash flows (revenues, cash expenses, capital expenditure, etc.), the terminal value computation approach, and the discount rate. Because all of these components are forecasts and estimates, a prudent valuator presents results in terms of a range of values, rather than a single value.

7.2.3 Modeling Process and Methodology

In order to perform the valuation, the Consultants inputted the actual data from 2017-2022 provided by management for LEU, and then developed a forecast of the net cash that could reasonably be expected to flow to LEU from the operation of the business to 2043 (20 years). This net stream of cash was then converted to an estimate of its Free Cash flows to Enterprise as of December 31, 2023, (the "Valuation Date"), by applying a discount rate to the annual cash flows.

General high-level assumptions are made, based on the Consultants' knowledge of the utility business and data collected. Population and load growth trends are considered, in order to forecast electricity revenues and costs of purchased power.

Capital expenditure assumptions and depreciation computations are utilized to compute each year's levels of gross and net plant in service and annual depreciation expense. For LEU, the starting point for the long term forecast of capital expenditure was the review of LEU's assets

and capital needs previously prepared by Strum Consulting, a Nova Scotia-based engineering firm. Strum's assessment was independently reviewed by experts from this Consulting Team, and, in consultation with Town staff, a long-term capital plan with annual expenditure amounts was developed for purposes of the valuation.

Using net plant in service, plus an allowance for working capital, rate base is then computed for the utility in accordance with the approach used by regulators in establishing allowed revenues for utilities. The returns to the business each year are computed from the rate base.

The model then computes a level of revenue using the revenue requirement approach (i.e., summing all the allowed types of costs). This models the approach used by most regulators to establish allowed revenue levels for utilities, and distinguishes valuation modeling of a regulated business from modeling of a competitive business. The regulatory cost of service calculation assembles each type of cost (operations, maintenance and administration, depreciation, interest, and net income) to compute the revenue requirement. No taxes apply as LEU, being owned by the Town of Lunenburg, is not taxable under the Income Tax Act.

One of the most important assumptions in modeling a regulated utility is when, and by how much, the utility will be allowed by the regulator to raise rates. The modeling assumption for this valuation is that LEU will request, and be allowed, rate increases whenever current rates will not be sufficient to cover all prudently incurred costs, including net income to fund capital. This models a situation in which LEU applies for rate increases to cover its internal costs (operating costs and capital) when needed through the General Rate Application process. The modeled frequency is one General Rate Application every three years beginning in 2024. This was determined using a "trial and error" analysis of more and less frequent General Rate Applications, and balancing the need to recover utility costs with the rate increases customers incur. Changes in wholesale electricity rates (from NSPI) are assumed to be covered through a fuel adjustment mechanism, so that wholesale cost increases never, by themselves, create operating losses for LEU. These assumptions create a scenario in which rates are always adequate to recover LEU's costs and produce a sufficient net income.

The model develops standard public sector accounting statements (Statement of Operations, Operating and Capital Funds, Plant and Equipment) for the utility. The Operating Fund reflects working capital requirements, and the Capital Fund reflects net plant as computed based on the projected capital additions.

7.2.4 Modeling Assumptions

Modeling assumptions are of two types:

- The assumptions that support the forecast of operating cash flows for the modeling period (in this case 20 years); and
- The assumptions that convert the forecast cash flows into a summary value at the valuation date.

Assumptions in support of the forecast include:

- Growth in number of customers in each customer class
- Changes in annual electricity consumption per customer
- Price increases on business inputs, such as wholesale cost of power, labour, construction materials, etc.
- Relationship of operating, maintenance and administration costs to number of customers, total electricity served, asset base, etc.
- Estimates of efficiencies and/or cost savings that can be achieved
- Interest rates
- Level of net income that will be allowed by the regulator;
- Magnitude and timing of capital expenditures; and
- Any other known or predicted factors that affect cash flows.

All assumptions related to cash flow forecasting were reviewed for reasonableness with Town staff. A detailed list of assumption used in the discounted cash flow valuation analysis is provided at the end of this section.

Assumptions in support of valuation include:

- Discount rate, or range of rates;
- Terminal value approach and terminal value multiplier.

For these, the Consulting team used approaches and values that have previously been used in their valuation of municipal electric utilities, and found acceptable by our clients and the parties considering sale of a utility to our client or purchase of a utility from our client.

Discount Rates

The outcome of the discounted cash flow methodology described above is the projection of a series of expected cash flows over the life of the assets. The next step is to determine the appropriate discount rate to apply to bring the cash flows expected over time to a present-day value. Discounts rates generally are chosen to reflect the "time value of money", which means the percentage return that an investor requires in order to wait for payment (usually for a year) rather than requiring payment today. The required percentage return needs to reflect the level of risk that the investor believes is attached to the payment. A higher risk investment requires a higher rate of return.

Discount rates selected for valuations therefore reflect the risk-free rate, usually defined as the yield rate for 30-year government bonds, plus an increment for risk related to the investment.

In considering the time value of money related to LEU, it is possible to consider several perspectives and use them to establish a range of discount rates.

One approach is to consider the Town's assumed avoided cost of debt if the Town were choosing between borrowing money for some municipal project and selling LEU to fund the project.

Based on recent risk-free rates in the capital market, the Ontario Energy Board has set 4.88% as the deemed cost of debt for an Ontario utility in 2023. Assuming that the Town as the borrower might receive a slightly lower rate, and recognizing that the Town is not subject to income taxes, we could estimate the Town's cost of capital as in the range of 4.5% to 4.75%.

A second approach would be to consider the rate of return on a weighted average cost basis, that a purchaser would require, if that purchaser were an investor-owned utility, and subject to income tax. Based on Ontario allowed interest and equity return for 2023, assuming a capital structure of 60% debt and 40% equity, the purchaser's cost of capital could be computed as follows:

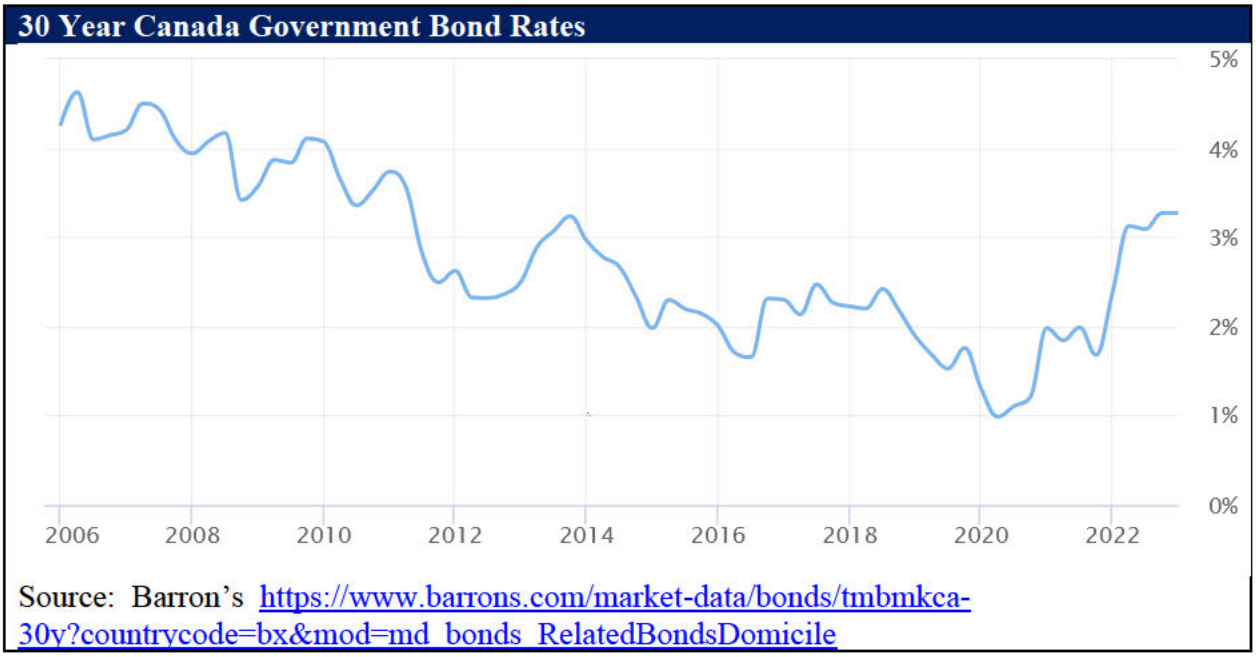
		Rate (%)	After Tax	Weighted
Debt Component	60%	4.88%	3.61%	2.17%
Equity Component	40%	9.36%	9.36%	3.74%
Total				5.91%
Adjustment			1.5x	3.94%

The actual weighted cost of capital would be 5.91%. However, as shown in Section 2.5, purchasers of Canadian utilities over time have shown themselves willing to pay substantial premiums over books value for investments of this type, presumably for either strategic value, or because their assessment of their requirement for return on an investment with this level of risk is less than the equity return approved by regulators. In our analysis, therefore, the Consultants have adjusted the required return for an investment would be about 4%.

For valuation purposes, therefore, the Consultants are looking at discount rates within the range of 4% to about 4.75%.

In Nova Scotia, NSPI's current approved Allowed Return on Equity is 9.0%. The utility's consultant recommended an allowed equity return of 10.1%. While a settlement agreement has now been reached setting out NSPI's rates, there was no decision regarding the magnitude of the Allowed Return on Equity. If that level of return were accepted, the utility's required return on a purchased utility such as LEU would be about 4.14%, computed on the same basis. 4.14% would then be a suitable lower limit for the range of discount rates.

Over time, the cost of capital on which valuators can base a discount rate varies with conditions in the capital markets. The graph below shows changes in the yield rates on 30-year Canada Government bonds between 2006 and the present. The Bank of Montreal (BMO) is presently forecasting that interest rates will be raised by 25 Basis Points (i.e. 0.25%) in the first quarter of 2023, and remain fairly constant for the next two years. While such a forecast can clearly be wrong, or even substantially wrong, the Consultants are assuming stability in the cost of capital at current levels through the Valuation Date of December 31, 2023.



Source: Barron's https://www.barrons.com/market-data/bonds/tmbmkca-30y?countrycode=bx&mod=md_bonds_RelatedBondsDomicile

As shown, rates have increased significantly over the past year. About one year ago, the Consultants were using a discount rate range of 3.5% to 4.5%, with a mid-point of 4.0% for utility valuations. The Consultants now believe that discount rates in the range of 4.0% to 4.75% are appropriate for utility valuations, and have applied this range in their valuation of LEU.

Terminal Values

Another important assumption relates to the **terminal value multiple**. This is a multiple applied to the value being used as a basis for the estimate of value in the final year that is modeled for detailed cash flows (in this case the 20th year). The terminal value represents the assumption that the business, in this case LEU, will continue operating and creating value for its customers and owners for more than 20 years. It can be viewed conceptually as the price at which LEU could be sold in 20 years, if it is not sold now.

The three methodologies, generally considered, can be summarized as being:

1) Multiple of EBITDA (earnings before interest, taxes, depreciation and amortization),
2) Multiple of Book Value, and
3) Perpetual Growth.

Of these methodologies, the Consultants prefer to use multiple of earnings before interest, taxes, depreciation, and amortization, or multiple of book value, because these approaches produce a relatively stable range of values across a narrow range of discount rates, once the appropriate multiple is selected.

The reasonableness of terminal value multipliers can be tested by looking at the values for these benchmarks in stock market share prices and the sales of small distribution utilities.

[redacted]

The following table sets out the assumptions and estimations for the forecast of cash flows used in valuing LEU.

Summary of Major Assumptions - LEU Valuation			
Item	**Description**	**LEU Assumptions Base Case**	**Consultants' Comment**
	General & Regulatory		
1	Base Case	Uses free cashflow valuation approach	Assumes customer rates adjusted every third year beginning in 2024.
2	Opening Fixed Assets	For financial statements, as per historic audited financial statements.	See also item 30
3	Rate Base	Mid-year Net Fixed Assets + working capital allowance	Working Capital – 10% of OM&A + Cost of Power
4	General Rate Applications	2023 at current rates General Rate Application in 2024 and every third year thereafter	No change in rates between General Rate Applications other than adjustments for changes in the cost of power (flow-through cost).
5	Cost of Power	2022 at current NSPI Municipal Tariff 2023/ 2024 Municipal Tariff increased as per Settlement Agreement M10431 dated November 24, 2022, 5.4% and 6.1% each year 2025 to 2043 assumed 2% increase per year	Annual changes in the cost of power are recovered through rate adjustments.

Summary of Major Assumptions - LEU Valuation			
Item	**Description**	**LEU Assumptions Base Case**	**Consultants' Comment**
6	Long Term Debt	Assumed to be 60% for regulatory rate making purposes	Actual values reflect borrowing needed to finance capital expenditures
7	Interest costs for new long-term debt	Assume 4.5%	Used to calculate interest expense on any new debt.
8	Equity	Assumed to be 40% for regulatory purposes	
9	Allowed Return on Equity	Assumed to be 7.0% over the forecast period	
10	Capital Expenditures	10-year capital investment plan based on Strum Engineering Report	$15.4 million over ten-year period from 2023 to 2032. Capital investment for 2033 to 2043 based on 4.5% of rate base (~$1.0 increasing to $1.7 million/ year)
11	Working Capital Allowance	10% of OM&A + cost of power	
12	Cash Flows developed and Term under review	20 years (2024-2043)	Plus, present value of Terminal Value
13	Customers and Growth	2022 Estimate: Domestic 1,791- 0.72% Small General 219 - 0.50% General 183 – 1.00%. Large General 2 – 0.00%	Used to forecast cost of power and expenses (O&M); Forecast based on historical average, plus judgement reflecting recent impacts of Covid-19
14	Inflation - wage and materials cost escalation	7.0% for 2023 5.0% for 2024 2.0% for 2025 - 2043	Escalation of expenses, capital expenditures, and also cost of power increase in non General Rate Application years.
	Valuation Parameters		
15	Discount Rates	Discount rate range of 4.00-4.75% chosen for free cash flow methodology.	
16	Terminal Value	[redacted]	

Summary of Major Assumptions - LEU Valuation			
Item	**Description**	**LEU Assumptions Base Case**	**Consultants' Comment**
	Income Statement		
17	Distribution Revenues	Set equal to revenue requirement on General Rate Application years (first GRA in 2024, and every third year thereafter);	In non GRA years revenues are adjusted to reflect changes in cost of power
18	Expenses (O&M)	Previous year expense x (growth + inflation; no efficiency factor assumed),	Efficiency factor may be applied for sensitivity.
19	Depreciation - regulatory and accounting purposes	3.05%, based on recent historic actuals %	Applied to gross fixed assets
20	Interest Expense	Actuals for existing debt	See also item 7
21	Income Tax rates	Non-taxable entity, zero 0% income tax	
	Cash Flow Statement		
22	Capital Expenditures		See also item 10
23	Dividend policy	Payout of 0% of net income	As per municipal ownership policy
	Balance Sheet		
24	Cash or Due Bank	Calculated	Spreadsheet balancing item
25	Accounts receivable, prepaid expenses, customer deposits	Increase in proportion to sales revenue	
26	Property Plant & Equipment	Net plant – gross fixed assets, plus capital additions less accumulated depreciation	Capital additions as per #10. Net of customer capital contributions (estimated based on historical % of capital additions). Assume zero retirements
27	Inventory	Assume current balance and zero growth in inventory.	Not significant with current balance of $40 k. No details of inventory contents.

Summary of Major Assumptions - LEU Valuation			
Item	**Description**	**LEU Assumptions Base Case**	**Consultants' Comment**
28	Accounts Payable	Increase in proportion to expenses	

7.2.5 Customer Rate Impact Calculations

The details supporting the comparison of LEU and NSPI Domestic customer rates from 2022 through 2043 are summarized in this section.

- Current Rates for 2022 – existing rate schedules for LEU (2020 USARB 36 M09597) and NSPI (effective March 1, 2022) set out the applicable fixed and variable rates.
- The average annual energy consumption from valuation model of 9,914 kWh has been used for 2022. An annual increase of 1.0% in energy usage is forecast for 2023 through 2043.
- LEU cost reduction compared to NSPI in 2022 is 5.4% as summarized in the table:

Domestic Customer Annual Bill Comparison

	LEU Current 2022 M09597	NSPI Current 2022 1-Mar-22
Service Charge/ month	$ 12.42	$ 10.83
Energy Rate - first 200 kWh	0.16412	0.16215
Energy Rate - > 200 kWh	0.14819	0.16215
Energy - first 200 kWh	1,872	1,872
Energy - > 200 kWh	8,042	8,042
Energy - average Use kWh	9,914	9,914
Service Charge	149	130
Energy Charge - first 200 kWh	307	304
Energy Charge - > 200 kWh	1,192	1,304
Total Domestic Annual Bill	**$ 1,648**	**$ 1,737**
NSPI Percent % Difference to LEU		**5.4%**

- The average annual bill for an LEU Domestic customer from 2024 to 2043 is calculated in the valuation model. This is derived from a forecast of average customer energy usage, forecast cost of power increases, and distribution cost of service increases. Cost of power is based on NSPI supply under the Municipal Tariff, and assumes rate increases of 5.4% and 6.1% in 2023 and 2024 as per the Settlement Agreement (M10431). Cost of power is assumed to increase at 2% per year for 2025 through 2043. The average LEU Domestic bill per customer is shown in the table below.
- The annual bill for a NSPI Domestic customer in 2023 and 2024 assumes percentage increases applied to current 2022 bill of $1,737, as provided in the Settlement Agreement

of 6.9% and 5.8%. Bill increases of 2% are assumed for 2025 to 2043. The average NSPI Domestic bill per customer is also summarized in the table below.

- The bill saving for an average LEU customer is estimated to be 8.0% in 2023 and 2.7% in 2024. The magnitude of the savings decreases in the second year because it is assumed LEU will receive a rate increase effective for 2024. The average over the long-term from 2025 to 2043 is a reduction 4.4% for LEU Domestic customers.

Domestic Bill Comparison - LEU Versus NSPI

Year	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Energy per Customer - kWh	9,914	10,016	10,119	10,223	10,328	10,434	10,541	10,649	10,759	10,869	10,981
usage growth		1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
LEU - $ per customer per year	**1,648**	**1,738**	**1,972**	**2,020**	**2,068**	**2,201**	**2,253**	**2,305**	**2,397**	**2,452**	**2,509**
% Change		5.4%	13.5%	2.4%	2.4%	6.4%	2.3%	2.3%	4.0%	2.3%	2.3%
NSPI Rate Effective Mar 2022	1,737										
Rate increase % - as per SA for 2023/24, 2% thereafter		6.9%	6.8%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Average Rate - $/ kWh	0.1753	0.1874	0.2001	0.2041	0.2082	0.2123	0.2166	0.2209	0.2253	0.2298	0.2344
NSP - $ per customer per year	**1,737**	**1,876**	**2,025**	**2,086**	**2,150**	**2,215**	**2,283**	**2,353**	**2,424**	**2,498**	**2,574**
		8.0%	7.9%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Percentage Reduction in Annual Domestic Bill	**5.4%**	**8.0%**	**2.7%**	**3.3%**	**3.9%**	**0.6%**	**1.3%**	**2.1%**	**1.2%**	**1.9%**	**2.6%**
Avg Reduction 2025 - 2043 4.4%											

Domestic Bill Comparison - LEU Versus NSPI

Year	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043
Energy per Customer - kWh	11,094	11,207	11,323	11,439	11,556	11,675	11,795	11,916	12,039	12,162	12,287
usage growth	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
LEU - $ per customer per year	**2,568**	**2,627**	**2,689**	**2,769**	**2,833**	**2,899**	**2,988**	**3,057**	**3,129**	**3,226**	**3,301**
% Change	2.3%	2.3%	2.3%	3.0%	2.3%	2.3%	3.0%	2.3%	2.3%	3.1%	2.3%
NSPI Rate Effective Mar 2022											
Rate increase % - as per SA for 2023/24, 2% there	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Average Rate - $/ kWh	0.2391	0.2439	0.2488	0.2538	0.2588	0.2640	0.2693	0.2747	0.2802	0.2858	0.2915
NSP - $ per customer per year	**2,653**	**2,734**	**2,817**	**2,903**	**2,991**	**3,082**	**3,176**	**3,273**	**3,373**	**3,476**	**3,582**
	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Percentage Reduction in Annual Domestic Bill	**3.3%**	**4.0%**	**4.8%**	**4.8%**	**5.6%**	**6.3%**	**6.3%**	**7.1%**	**7.8%**	**7.7%**	**8.5%**
Avg Reduction 2025 - 2043 4.4%											

7.3 *Summary Table of Comparative Benefits, Costs and Risks for Retention or Sale of LEU*

7.3.1 The Town of Lunenburg

Issue	Considerations	Hold and Operate	Sell
(a) Viewpoint of the Town of Lunenburg			
Value as a Long-Term Asset	Estimate:	[redacted]	
	Basis:	Discounted cash flow model	Market Benchmarks -- Multiple of Rate Base, Multiple of Book Value, Multiple of Earnings
	Benefits:	Town holds an asset that is high value, and may increase in value over time	Once the sale is concluded, value cannot increase unless funds are invested elsewhere.
	Costs:	Over 10 years, the utility requires an estimated capital investment of $15 million. However, the costs can be recovered through the operating cash flows of the utility.	No investment is required after the sale.
	Risks:	Depends on business cash flows, ability to realize cost savings and obtain rate increases.	Actual offers may be different from estimates, as bidders will value LEU based on their individual ability to manage the utility for a profit and their individual strategic goals.
		All business, technological, regulatory and hazard	Once the sale is concluded, no further risks.

Issue	Considerations	Hold and Operate	Sell
		risks continue to apply over time, and may reduce value.	
Cash Flows to the Town, timing and certainty	Benefits:	In LEU's situation, where it cannot pay itself dividends from operation of the utility, cash is realized through sharing of resources with the Town's other functions.	Town loses benefit of sharing resources with LEU. Costs increase for the municipal property tax payers.
	Costs:	$15 million in capital is required over 10 years, of which $5-6 million would be funded through debt.	No investment or borrowing required.
	Risks:	Benefits from sharing may change over time.	Cash value is received and locked in on closing. No risk after that.

7.3.2 LEU

Issue	Considerations	Hold and Operate	Sell
(b) Viewpoint of the Utility			
Expenditures	Benefits:	Utility has the opportunity to manage expenditures through resource sharing the with Town, other sharing or contracting out arrangements, and efficiencies to increase profitability or reduce rates.	No opportunities. Expenditures become the responsibility of the purchaser.
	Costs:	Expenditures may increase for reasons outside the utility's control: interest or exchange rate increases, general inflation, unanticipated needs.	Changes in costs are the responsibility of the purchaser.
	Risks:	Inflation, supply and part shortages, changes in the fuel markets or power supplier costs, difficulties in obtaining qualified employees or contractors at projected cost.	Changes in costs are the responsibility of the purchaser.
Hazard Risks	Benefits:	Risk of storms, accidents, etc. These can in part be mitigated through budgeting, planning and insurance, or other financial arrangements that transfer risks. Risks can be transferred to	Hazards are the risk of the purchaser.

Issue	Considerations	Hold and Operate	Sell
		customers through the regulatory process.	
	Costs:	Unplanned and uninsured costs, if not approved for recovery from customers by the Utility and Review Board, can create significant financial losses.	Hazards are the risk of the purchaser.
	Risks:	As long as the utility can show prudent management and decision-making, most risks are transferred to consumers.	Hazards are the risk of the purchaser.
Revenues	Benefits:	Utility can manage revenues through proactive regulatory strategy, expert advice and timely filings to the regulator. Utility may also increase revenues through related businesses if allowed.	All benefits flow to the purchaser.
		Revenues are a cash flow that helps fund capital investment, increasing the value of the utility.	

Issue	Considerations	Hold and Operate	Sell
	Costs:	Regulatory policies and requirements can change in ways that are averse to the interest of a utility, especially a small utility. Utility may incur unexpected costs associated with regulatory compliance or not receive approval of needed rate increases.	All costs are incurred by the purchaser.
	Risks:	Adverse regulatory decisions. Loss of a large consumer due to relocation or business cycle. Community ceases to grow. Uncollectible accounts.	All risks are incurred by the purchaser.
Changes in Environment, Technology and Customer Needs	Benefits:	Potentially provides opportunity for utility to add value to customers, including services for a fee.	Any benefits flow to the purchaser.
	Costs:	May require infrastructure upgrades, including distribution system, information technology, metering, etc.	Costs are incurred by the purchaser.
	Risks:	Imposes a changing role on utilities. The entire industry is subject to these risks. To some extent risks can be mitigated by staying current of trends and working with industry allies.	By selling LEU, the Town exits from all risks associated with these changes.

Issue	Considerations	Hold and Operate	Sell
Benefits of Sharing Resources with Town and Town's other activities or businesses		These can be significant, and impact the costs of other municipal services and the quality of resources that can be recruited and retained. These benefits are lost if the utility is sold.	

7.3.3 Customers and the Community

Issue	Considerations	Hold and Operate	Sell
(c) Viewpoint of Customers and the Community			
Opportunity to offer community an advantage in rates	Benefits:	Rates expected to be lower than NSP's rate in the short and long term. Municipal utilities can typically offer customers lower rates because: service territory is more concentrated than with larger utilities; municipal utilities typically are not for profit; and municipal utilities are typically not subject to income taxes. See section 7.2.5 for details on rate calculations	If the purchaser is NSP, expectation is that rates will move up to the level now being charged by NSP across the province. If the purchaser is some other party, rates will depend on the purchaser's cost of operation, but are likely to be higher than with operation by the Town.
	Costs:	Reduces costs to customers.	Increases costs to customers.
	Risks:	Rate risk is borne by the customers. May be mitigated by the contract to sell, at least for a short period.	In the long term, rate risk is borne by the customers.
Locally based service	Benefits:	This is a dimension of service that customers typically like.	It would be lost if the utility is sold, and the centre of service delivery is transferred to a facility elsewhere. Loss can be mitigated at least temporarily through provisions of the agreement for sale

Issue	Considerations	Hold and Operate	Sell
	Costs:	There is a cost if LEU could reduce costs by contracting out customer services, such as billing and phone response.	Town could negotiate some continuing local services after sale. However, may affect purchase price.
	Risks:	No risk. Amount and quality of service are under control of LEU and the Town.	Location and quality of service may change with sale. Unless specified by contract, Town loses all control.
Use of the utility to support local events and programs	Benefits:	Municipalities typically use their utility as a source of services in support of local events such as fairs, holiday lighting etc.	A purchaser may not provide these services, or require a fee.
	Costs:	No cost for services provided by the utility to the community -- example holiday lighting, set up service for local events.	Town or residents may need to pay for the services or lose them.
	Risks:	No risk. Amount and quality of service are under control of LEU and the Town.	Town or residents may need to pay for the services or lose them.
Good local jobs for residents trained in specialized utility functions	Benefits:	The ability to provide local jobs that command a high pay is one of the benefits of utility ownership.	If positions require transfer to a different location, each person may choose whether to accept the position or not. Some staff may like the opportunity for advancement offered by a (larger) purchaser organization.

Issue	Considerations	Hold and Operate	Sell
	Costs:	Possible that efficient staffing levels are not maintained, because of small size of the utility.	Benefit likely to be lost on sale.
	Risks:	If qualified local residents cannot be found for the position, there is risk it will be difficult or costly to fill.	To some extent, it may be safeguarded by requiring a purchaser to provide equal employment to current utility staff.
Provide support for community economic development.	Benefits:	The Town may be able to support community development initiatives through the rates or service programs of its utility.	When a utility is sold, policies default to the general policies of the purchaser.
	Costs:	Local economic incentives may have a cost to utility and customers.	Lack of utility support may cost the community a good local employer.
	Risks:	Regulator may not approve costs or rates associated with economic development initiative.	No initiatives, assuming large utility is the purchaser. A smaller or out of province purchaser may want to support local economic development. Purchaser may provide some community support as part of purchase arrangement

7.4 *Industry Challenges and Risks*

One factor in the Town's consideration of its ownership in LEU is business risk resulting from changes in environment, climate, regulatory and technology affecting the industry. These are

issues affecting the electricity industry widely, and are not restricted to Nova Scotia, to small utilities or to LEU. These issues are complex, and even governments and large utilities are uncertain as to how the future may unfold.

This section outlines some aspects of these issues, from the standpoint of a distribution utility.

7.4.1 Technology

The technology changes that are most of concern involve changes in usage and load shape, and the issue of self-supply.

For many years, conservation programs and increased efficiency of loads (customer devices, lighting and appliances) have put downward pressure on the average use per customer; however, it is noteworthy that in Nova Scotia, according to NSPI, residential loads have risen because of increased use for space heating. In making a valuation, the Consultants consider how load will change over time in the utility being valued. Increases in the billing determinants of load and customers if realized will support the financial sustainability of a utility through years between applications to the regulator.

An expected contributor to load levels on distribution systems is electric vehicles. Growth in this market is escalating, and is likely to continue if supported by longer driving range for the vehicle and more convenient recharging. It is possible that changes in system load shape and resulting supply cost, as well as grid requirements, will need to be managed by a combination of technology and rate design, in order to ensure that rates are fair to all customers and that the system remains robust.

In making a valuation at the present time, however, no impact was specifically assumed for electric vehicle loads, or for capital costs was necessary to include the best available information about potential changes in load and load shape, and the capital costs that may be incurred to support changing demands on the utility's system.

For more than a decade, there has been a view due to technology change transmission and distribution assets may become "stranded". The concern is that once the cost of self-supply is equal to supply from the current large-scale generation plants and grid, customers will defect either partially or fully, and that the associated utility rate revenue would depart along with them.

The technology is reaching the stage where small renewable self-supply, with battery storage, is of interest to more customers. Whether they would want to, or be allowed to, exit the system entirely does not seem to be an aspect that anyone wants to predict.

In the Consultants' opinion, it is not simply an issue of how many customers would actually like to self-supply, have the means (financial and technical) to do so, and have a positive business

case based on their individual situation. The effects on the utility will also depend on the policy (government and regulator) that is established to deal with the issues.

In particular, if customers reduce their take of power from the grid, or, in a more dire case, choose to abandon the grid even for backup/top-up services, and are allowed to do so without financial penalty, there would be a significant issue of stranded cost. The burden of stranding would have to fall either on the remaining customers (as has historically been the case with losses of loads) or on the utility owners.

In the Consultants' opinion, it would not be positive politically to allow rates to rise substantially for customers remaining on the grid, in order to allow self-suppliers to abandon the costs incurred by a utility with a duty to supply. In Nova Scotia, policy established in respect to NSPI would most likely apply also to municipal utilities; but the government might also take steps to protect municipalities, as public entities, from negative financial effects.

As a result, the Consultants would not forecast in any base case modeling, even over a 20-year scenario, a significant decline in distribution revenues due to self-supply. However, various alternative scenarios could be discussed and reviewed.

7.4.2 Climate Change

More extreme weather and major weather events are probable, and would result in costs incurred for immediate restoration of supply. If the costs are minor, and if the utility has not already received approval to include in rates a budget for storm restoration, these costs may have to be absorbed. If a significant financial hardship results, LEU could apply to the Nova Scotia Utility and Review Board for cost recovery.

Over the longer term, the issue is whether the Nova Scotia Utility and Review Board will be friendly to applications for capital spending for "grid hardening". If NSPI is successful in getting approval for system upgrades to be more resistant to storm damage, LEU should monitor and make a plan of its own.

The most reasonable assumption for valuation purposes is, that LEU could recover from customers most of what is spent on storm restoration after the fact, and would not invest extensively in grid hardening unless such investments could be approved in the rate base.

7.4.3 Government Policy on Consolidation

To the Consultants' knowledge, the Nova Scotia government has no policy to mandate involuntary consolidation (sale of municipal utilities to NSPI or merger of the municipal utilities into one business). As such, it is assumed that the Town can make an unconstrained decision on the future of LEU.

7.4.4 Regulation by Nova Scotia Utility and Review Board

The Utility and Review Board is an independent body mandated by legislation to oversee the operation of utilities in Nova Scotia and protect the interests of customers. Across Canada and the United States, provinces or states have such bodies to perform this function, because utilities are monopolies, and therefore are not controlled as to price and service quality by having to compete for customers in a market.

Nova Scotia utilities, including LEU, cannot raise rates without approval by the Utility and Review Board. Except where the rate increase is entirely due to purchased power cost increases, the Utility and Review Board will not approve an increase without detailed review of the utility's costs, operations, level of service, and existing rate structures. The process of obtaining approval for a rate increase can be costly and time-consuming for the utility, and generally requires support from specialists.

7.5 *The Nova Scotia Electricity Industry*

7.5.1 Purpose

The purpose of this Section is to provide background to the Town related to other industry "players" in Nova Scotia. The organizations described are important to the Town as potential:

- suppliers of services;
- partners or allies in procurement of services or in new initiatives to expand activities, reduce costs or serve customers;
- sources of examples for successful programs and ways of operation;
- examples of decisions to sell and exit the electricity sector; or
- possible purchasers for LEU if the Town decides to sell.

7.5.2 NSPI

The electricity sector in Nova Scotia is dominated by NSPI, a subsidiary of Emera. Emera is investor-owned, with shares traded on the Toronto Stock Exchange. According to its website, the company has $36 million in assets in Atlantic Canada, Florida, and the Caribbean. Of its business, 84% is comprised of electric utilities and 15% of gas utilities.

NSPI serves all of the residential, commercial, institutional and industrial electricity consumers in Nova Scotia, (a total of more than half a million customers) except those served by five (5) municipal electric utilities (MEUs), of which LEU is one. NSPI and the MEUs are regulated as to rates and conditions of operation by the Nova Scotia Utility and Review Board.

NSPI is an integrated utility, with a diverse portfolio of generation, and a network of 32,000 km of transmission and distribution lines. The generation portfolio has a capacity of 2,400 MW and 10,000 gigawatt-hours of electricity. The company procures fuel and third-party supply as needed.

The company was originally formed in 1919 as the Nova Scotia Power Commission, following the example of public, provincially owned integrated electricity companies in other parts of Canada. It grew through acquisition of the service territories and assets of private and municipal utilities and generators, and through the leasing and operation of the assets of the Nova Scotia Light and Power Company, Limited, which was started as a private company and acquired by the provincial government. In 1972, the NSPI Commission was privatized by the provincial government in order to control the provincial debt load and repayment obligations. The company was later restructured to create the parent company, Emera, which has diversified to other jurisdictions and into gas utility operations.[7]

NSPI is important to LEU as its current wholesale supplier of electricity, and also its supplier of services for construction, operation and maintenance of LEU's distribution system, meter reading and other field services.

7.5.3 Municipal Utilities

Customers not served by NSPI are served by municipal electric utilities, of which there are presently four other than LEU: Riverport Electric Light Commission, Town of Mahone Bay Electric Utility, Berwick Electric Utility, Antigonish Electric Utility. In total these utilities serve about 10,000 customers, or two percent of the total customers in Nova Scotia.

In order to hold down their costs and explore wider business opportunities, the four Nova Scotia municipal utilities other than LEU cooperate through Alternative Resource Energy Authority (AREA). AREA is an energy services company owned by the Towns of Antigonish, Berwick and Mahone Bay. AREA is the agent for power procurement of the utilities, and in the past has obtained supply for them at lower cost than would be available at regulated rates from NSPI. AREA also supports these utilities by contracting jointly for regulatory, engineering, environmental and project management services.

In addition, these utilities share resources where it is advantageous to do so. For example, Riverport and Mahone Bay share field operations staff and heavy equipment.

7.5.4 Historic Sales of Municipal Utilities

In fairly recent times, two municipal utilities existed and were sold to NSPI. In 1998, the Kentville utility was sold.

According to information available, the Kentville electric utility had $7.4 million in assets at net book value, and was sold for $13.3 million, a premium of 1.8x net book value. The Consultants estimate, based on an estimated working capital allowance, that this price would represent a multiple of 1.6x regulated rate base.[8] The necessary legislation allowing for the sale (subject to

[7] https://en.wikipedia.org/wiki/Nova_Scotia_Power

[8] Rate base is the total of net assets plus an allowance for working capital, and is an amount used by regulators as the basis for decisions related to rate approvals. Multiples to rate base are a frequently used metric to compare sale prices for Canadian utilities in acquisition transactions.

approval by regulator, which was granted) provided for use of the proceeds for the general purposes of the municipality under certain conditions. While not all information is available to compute the alternative metric of sale price as a multiple of earnings before amortization and interest, it would appear that value would be at least 17x, and perhaps as high as 20x. These metrics indicate that by the standards of similar Canadian transactions, Kentville and its advisors were able to negotiate a very good price for the municipality. Please see Section 2.3 for summary statistics comparing proceeds of sale for other Canadian municipal utilities.

The second utility recently transferred to NSPI was Canso electric utility.[9] It appears that the utility required an investment of $485,000, and the Municipality of the District of Guysborough, which had acquired the utility when the Town of Canso ceased to exist, lacked either the resources or the wish to make the investment. As reported to the media, the municipality attempted to find a purchaser, and when they were unable to do so, it was agreed that NSPI would, as default supplier for the province, acquire the service territory and assets for one dollar, upgrade the assets and provide service to the customers at the rates approved for the rest of NSPI's customer base.

7.6 *Municipal Utilities in North America – Lessons Learned*

7.6.1 Purpose

The purpose of this Appendix Section is to provide an overview of North American municipal utilities. Municipal utilities exist as part of the industry framework in most parts of North America, in addition to large publicly owned or investor-owned utilities. In some jurisdictions, they are regulated, as is the case in Nova Scotia, and in other cases they are unregulated or very lightly regulated (more free to set their own rates and decide their own scope of business).

These utilities face the same industry challenges of business risk, capital requirements, changing technologies and changing customer needs that LEU faces. Their experience illustrates some of the different ways a small utility and its municipal owner can respond to these challenges.

7.6.2 United States

Public power utilities play a very significant role in the electricity industry structures of most parts of the United States. These utilities are generally owned and operated by a level of government, rather than by shareholders. They are mostly not-for-profit, providing local service and local jobs. Of the states, only Hawaii is without a public power system serving customers.

One in seven Americans are served by a public power utility. More than 2,000 communities – in 49 states and 5 U.S. territories – have a public power utility. As a whole, public power utilities have lower rates than other types of electric utilities. Residential customers of public power

[9] http://porthawkesburyreporter.com/canso-electric-utility-scheduled-to-transfer-ownership-to-nova-scotia-power-for-1/

utilities pay monthly bills that are on average 4% less than customers of investor-owned utilities, and 16% less than customers of cooperative utilities. Outside of major adverse events (e.g., storms), customers of a public power utility are likely to be without power for less time - 62 minutes a year, compared to 150 minutes a year for customers of private utilities. 10% of electricity generated in the U.S. is from public power facilities.[10]

The largest U.S. public power system is the Los Angeles Department of Water and Power, serving 1.4 million customers; however more than 2/3 of U.S. public power systems serve communities with populations of 10,000 or fewer.

7.6.3 New Brunswick

There are currently three municipal utilities in New Brunswick: Saint John Energy, with about 35,000 customers; Edmundston Energy with about 9,000 customers; and Perth-Andover Electric Light Commission with about 1,000 customers. Saint John and Edmundston are wholesale customers of New Brunswick Power for their power, while Perth-Andover imports power under contract from another supplier. Saint John and Perth-Andover are able to offer their customers rates below those of New Brunswick Power. Edmundston charges the same rates as New Brunswick Power. The New Brunswick municipal utilities are not regulated as to their rates.

These utilities use various approaches to control costs and increase revenues. Saint John is currently involved in bringing online a large wind generation project, and also has a revenue-producing program to rent heat pumps to residential consumers. Both Edmundston and Perth-Andover obtain efficiencies of scale and scope by sharing staff with their municipalities. The three utilities cooperate and share resources on industry and regulatory participation.

To expand its scale and improve service in the community, Edmundston several years ago purchased adjoining service territory from New Brunswick Power. Edmundston also operates hydro generation and sells the output under contract to New Brunswick Power.

7.6.4 Prince Edward Island

The only municipal utility in PEI is Summerside Electric, which serves about 7,000 customers. The electricity is mainly generated by the utility's Summerside Wind Farm Windmills and purchased from off-Island sources supplied by submarine transmission cables under the Northumberland Strait.

Summerside Electric also owns and operates an electrical generating station located on Ottawa Street. This generating station is essentially used for backup if our energy supply is interrupted.

7.6.5 Ontario

[10] https://www.publicpower.org/public-power/stats-and-facts

The Ontario electricity distribution sector consisted in 2019 of 59 separate entities[11], with the largest at nearly $9 billion in net PPE assets, and the smallest with less than $1 million. In terms of customers, they range from as few as about 1,200 customers to nearly 1.4 million customers. All are regulated by the OEB and face the same regulatory regime and requirements. Of these, the second largest is a municipal utility of one million customers, Alectra. Alectra was formed by voluntary consolidation of smaller local utilities through mergers and acquisitions, over a period of about 15 years.

The current number of separate distribution entities is the result of mergers and acquisitions in the sector from about 300 separate distributors in the 20th century. This type of industry configuration is rare, and results from very early policy decisions to encourage local and public (i.e., municipal) control of electricity distribution, with locally determined rates. Over the years, occasional research papers were written claiming benefits of cost efficiency from consolidation of these hundreds of small utilities into ten or fewer.

It was only with the coming into effect of the *Energy Competition Act, 1998*, that municipal utilities became business corporations, and their municipalities became shareholders with the right to receive dividends and divest the shares. Immediately about 80 small utilities were sold by their municipalities and are now part of Hydro One Networks, the largest distributor[12]. Since then, Hydro One has acquired other municipal utilities, including most recently Orillia and Peterborough. More consolidation has resulted from voluntary mergers among municipal utilities and acquisitions involving a municipal utility as the purchaser.

One of the considerations in the Act was to establish a level playing field for consumer rates by allowing municipally owned utilities to earn an allowed rate of return on rate base, and requiring them to pay taxes on the same basis as a private sector corporation. However, while the door was open to consolidation driven by private sector acquisitions, this has not taken place aside from:

- the Initial Public Offering of Hydro One shares in 2015.
- 10% equity investments by Fortis Ontario in several LDCs and by Borealis (a pension fund) in Enersource (a municipal distribution utility serving Mississauga, Ontario)
- A lease-to-own acquisition by Fortis Ontario (Port Colbourne); and
- The recent acquisition of COLLUS Power by EPCOR.

Two factors are at work in holding back utility acquisitions by the private sector. One is that a very significant tax liability can accrue when a municipally owned utility exits the Ontario taxation regime and becomes liable for taxes under the Income Tax Act. The other is that stakeholders in Ontario have traditionally looked favorably on public sector ownership of their electricity grids. The result is that where utilities are looking to merge or divest, a municipally owned purchaser or merger partner can be at a competitive advantage.

[11] Two of these, Orillia Power and Peterborough Distribution have been acquired by Hydro One.
[12] Hydro One is one of five successor organizations of the integrated provincial utility Ontario Hydro, which was broken up under legislation passed in 1998. Hydro One operates most of Ontario's transmission system and distributes to retail customers across Ontario, mainly in rural areas and small towns.

The Government has over many years indicated that it is favorable to consolidation, but will not force such consolidations on unwilling communities. As of 2019, there were 27 listed utilities[13] with fewer than 20,000 customers, including 10 with fewer than 5,000 customers. The fact that these small utilities continue to exist two decades after corporatization and regulation shows that some communities continue to value ownership of their local distributor. Based on discussions with such communities, BDR sees the important factors as:

- The high return the municipality can earn on utility equity (and in some cases shareholder debt), relative to other investments available;
- Locally based service; and
- Local employment.

Some of these small utilities manage costs by sharing resources with the municipality, and by contracting out.

Because they are business corporations, Ontario utilities through corporate subsidiaries can own and operate related businesses, for profit on an unregulated basis. While there are sad examples of financial losses from these business ventures a few utilities have expanded into a variety of businesses with high success.

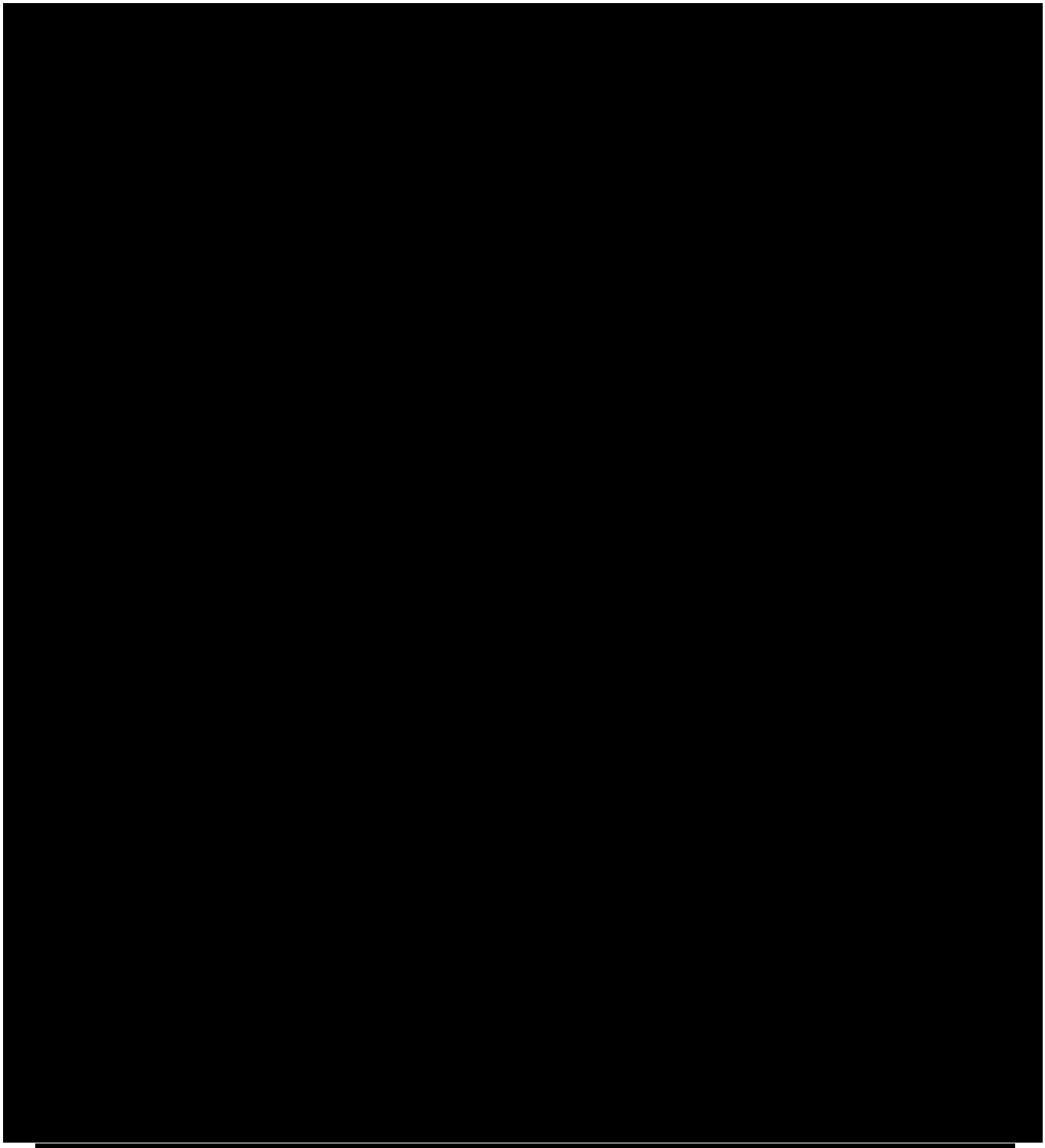
For example, the unregulated businesses of Oakville Enterprises Corporation (which is the parent company of Oakville Hydro, a municipal utility serving the Town of Oakville (65,000 customers) also includes:

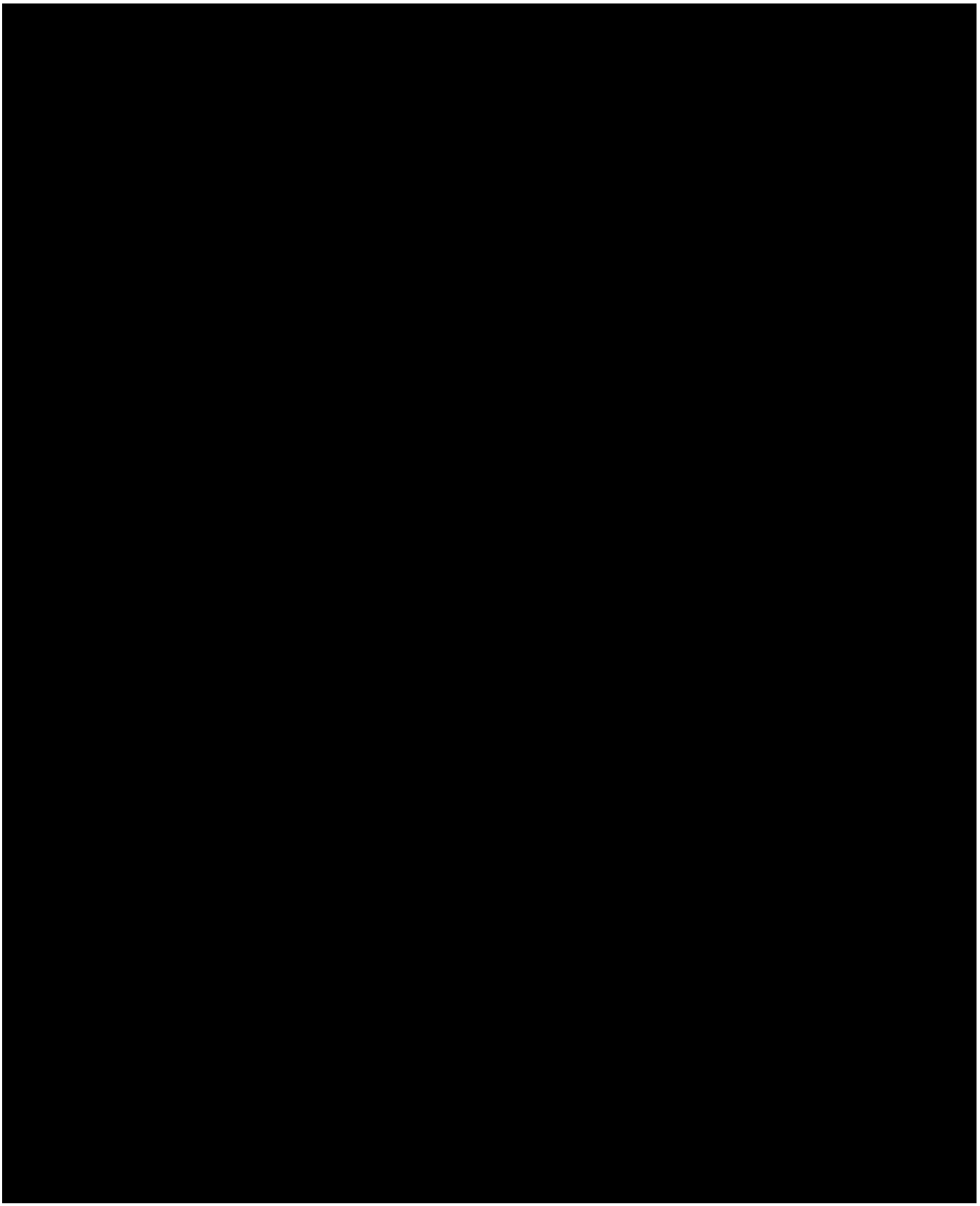
- Five solar generation projects
- Two hydro-electric generation projects
- Four companies providing utility field services, including metering
- Five companies providing engineering services; and
- Five companies providing construction services.

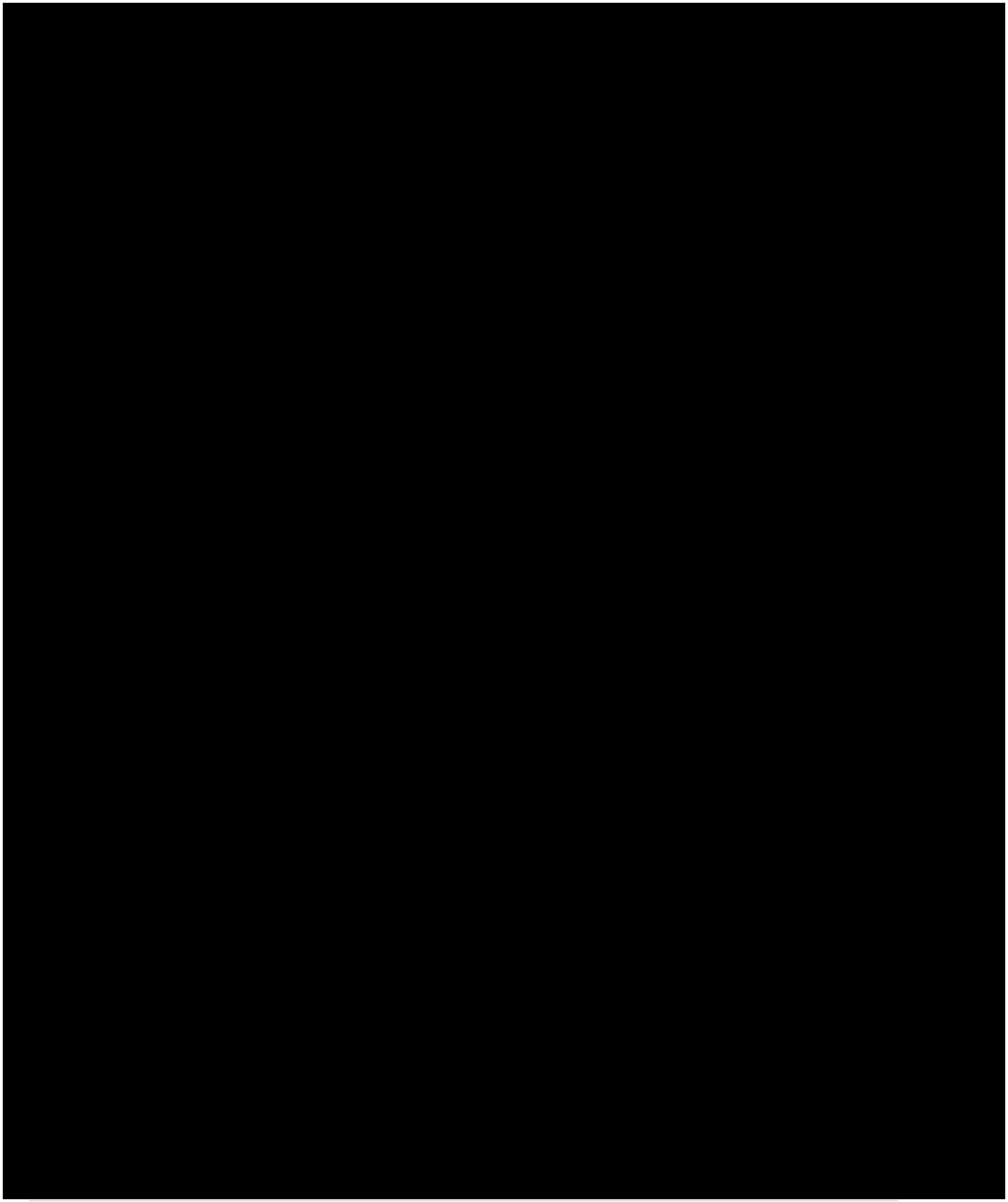
Such initiatives are not restricted to Oakville Enterprises Corporation. Recently a subsidiary of the largest Ontario municipal utility, Alectra, purchased Holland Power, which is based in New Brunswick and provides restoration services in eastern Canada and parts of the United States.

7.7 *Possible Purchasers or Business Allies for LEU*

[redacted]







7.8 *Other Initiatives to Improve Performance, Control Rates and Reduce Risk*

If the Town choses to retain ownership, they must hire a resource as current staff are overburdened with this task. To improve performance within the town it is recommended that the Town reach out to a consulting firm or a retired utility engineer that has the utility knowledge to work with the town to provide solid engineering designs and help execute that capital plan. They will ensure the contractor work is being completed on budget, on time and as designed. The town should also investigate if there are any potential, provincial, federal, funding mechanisms available to provide support for installation of renewable energy projects within the town. These funding mechanisms can potentially help reduce the impact on rates by allowing the town to contribute a portion of the funding. No significant project should be undertaken that will drastically impact rates. There are several utilities around the country who have received funding that allowed them to become leaders in the installation of renewables on their systems.

7.9 *Qualifications of the Consulting Firms*

CIMA+

CIMA+ is a multidisciplinary Canadian firm that specializes in consulting engineering and project management allowing for a full range of services in municipal infrastructure, water, transportation, buildings engineering, industry, energy, communications systems, and the environment. Founded in 1990, CIMA+ was created through the merger of several well-established consulting engineering firms. Today, with over 30 offices across Canada, CIMA+ employs more than 2,500 people, over half of whom share ownership in the company.

At CIMA+ we believe that engineering exists to improve and enhance the lives around us. Sustainable solutions inspired by engineering help to meet the many challenges of today and tomorrow. Because when you engineer for people, you also engineer for a better world.

Darin Lamont, P. Eng is the Senior Engineer in the CIMA+ Atlantic division for the Energy & Resource Sector. He is an electrical engineer with more than 30 years of experience (10 years NB Power, 22 Saint John Energy) in engineering, management, distribution networks, planning, asset management, substations, and project execution for the utility sector. Over his career, he has acquired extensive experience in project execution including commissioning, project engineering, standards design and detailed design of power systems installation such as distribution network for utilities and industrial clients. Some of the recent clients he has worked for include Summerside Electric in PEI for a 21MW Solar Farm, 10 MW battery and a 3.5 Utility line connection, Saint John Energy in Saint John, NB, for Engineering design for EV charger installations, NSPI for Grade 1 Railway crossings, Iron ore of Canada (IOC) in Newfoundland Labrador for distribution line design and QEC in Nunavut for standards design and various engineering services.

BDR

BDR is a leading management consulting firm specializing in advising the Canadian and international electricity industry on matters related to evolving business and regulatory requirements. Clients include entities in the electric utility industry such as governments, regulators, market participants, consumers, transmission companies, and electric utilities of all ownership categories. Many of BDR's clients are small and medium-sized municipal or public sector-owned utilities in Ontario and Eastern Canada.

BDR's key relevant areas of practice are:

Regulatory and Rates: BDR advises clients who are regulated entities in all aspects of dealing with regulators. This includes studies in support of rates and revenue requirements, such as cost of capital, cost allocation and working capital analysis, as well as supporting applications for capital projects, mergers and acquisitions.

Business and Strategic Planning: BDR staff has completed strategic business plans and options analyses for well over 100 clients in the electricity sector. These plans include consideration of the strengths and weaknesses of the client in a range of business options, all of which are assessed in the context of the current business and economic climate and technology change in the sector.

Financial Forecasting: BDR's experience in this area includes critical analysis of financial statements and their details, corporate planning, and the forecasting of financial statements under various scenarios of financing, tariff increases and efficiency improvement, all to meet critical performance indicators in accordance with guidelines that are usually set by international development agencies.

Mergers and Acquisitions: A changing industry requires basic reassessments and decisions to merge and/or acquire businesses and to expand some businesses and exit others. BDR has managed the process of merger, divestment and acquisition of both generation and "wires" facilities in the electricity industry. Key in these assignments is the development of a valuation for the enterprise, which ultimately involves an assessment of the condition of the assets and liabilities involved. BDR's President is an experienced investment banker whose qualifications include restructuring of a major public-sector integrated electric utility.

Paula Zarnett has more than 35 years broadly based experience specializing in regulatory compliance, regulated rates and pricing issues for electricity and gas utilities. She entered the consulting sector following several years of regulatory experience in gas utilities and 14 years in positions of progressive responsibility with Toronto Hydro.

Her experience includes analysis and modeling of major capital projects, including customer rate impacts, to support selection among alternatives and approval by decision-makers including the regulators.

Paula's experience in modeling and supporting municipality clients considering sale of their electric utility commenced in 1998, when she advised 7 Ontario communities jointly considering sale. She prepared discounted cash flow models of the utilities for valuation purposes, and worked with colleagues to administer an auction of the utilities for sale.

Since then, she has worked for numerous clients considering or carrying out sales, purchases or mergers in the electricity distribution sector in Canada. A recent project was to provide advisory services to the shareholders of an Ontario utility in a merger and acquisition to form a new utility with nearly one million customers.

She is a Chartered Professional Accountant (CPA,CMA), and has an MBA degree (finance) from the University of Calgary.

Trent Winstone has 25 years of broadly based experience in the energy industry, specializing in regulatory compliance issues, financial forecasting, project feasibility, and tariff design. He has been involved in the economic evaluation of various power generation, transmission and distribution projects, new business ventures, power purchase contracts, and long-term development strategies. Trent has evaluated both regulated and unregulated business investment

opportunities and is experienced in developing relevant and accurate financial models and integrating the results with qualitative considerations to recommend effective solutions. His electricity transmission/ distribution sector work includes regulatory proceedings involving capital investment / rate impacts, rate applications, cost of service studies, and he has also completed a smart grid business case analysis as part of a regulatory application for cost recovery.

Previously, Trent was employed in the natural gas industry bringing a strong background in the areas of capital investment feasibility, leave to construct applications, regulatory finance, strategic issue identification and risk analysis. He was a key financial resource for Enbridge in developing proposals to construct $650 million of assets for distribution of gas in Nova Scotia. His responsibilities on that project included development a financial model, strategic issue identification, risk analysis, and senior management reporting.

Trent is a skilled financial modeler, with extensive experience in providing strategic decision tools to utility clients.

Trent's qualifications include a B.E.Sc. degree in Engineering and an MBA in Finance, and he is a P.Eng. in Ontario.

Subject: Skate Park Capital Project- Awarding Contractor

From: Kelly Cunningham, Recreation Manager

Reviewed by: Arthur MacDonald, Director of Community Development

Date: April 12, 2023

Recommendation
That Council award the 2023/24 capital skate park project to Propour Concrete Services Inc. in the amount of $121,293 + HST.

Alternatives
Not approve the recommendation and direct staff to issue a new Request for Proposal.

Background
In the approved 2023/24 capital budget, the following project was approved:

Skate Park
To enhance the Lunenburg skate park to address mobility issues, safety and accessibility. Project highlights will include repairs and maintenance to the surface of the park (remove asphalt and replace with concrete), adding an accessible walkway to the park from the parking area, installing a gazebo to protect users from sun and rain, and to add additional concrete elements to the park expansion.

A portion of the project was completed in 2022/23 (addition of lighting surrounding the facility). The remaining will be completed in early spring 2023, as a private donation enhanced the original scope of work.

A Request for Proposals (RFP) was issued in August 2022, with one submission, by Propour Concrete Services Inc**.** The total submission price was $121,293 + HST. A tender with a total value of over $100,000 requires approval from Town Council.

In its submission, Propour Concrete Services Inc.'s proposal included the work for the concrete portion of the skate park project. The components would include removing the surface asphalt and replace with reinforced concrete, creation of an accessible walkway from the parking lot to the skate park, and architectural forming and finishing of elements (including a quarter pipe, curb and other features).

Propour Concrete Services Inc. has conducted work at the Lunenburg skate park in the past, most recently in the Fall 2021 for the new existing concrete half pipe. The proposed contractor has also completed work at the Bridgewater skate park and Liverpool Mersey skate park. The proposed contractor offers a 2-year warranty on their workmanship and has a company safety program with Construction Safety Nova Scotia.

Strategic Plan Relevance

Strategic Direction

- ***Culture & Recreation:*** A town where all community members have access to cultural and recreational experiences.

Financial

Project approved in the 2023/24 budget.

Communications

Staff will provide the contractor and the public with information for notification prior to work starting.

Subject: Nova Scotia Strong Award Nomination

From: Kelly Cunningham, Recreation Manager

Reviewed by: Arthur MacDonald, Director of Community Development

Date: April 14, 2023

Recommendation

That Council approve nominating the Burg Classic Committee for the 2023 Nova Scotia Strong Award.

Alternatives

- Not approve the recommendation.
- Nominate another organization or resident for the award.

Background

The provincial Nova Scotia Strong Award recognizes an individual or group who comes together to demonstrate resiliency in community during a time or event when people faced tragedy and struggle. Recipients will show that strength comes from community and the deep level of caring Nova Scotians have for one another. The deadline for nominations is May 23, 2023.

The Burg Classic is an annual, volunteer-run local community-based recreation hockey tournament and social event that creates an entertaining weekend in Lunenburg, Nova Scotia. The purpose and goal of the event is to raise funds to be donated within the community to individuals and causes who require it most. Each year, 100% of proceeds are returned to the local community. The 2023 event marks the 10-year anniversary of the fundraiser.

Strategic Plan Relevance

Culture & Recreation: A town where all community members have access to cultural and recreational experiences.

Financial

No financial impact.

Communications

Staff will connect with representatives from The Burg Classic committee. After the province selects the recipient of the award, staff will promote the Burg Classic's nomination on social media.

Subject: Workplace Harassment Prevention Policy

From: Kayla Byrne, Municipal Clerk

Reviewed by: Jamie Doyle, CAO
Angela Shewchuk, Human Resources Contractor

Date: April 25, 2023

Recommendation

That Council give notice of the Workplace Harassment Prevention Policy as presented, and that the policy be considered for approval at the May 9, 2023 regular meeting.

Alternatives

Direct staff to make edits to the proposed policy and bring it back to the next Council meeting for further discussion and consideration.

Background

Earlier this year, Council, on recommendation from staff, repealed the Town's Sexual Harassment Policy. The policy was outdated and highlighted the need for a more comprehensive respectful workplace policy.

In mid-March, the Town's insurance company stated an updated abuse policy was required and provided staff with a deadline of May 15, 2023. The insurance company stated the policy should define various forms of abuse (physical, mental, sexual, etc.), should outline reporting procedures, and behaviour management and disciplinary processes. The repealed Sexual Harassment Policy would not have met the requirements outlined by the Town's insurance company.

Within the Town's Personnel Policy there is a section on discipline and grievances, however, this section is not specifically focused on harassment.

Discussion

The draft Workplace Harassment Prevention Policy and Administrative Procedures:

- Defines various types of harassment.
- Defines roles and responsibilities for all employees, council, CAO, and supervisors.
- Defines an informal and formal complaint process.
- Defines when a formal investigation into a complaint may be conducted.
- Defines potential interim measures to be considered during a complaint and resolution process.

- Defines dispute resolution options and discipline.

The Administrative Procedures also address retaliation, bad faith complaints, and confidentiality with respect to any complaint.

Strategic Plan Relevance

Internal Operations: (c) Scan and assess for issues that may need to be addressed on a routine basis, driving a culture of continuous improvement.

Relevant Legislation

As per the Policy Development and Review Policy, policies are approved by Council while Administrative Procedures are approved by the Chief Administrative Officer.

As per the Municipal Government Act, Council must give at least seven days' notice before any policy is passed, amended or repealed.

Financial

There is no financial impact related to approving this policy.

Communications

If approved, the Workplace Harassment Prevention Policy and Administrative Procedures will be published on the Town's website on the Policies page. All staff will also receive the policy and procedures and provided an opportunity to ask any questions about the documents.

Attachments

- Draft Workplace Harassment Prevention Policy and Administrative Procedures

Workplace Harassment Prevention Policy

Date adopted by Council: TBD

1. POLICY STATEMENT

The Town of Lunenburg is committed to providing an environment free from all forms of harassment, discrimination and disrespectful behaviour. The Town expects and promotes respectful interactions which show regard for the rights, dignity, health and safety of all.

The Town will not tolerate, ignore or condone workplace harassment, discrimination or any pattern of inappropriate, disrespectful behaviour that a reasonable person would consider to be humiliating, demeaning, offensive or intimidating.

2. PURPOSE

The purpose of this policy and procedures is to set clear expectations of respectful workplace behaviour and to prevent disrespectful, harassing or discriminatory workplace behaviours from occurring. Additionally, this policy and procedures outlines the steps required to report and resolve complaints of disrespect, harassment and discrimination.

3. APPLICABILITY

This policy and procedures applies to all full-time, part-time, casual, temporary employees, and Council. Volunteers and contractors are afforded the same rights and protections provided by this policy, while performing authorized activities for the Town of Lunenburg.

4. SCOPE

For the purposes of this policy and procedures, harassment is conduct in which an employee exhibits offensive behaviour to another employee or group of employees, and where that individual knew or should have reasonably known the behaviour would cause offence or harm.

The harassment definition includes verbal, written or physical behaviours made in-person or virtually though email or other online platforms.

The prohibited behaviour does not have to be directed at a specific employee; it can include the workplace in general, creating a poisoned workplace environment.

4.1 Types of harassment include:

Exclusion: Exclusion involves shunning or ostracising an individual or group of individuals. It can include, but is not limited to, isolating others by:

- No longer communicating with them.

- Ignoring their presence.
- Distancing them from others.
- Purposefully omitting them from decisions, conversations, and work-related events without valid reason.

Physical harassment: Physical harassment involves any unwelcome physical behaviour including threatening or offensive gestures, physical intimidation, coercion, or assault.

Poisoned Workplace Environment: A poisoned workplace environment occurs when inappropriate conduct is so frequent that it results in a hostile or offensive workplace. The conduct may not be directed at anyone in particular but has the overall effect of creating an uncomfortable environment that negatively affects well-being and productivity.

Behaviours contributing to poisoned workplace environments include, but are not limited to:

- Sexual, racial, and religious insults or jokes, including those regarding sexual orientation.
- Abusive treatment of other employees, such as frequent name calling, insults or exclusion.
- Intimidating actions such as yelling, slamming doors, kicking desks or throwing objects.
- Regular use of profanities and/or abusive language, even if it is not directed at a specific person.
- Undermining other employees' reputations through malicious gossip, negative electronic postings or cyber-bullying.

Racial Harassment: Racial harassment is offensive behaviour based on the grounds of race, colour, citizenship, place of origin, ancestry or ethnic background that includes, but is not limited to:

- Derogatory communications, images or offensive stereotypical conduct (e.g. racial slurs, ethnic jokes, insulting depictions, adverse differential treatment.)
- Criticizing or being intolerant to racial differences in appearance or customs.

Sexual Harassment: Sexual Harassment means any offensive or bothersome conduct, gestures, or contact of a sexual nature that would reasonably cause offense or humiliation.

Sexual harassment also includes placing conditions of a sexual nature on employment, training or promotional opportunities.

Verbal Harassment: Verbal harassment is an offensive course of demeaning comments directed at an employee or used in reference about an employee, that would reasonably undermine the reputation of that employee in the workplace.

Written or Graphic Materials: Written or graphic materials include offensive graffiti, printed materials, notes, letters, e-mails and social media messages; displaying or distributing personal

or stereotypical derogatory or inappropriate materials, pictures, jokes or cartoons that portray a person's personal or physical attributes in a negative or humiliating manner.

4.2 Actions not considered harassment

While each complaint is assessed individually, the following are examples of workplace functions and interactions that would not usually be considered harassment:

- A disagreement.
- A comment or action that is not persistent or severe.
- Changes in work location, co-workers or assignments.
- Less than optimal management or supervision.
- A single comment or action unless it is reasonably severe and has a lasting harmful effect.
- Rudeness, unless it is extreme and persistent.
- Stressful workplace conditions resulting from workload or technological changes.
- Appropriate exercise of managerial authority.
- Appropriate discipline.
- Normal workplace conflict that may occur between individuals or differences of opinion between co-workers.
- Appropriate actions to correct performance deficiencies.

5. ROLES AND RESPONSIBILITIES

All Employees will:

- Adhere to the Workplace Harassment Prevention Policy.
- Work in a safe and professional manner.
- Demonstrate respect towards others at the workplace.
- Notify their supervisor when they believe an employee has experienced or is experiencing workplace harassment.
- Participate in investigations when required.

Council will:

- Adhere to the Workplace Harassment Prevention Policy.
- Work in a safe and professional manner.
- Demonstrate respect towards all Town staff.
- Participate in investigations when required.

The Chief Administrative Officer (CAO) will:

- Implement and maintain the Workplace Harassment Prevention Policy.

- Raise awareness by communicating organizational values to employees and modelling appropriate behaviours.
- Implement reasonable corrective and/or disciplinary actions because of breaches to the policy where necessary.
- Participate, when required, in the informal and formal complaint process.
- Review all formal harassment complaints.
- Participate in investigations when required.

The Human Resources Contact will:

- Review all formal harassment complaints.
- Support supervisors in handling harassment complaints and resolution processes.
- Provide clarification and guidance, as appropriate, to those involved in the harassment complaint process.
- Conduct investigations when required.

Supervisors will:

- Uphold and promote a respectful, safe and harassment-free workplace.
- Be diligent in dealing with workplace conflicts to proactively address issues.
- Work with the CAO and Human Resources Contact to implement reasonable corrective and/or disciplinary actions because of breaches to the policy where necessary.
- Ensure the Workplace Harassment Prevention Policy is available to employees.
- Promptly discuss any allegation of harassment with the Complainant in an impartial and confidential manner.
- Consult with the Human Resources Contact, as needed, for guidance and support with respect to complaints received.
- Receive informal and formal harassment complaints from their direct reports.
- Advise the CAO and Human Resources Contact when a formal harassment complaint is received.
- Monitor the workplace following the completion of a resolution process to ensure the harassment has ceased and does not recur.
- Participate in investigations when required.

6. REVIEW

This policy and procedures will be reviewed annually.

7. DEFINITIONS

"Bad faith complaints" is when an employee intentionally misleads the employer by knowingly withholding relevant information or providing false information in support of a complaint, and includes situations where the employee proceeds with or continues with an allegation when the employee has no honest or sincere belief that a violation of this policy and procedures has occurred.

"Complainant" is an employee or employees making a complaint of harassment under this - policy and procedures.

"Complex Complaint" is a complaint where the resolution requested is greater than stopping the behaviour and an apology.

"Human Resources Contact" means the Town's contractor who provides human resource services.

"Respondent" is the employee or employees alleged to have engaged in harassment in the workplace.

"Retaliation" means unjustified actions or threats of repercussions against an employee for having participated in the harassment complaint process.

"Violence" includes but is not limited to threats, including a threatening statement or threatening behavior that gives an individual reason to believe they are at risk of physical injury; and conduct or attempted conduct that endangers or is intended to endanger the physical or mental health and safety of an individual.

8. ALLEGATION OF HARASSMENT

Employees, who believe they are experiencing workplace harassment, as defined in Section 4, should report the harassment to their immediate supervisor. Employees may choose informal action or file a formal complaint as outlined in Section 12.

Employees who believe they have witnessed workplace harassment should report the harassment to their immediate supervisor, who will work with the affected employee's supervisor to address the complaint. The supervisor or supervisors will work with the affected employee to determine a complaint process as outlined in Section 12.

9. COMPLAINTS AGAINST IMMEDIATE SUPERVISOR

If employees have reason to feel uncomfortable reporting harassment to their immediate supervisor or if the complaint is against their immediate supervisor, they may report the matter to the director of their department. If the director of their department is their immediate supervisor, they may report the matter to the CAO. In the situation where the employee's direct report is the CAO, they may report the matter directly to the Town's Human Resources Contact.

If unsure how to address a complaint, the Town's Human Resources Contact may be contacted first.

10. COMPLAINTS AGAINST A COUNCILLOR INCLUDING THE MAYOR

Harassment complaints against a councillor, including the Mayor, may be reported to the CAO and the Human Resources Contact.

If unsure how to address a complaint, the Town's Human Resources Contact may be contacted first.

11. VIOLENCE IN THE WORKPLACE

Any employee who witnesses an act of violence, is a victim of violence, or is reasonably aware of violence, shall contact the police in the event of an emergency and immediately report the incident to their supervisor, the CAO and the Human Resources Contact. Disciplinary actions for violence in the workplace are not included in the scope of this policy and procedures and will be handled case-by-case.

12. HARASSMENT COMPLAINT PROCESS

12.1 Informal Action

For less severe complaints, where the resolution requested by the Complainant is that the behaviour is stopped and an apology is received, the Complainant can verbally or by email inform their supervisor of the complaint. The supervisor will then share the complaint with the Respondent. If the Respondent acknowledges the allegations and agrees to stop the behaviour and apologize, the Complainant's supervisor and the Respondent's supervisor (if different than the Complainant's) will initiate coaching, as outlined in Section 16.1, or another appropriate process in an effort to resolve the issue promptly.

For more severe complaints or when the resolution requested is greater than stopping the behaviour and an apology, employees may file a formal complaint.

12.2 Formal Complaint

To file a formal complaint, an employee must complete a Complaint Information Form (Appendix A) and submit it to their immediate supervisor or the next reasonable position as outlined in Section 9.

13. RECEIVING A FORMAL COMPLAINT

Supervisors who receive a Complaint Information Form will take the following steps:

- Acknowledge the complaint at their first available opportunity.
- Forward a copy of the complaint to the Human Resources Contact and the CAO, when the CAO is not involved directly with the complaint.
- Advise the Complainant that the Respondent, alleged to have engaged in the prohibited behaviour, will be informed of the allegations and provided with an opportunity to respond.
- Consider any interim measures as outlined in Section 15.

Once the Respondent has been informed of the allegation, the Complainant's supervisor will advise the Respondent that they have an opportunity to reply by completing a Complaint Response Form (Appendix B), within 10 working days from receipt of the allegations. The supervisor will advise the Respondent that relevant details of the response will be shared with the Complainant.

If the Complainant and Respondent have different supervisors, the two supervisors will work together to follow the complaint and resolution processes.

Once completed, the supervisor will review the Complaint Response Form and forward a copy to the Human Resources Contact.

14. FORMAL INVESTIGATION

For situations where there is a significant dispute over the central facts of a complaint or if deemed necessary due to the complexity of the complaint, the Human Resources Contact will conduct a formal investigation of the complaint.

A formal investigation will involve a thorough review of relevant information including interviews with the Complainant, Respondent and witnesses and any other related evidence. The Human Resources Contact has the right to speak with anyone related to the case, examine and copy documents, records, files, etc. and enter any work locations considered relevant to the investigation.

Both the Complainant and Respondent will have an opportunity to review and comment on the information that will form the basis of the Human Resources Contact's analysis and findings prior to a final report being produced.

The Human Resources Contact will then meet separately with the Complainant, Respondent and relevant supervisors to discuss the investigation findings.

The final report on the investigation, produced by the Human Resources Contact, will be the agreed upon facts of the complaint. Once the complaint has been confirmed, the Human Resources Contact and relevant supervisors can begin exploring complaint resolution options and/or disciplinary actions.

15. INTERIM MEASURES

Where necessary, the Human Resources Contact will work with the Complainant, Respondent and relevant management to determine if any interim measures are required to protect and support the Complainant and/or Respondent prior to and throughout the resolution process. This may include, but is not limited to:

- Temporarily relocating either party to an alternate work location.
- Providing a leave of absence with pay during the investigation.
- Modifying schedules.
- Providing alternate reporting relationships.

Interim measures will be implemented on a case-by-case basis in consideration of the specific circumstances required to maintain a safe and healthy workplace.

16. COMPLAINT RESOLUTION PROCESS

Following the review of the Complaint Information Form and the Complaint Response Form, the supervisor or supervisors will work with the Human Resources Contact to determine appropriate dispute resolution processes and/or disciplinary actions.

16.1 Dispute Resolutions

A Dispute Resolution requires willingness from both the Complainant and Respondent to communicate and agree upon a suitable resolution to address the situation.

Some options for Dispute Resolutions include:

Coaching: Discussions with employees to provide guidance and direction on appropriate behaviour and expected performance.

Facilitated Discussion: A third party leads a dialogue between the Complainant and Respondent which may include others, as necessary. The third party can be a supervisor or the Human Resources Contact. The goal of the discussion is to enable the employees to understand the factors leading to the complaint, what changes in behaviour are necessary to prevent a recurrence and to communicate workplace values. The complaint is resolved with a promise to change offensive behaviour.

Mediation: A trained and impartial mediator assists the Complainant and Respondent in arriving at a mutually acceptable resolution to the harassment complaint by facilitating communication and insights between them. The process leads to an agreement on improving the working relationship and adhering to workplace values. A successful mediation results in a signed agreement between the two parties.

Training: Some workplace harassment complaints may reveal issues within the workplace that require additional actions such as General Workforce Training and Harassment Prevention Training for supervisors.

- **General Workforce Training:** Employees may be unaware that their behaviour is offensive. Workplace Rights Training to educate employees about their rights and responsibilities may be required for the entire department or the organization as a whole.
- **Harassment Prevention Training for relevant management:** Education is required for any person in a management position that is unaware of their due diligence requirement to prevent harassment, and/or lack the knowledge necessary to respond to harassment complaints.

Workplace Assessment: A voluntary, confidential process designed to assess group functioning in the workplace. Whereas mediation is generally limited to Complainants and Respondents, workplace assessments address issues on an organization-wide basis. Typically, workplace assessments are post-incident and used to address morale, as well as systemic and wide-spread conflict issues.

17. DISCIPLINE

In addition to dispute resolution processes, any employee who participates in harassment, retaliation or breaches of confidentiality may be subject to disciplinary action. Supervisors who fail to act upon allegations of harassment may also be disciplined.

The following non-exclusive list of factors will be considered when deciding on disciplinary action related to a harassment incident:

- Severity of the incident.
- Circumstances surrounding the incident.
- Any prior violations of this policy and procedures or any other harassment or violence workplace complaints.

Prior to implementing any disciplinary actions, supervisors will discuss all disciplinary options with the CAO and the Human Resources Contact.

18. RETALIATION

Retaliation in any form, against any individual involved in the harassment complaint and resolution process is strictly prohibited.

19. BAD FAITH COMPLAINTS

Using this policy to make bad faith complaints is prohibited and can result in discipline against the Complainant.

A good faith complaint that is unfounded due to insufficient evidence is not considered a bad faith complaint and would not result in discipline for the Complainant.

20. CONFIDENTIALITY

Confidentiality is required in the processing and resolution of complaints. Complainants, Respondents, witnesses, supervisors, and anyone who is aware of the complaint, are not allowed to share confidential information related to the complaint, except when they are seeking advice from legitimate sources such as a union representative, legal counsel or other person in a position reasonably able to offer assistance.