

March 5, 2018

Ms. Kirsten Walli
Ontario Energy Board
PO Box 2319
27th Floor, 2300 Yonge Street
Toronto, Ontario M4P 1E4

**Re: Section 86 MAAD Application of Entegrus Powerlines Inc. and St. Thomas Energy Inc.
Board File No.: EB-2017-0212**

Dear Ms. Walli,

This letter is provided to advise the Board of the latest reset to the planned closing date of the proposed merger of Entegrus Powerlines Inc. ("EPI") and St. Thomas Energy Inc. ("STEI"), in the hopes that a decision in this matter can be issued on or before March 27th so as to allow the transaction to close on the updated targeted date; April 1, 2018.

Background

On July 21, 2018, our shareholders entered into a Merger Agreement to affect the formation of a single regulated electricity distributor. On the same day, a Section 86 MAADs application (the "Application") was filed with the Board. The Application was a "plain vanilla" MAADs, with complete and comprehensive pre-filed material, in accordance with Board guidance.

The Notice of Hearing was issued about a month later (August 31st). An intervention period followed, with one request for intervention (by Capredoni Enterprises Ltd.) to which EPI/STEI filed a response on September 10th. Procedural Order #1 was issued about a month and a half later; on October 25th. The intervention request was denied, and the only other party to this matter has been Board Staff.

On November 3rd, a letter was filed by Gowling WLG on our behalf. The letter noted our concern, given the passage of time since the filing of the Application, regarding the commercial and transaction financing impact of a decision date beyond mid-December, and thus a need to defer the planned closing of the transaction by January 1, 2018. As noted in our November 3rd letter, traditionally most non-controversial MAADs applications have taken between 3.5 and 4.5 months from application filing to decision. It was also known at the time of structuring the transaction that the Board's published performance standard for Section 86 MAAD applications by way of written hearing is 130 calendar days. Accordingly, the transaction economics, customer communication plans and financing and closing arrangements, were predicated on a January 1, 2018 closing date.

The Board acknowledged the November 3rd letter in Procedural Order #2, which set a condensed schedule for submissions. Board Staff filed their submission on November 30th as scheduled and raised no material concerns with the Application or the relief sought.

EPI/STEI worked diligently and filed a reply submission the next day, on December 1st, rather than waiting until December 4th as outlined in Procedural Order #2, in an attempt to expedite the process. It is our understanding that the record was closed in this matter with the filing of the submissions and the matter has resided with the Hearing Panel as of that date.

When it became apparent that a decision on the application would not be available in time to allow for closing of the transaction by 2017 year end as initially planned for, closing arrangements were reset to February 1st. As the end of January approached and there was as yet no decision, closing arrangements were again reset to March 1st.

Current Status

EPI/STEI have now reset the merger closing date to April 1st in order to provide time for the regulatory process to conclude and to complete the legal and financial work needed to consummate the transaction. We are hopeful that a further reset of that date will not be required, as repeated resetting of the transaction close date continues to cause customer confusion and practical difficulties for us. The following examples illustrate some of these difficulties:

- Our current lenders are anxious to have their facilities replaced by the new financing planned upon closing of the transaction. Logistical difficulties and costs have resulted from the protracted extension of interim financial facilities.
- EPI/STEI will now require an interim fiscal year end at the date of transaction close, which will require auditors of both companies to return to complete further stub period audit work. This will also necessitate additional tax returns for both companies. These requirements will increase the cost of the transaction and will also create additional challenges in providing the Board with stub period regulatory filings.
- Key systems and process integration work in our merger plan has been halted to ensure that the entities remain legally separate. While financially prudent thus far, this is now causing challenges in the effective and efficient sequencing of ongoing projects.
- Customers and the communities are aware of the merger, including the initially planned merger date of January 1st, and have been supportive. However, the delay has resulted in customer confusion and questions. Customer communication plans for the merger, including bill inserts, website modifications, media event preparations and press releases are completed and on hold. Items such as bill stock are being ordered on a month-to-month basis, resulting in inefficiency. The public safety survey educational campaign currently ongoing has been made more challenging by the need to maintain separate branding amongst the communities we serve.
- EPI/STEI have four collective bargaining units as well as non-union staff. Optimal hiring, staff assignment, and other future-looking operational decisions and initiatives are dependent upon

confirmation that the merger will proceed. While it has been prudent to date to defer these decisions, such deferral will cause more difficulties as time goes on, particularly for the operational integration needed to ensure continued strong service and responsiveness to our customers. The merger confirmation is also important for the morale of our employees

- We continue to consult with the existing Boards of Directors for governance purposes. The existing Board of Directors remain in place although a new combined Board has already been established and briefed in anticipation of consummation of the transaction to mitigate any undue governance “gap”.
- In the Application, EPI/STEI proposed an 8 year deferred rebasing period, based on financial analysis, and consistent with Board guidance. This proposal would result in the merged entity rebasing in 2026. The economic modelling underlying this choice assumed cost synergies commencing in January 2018. Each month of delay in the ability to implement cost saving initiatives diminishes the accrual of expected synergies by approximately \$50k. On the other hand, transaction costs have, at best, remained constant, and in some cases have increased as a result of the delay in closing as described above.

Conclusion

In addition to ensuring that the Board fully appreciates the importance of meeting the further reset closing date of April 1st for our customers, staff, shareholders and lenders, we respectfully request notification as early as reasonably possible should the Board anticipate further delay of the decision in this matter beyond March 27. This would assist us in managing affairs in the interim as best as possible to minimize the resulting negative impacts outlined above, and would be appreciated.

If you have any questions, please do not hesitate to contact us.

Sincerely,

[Original Signed by]

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[Original Signed by]

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cc: Mayor Randy Hope, Municipality of Chatham-Kent
Mayor Heather Jackson, Corporation of the City of St. Thomas
Eric van Roon, Senior Vice President – Corix Energy
David Ferguson, Vice President of Regulatory & Human Resources – Entegrus Powerlines
Ian Mondrow, Partner – Gowling WLG