HEAD OFFICE

INTRODUCTION

After the 2004 merger of Hydro Vaughan, Richmond Hill Hydro and Markham Hydro, PowerStream had the three head offices and three service centres of the predecessor utilities. The purpose of this evidence is to describe the process that led to the Company's decision to consolidate the three head office facilities at one location and the further and subsequent process that led to the decision to construct, own and operate a new head office at 161 Cityview Boulevard, adjacent to the intersection of Highway 400 and Major Mackenzie Drive in the City of Vaughan. A design/build contract with Belrock Construction was executed on December 8, 2005. Construction of the new office building commenced in March 2006 and was completed in December 2007. PowerStream moved into its new head office on February 2, 2008. The building cost including the land acquisition was $27.7 million.

THE DECISION TO CONSOLIDATE

When PowerStream was created in May 2004, it had approximately 377 administrative employees, working in 14 different departments, spread across three head office locations:

- in the Town of Markham, at the former Markham Hydro building;
- in the Town of Richmond Hill, at the former Richmond Hill Hydro building; and
- in the City of Vaughan, at the former Hydro Vaughan building which was shared with the City of Vaughan and the Vaughan Fire Department.

Key information on these three facilities is shown in Tables 1 to 3.

Table 1: Facilities Space at Time of Merger

Location	Address	Office	Warehouse	Outside	Total Occupied SF
Markham	8100 Warden Ave	49,322	45,100	101,114	195,536
Richmond Hill	1150 Elgin Mills Rd E	85,845	12,837	46,960	145,642
Vaughan	2800 Rutherford Rd	20,076	15,798	253,790	289,664
Total		**155,243**	**73,735**	**401,864**	**630,842**

Table 2: Annual Facilities Cost at Time of Merger

Location	Address	Annualized Costs
Markham	8100 Warden Ave	$1,209,806.00
Richmond Hill	1150 Elgin Mills Rd E	$1,378,391.00
Vaughan	2800 Rutherford Rd	$794,270.00
Total		**$3,382,467.00**

Table 3: Facilities Head Count at Time of Merger

Location	Address	Office	Operations
Markham	8100 Warden Ave	77	56
Richmond Hill	1150 Elgin Mills Rd E	61	31
Vaughan	2800 Rutherford Rd	118	34
Total		**256**	**121**

The geographical separation of staff across the City of Vaughan and the Towns of Markham and Richmond Hill had significant and adverse operational and cultural consequences, at the employee and departmental level. Operationally, of greatest concern was that employees belonging to any one department were spread among three offices. This made intra-department operations, communication and interaction difficult and inefficient. Work processes, procedures and infrastructure required attention in three locations with a management workforce in many cases, not located in the same location as their staff. The decentralized organizational structure was costly and ineffective in running day-to-day activities. For example, regular and special-purpose meetings required employees to travel among the three locations. Additionally, maintaining three separate IT infrastructures was costly and difficult to manage.

Geographic separation also meant that PowerStream's Executive Management Team ("EMT") did not have ready access to all of its managers; moreover, the members of the EMT were all located in one office and were not visible or accessible to employees headquartered in the other two offices. Finally, it was difficult for the EMT to assist in developing a cohesive, efficient functioning team when they were separated from a large portion of the newly merged workforce. From an overall organizational perspective, all of these factors impaired the development of a new and efficient culture for the merged entity.

In the summer of 2004, PowerStream's Board of Directors and its EMT recognized that they needed to take steps to develop a comprehensive facility plan that would address the problems created by geographic separation and enable PowerStream to realize the opportunities arising out of the amalgamation. They also recognized that a decision would have to be taken with respect to the lease of the Richmond Hill office which was up for renewal at the end of 2004. In 2004, the occupancy costs for Richmond Hill, Markham & Vaughan were approximately $3.4 million per annum with a NPV of $38.8 million based on a fifteen year lease. Renewal of the Richmond Hill lease, even for a short period of time, would limit PowerStream's facility planning options, given that the building was owned by the Town of Richmond Hill and it was unlikely that the Richmond Hill building could be expanded to accommodate any degree of inter-office consolidation. Further complicating the situation was the fact that the Town of Richmond Hill had expressed some interest in reclaiming the Richmond Hill office building for its own use.

In light of the above, PowerStream's Board of Directors made two decisions. The first, was a decision to give notice to the Town of Richmond Hill that it was terminating its lease, effective December 31, 2004, and to relocate the Richmond Hill employees to PowerStream's two other head office locations. This was a trade-off to temporarily address the problems of geographic separation while waiting for the outcome of the Strategic Facility Plan. The second was a decision to issue a Request for Proposal in connection with the development of a comprehensive "Strategic Facility Plan" for PowerStream.

CLOSING THE RICHMOND HILL OFFICE

From September to December 2004, PowerStream relocated 88 staff, including 61 administrative (i.e., head office) staff, from the Richmond Hill office to the Markham and Vaughan head office locations. The resulting two-office arrangement reduced some of the problems of geographic separation by facilitating a certain degree of intra-office consolidation; employees in some, but not all, departments were now located in one office instead of being spread among three offices. This arrangement was, however, not without its own set of problems. These included:

- insufficient space in the two head office locations to accommodate the consolidated workforce; accordingly, employees were required to "double up" in offices and/or work in unacceptably small offices (30 square feet or less);
- insufficient and inadequate meeting facilities as a result of converting meeting rooms to office space;
- inadequate and insufficient storage and loading capacity as a result of converting warehouses and loading bays into office space; and
- geographic separation which, although reduced, continued to give rise to problems of duplication, increased work-related travel and impairment of the development of a cohesive corporate culture; the return travel time between the Markham and Vaughan office was about 45 minutes.

In addition to the problems described above were concerns related to PowerStream's ability to accommodate a growing workforce in the future since the current facilities were already inadequate. PowerStream expected its customer base to continue to grow at an average rate of between three and five percent per year. Moreover, PowerStream had announced its intention to pursue further amalgamations and acquisitions. It was recognized that these two factors would result in a requirement for more services, additional employees and, thus, more space.

DEVELOPMENT OF STRATEGIC FACILITY PLAN

In August, 2004, PowerStream selected LNR Corporation ("LNR"), an independent real estate advisor, not affiliated with any land developer or landlord, to develop a "Strategic Facility Plan" that would enable the following corporate objectives:

- development of a cohesive and productive post-amalgamation corporate culture;
- reduction or elimination of operating and other inefficiencies (and the associated costs) caused by geographic separation;
- realization of the potentials of amalgamation by, *inter alia* "driving out" new operational efficiencies;
- accommodation of some degree of future growth of PowerStream's workforce;
- improved access to customers and *vice versa*; and
- development and enhancement of PowerStream's image within in the community.

LNR was requested to identify and evaluate viable conceptual alternatives to the status quo of two head offices and two services centres. Specifically, LNR was directed to:

- identify the current and future organizational and behavioural dynamics that would link the work environment strategy to PowerStream's business objectives and strategy;
- identify and evaluate all viable conceptual "alternatives" to the status quo, including "lease," "build to own", and "build to lease" options;
- identify potential head office and service centre locations (existing buildings and building sites) within PowerStream's service territory; and
- provide a detailed financial analysis of all viable alternatives.

From September to December 2004, LNR performed the following tasks:

- it conducted a visioning session and individual interviews with the EMT in order to gain a comprehensive understanding of the Company's strategic objectives;

- it facilitated focus groups with selected employees identified by PowerStream to solicit input with regard to the desired work environment;
- it administered a detailed "Client Need Analysis Questionnaire", designed to elicit additional specific information on the needs of each department;
- it evaluated current state effectiveness;
- it performed a "needs analysis" in regard to PowerStream's strategic objectives, culture, demographics, expectation of future growth and location criteria (i.e., proximity to a 400 series highway in order to provide easy access for its customers and staff and an east and west presence for its two service centres to meet response time requirements); and
- it evaluated PowerStream's work environment with regard to the number of staff and departments and future workplace standards.

The end-product of this activity was the preparation of the Strategic Facility Plan ("the Plan"). The Plan included sections and analysis of the current situation, future needs and objectives, space planning standards, organizational effectiveness and adjacencies, service centre needs, growth, current and future cost analysis. The Plan also provided detailed modelling of relevant conceptual alternatives as further outlined below.

The Plan was supported by comprehensive budgets, market data and space programming. The Strategic Facility Plan identified two conceptual alternatives to the *status quo*:

- **Alternative 1:** consolidated head office and service centre facility **and** a secondary service centre facility; and

- **Alternative 2:** a head office facility **and** two service centres at existing or alternate locations, in the Town of Markham and the City of Vaughan.

Under Alternative 1, PowerStream would relocate its entire staff (i.e., administrative and service staff) to a new consolidated head office and service centre facility and maintain a secondary service centre to ensure it could meet minimum response times in its service territory. This alternative had a net present value of approximately $28,000,000. Under

Alternative 2, PowerStream would relocate its administrative staff, only, to a new head office facility and would maintain separate service centres in the City of Vaughan and the Town of Markham. This alternative had a net present value of approximately $23,000,000.

Table 4: Comparison of Conceptual Alternatives

Alternative 1	Alternative 2
Consolidated head office and service centre and a secondary service centre location	Standalone head office facility with 2 service centres at existing (or alternate) locations in Markham and Vaughan
NPV $28,000,000	NPV $23,000,000

Both Alternatives 1 and 2 would have enabled PowerStream to consolidate its operations and accommodate expected growth. A significant disadvantage of Alternative 1, however, was that the head office commercial was not compatible with the heavy industrial use of the service centres. Outside storage sites (a requirement for a service centre facility) were extremely scarce and were generally situated in locations that would be harder to reach for customers and employees generally, on roadways more suitable for truck traffic. Even if such a site could be found, investigation revealed that developers (or in turn PowerStream if they were to own the facility) would consider development of an office building on such an industrial site to be an undesirable investment strategy for the reasons identified above. Additionally, industrial and commercial areas generally have different types of zoning and accommodating both uses would create a challenge in terms of attaining required municipal approval. Finally, Alternative 1 was more expensive than Alternative 2 on a net present value basis.

The Strategic Facility Plan was presented to PowerStream's Board of Directors on December 15, 2004. The Board authorized PowerStream's EMT to pursue Alternative 2 (a head office and two existing service centres) as the preferred option and directed it to commence negotiations with the Town of Markham and the City of Vaughan for long-term leases of the existing service centres.[1] The Board also directed LNR to evaluate the inventory of existing buildings and new building sites that had been included in the Strategic Facility Plan and develop a short-list of suitable choices. Finally, the PowerStream's EMT and Board of Directors directed LNR to develop a "design/build" Request for Proposal for a new, consolidated head office. This step was taken as a "fail safe", in case no existing suitable buildings were available, although this was not a foregone conclusion.

EXISTING BUILDING VS. NEW BUILDING

In accordance with the directions received from PowerStream's Board of Directors, LNR screened the inventory of available existing buildings and new building sites against a set of criteria that included: space adequate to accommodate a building that would house 270 employees, appropriate access for customers and employees and a purchase price that falls within the budgetary limits established in the Strategic Plan.

LNR short-listed three existing and proposed office buildings that could accommodate a new head office. Upon further examination, the EMT concluded that none of these met PowerStream's objectives and requirements for a consolidated head office. Specifically, none of the buildings offered a cost advantage relative to a purpose-built facility, and moreover, none had the necessary combination of adequate space for current and future requirements, contiguous floors and acceptable accessibility for customers and employees. Several of the buildings would have required co-tenancy with other companies which would have impaired the development of a PowerStream "culture" for the newly formed entity. An evaluation process was undertaken to ensure that all prospective options, even those with potential drawbacks, were thoroughly considered and analyzed to determine viability.

[1] The Town of Markham completed their own Long-term Facility Plan and subsequent to PowerStream's decision to maintain its two existing service centres, the Town of Markham received a third-party offer to lease the service centre location. The offer the Town received was considerably higher than the lease payments PowerStream was paying. As a result, PowerStream's lease at the Markham site was not renewed and the company began its search for an alternative operations center.

As part of its investigation of existing building options, PowerStream also examined the possibility of expanding its Town of Markham facility. Upon review, however, it was concluded that an expansion was not economically feasible because the building was designed in such a way that expansion was not practical and would offer no cost advantage. Temporary facilities would have to be leased during the construction phase of the project in order to accommodate the administrative and operations staff at the Markham location. Additional costs associated with moving and accessing a new location would reduce any savings that may have been achieved through the expansion of the existing site. Moreover, expanding the building would have required demolition of the existing building, creating a development site. The market price of such site would not have resulted in any significant cost advantage compared to the development of a purpose-built facility. Finally, the facility was owned by the Town of Markham which was not eager to redevelop the site for PowerStream's exclusive use as the Town was anticipating increasing its own use of the site.

In the result, the EMT concluded that none of the "existing building" options were acceptable. On January 26, 2005, the EMT directed LNR to identify a list of available development sites that could be leased or purchased by PowerStream. The EMT also directed LNR to administer a general Request for Proposal on the basis of PowerStream's office requirements as developed in the Strategic Facility Plan. The objective of the RFP was to solicit both pricing and design concepts from prospective design builders.

ACQUISITION OF LAND

Two viable development sites were short-listed, Vaughan 400 Business Park and the Cityview location. The two sites were each evaluated on the basis of price, size, shape, potential ability to accommodate future expansion and accessibility. The Vaughan 400 Business Park site was rectangular in shape with limited options for siting the building. It was marginally acceptable in size, but would not be able to accommodate future expansion. Moreover, there was no direct access to the 400 series highways or public transit access on the street. The Cityview site could accommodate multiple siting options and future parking or expansion. It provided accessibility to the 400 series highways and Vaughan transit service on the street. The site was well located for both customers and employees. The cost of acquiring the Cityview site compared favourably to all other alternatives. Comparable locations had a market value of approximately $1,000,000 per acre, about 20% greater than the negotiated price for the Cityview site.

PowerStream proceeded to negotiate with the owner of the subdivision, History Hill, for the acquisition of approximately six acres of land, which was deemed to be an appropriate size based upon previously defined criteria and specifications. Although six acres of land was optimal to accommodate 92,000 square feet of office with associated parking, ultimately a purchase agreement of four acres was negotiated at $825,000 per acre. Through an agreement with the City of Vaughan, PowerStream was able to obtain an easement with respect to the adjacent land to the south of the purchased acreage which incorporates a storm water management pond. This gave PowerStream the additional site area required for the building.

It was presumed that if the site was acquired, a design/build contractor would ultimately be engaged to construct the building and once completed, PowerStream or its shareholders could decide whether to retain ownership of the building or sell it to a professional landlord/investor and lease it back. The design/build estimate along with the anticipated purchase price of the land justified, in all financial respects, that this transaction could be accomplished well within the parameters of market leasing or purchase values.

Table 5 outlines the comparative analysis done to evaluate the options between market leasing of existing space versus constructing a specific purpose building. The analysis considered land and building costs in isolation of all other occupancy costs which would be incurred under either scenario.

Table 5: Comparative Analysis of Purchase and Market Options

Options	Note	Annual Cost	Total
Base Case			
Original 2004 Lease costs escalated for inflation			3,607,000
Proposed Option			
A. New head office building lease	1	1,856,976	
Maintenance		920,000	
Lease for service centres in Markham & Vaughan		1,000,000	3,776,976
B. New head office building purchase	2	2,103,000	
Maintenance		920,000	
Lease of service centres in Markham & Vaughan		1,000,000	4,023,000
Market Option			
Lease of existing building @ $30.18 PSF		2,776,560	
Lease of service centres in Markham & Vaughan		1,000,000	3,776,560

1. Assumptions: Space of 92,000 square feet, price of $23,212,200 and lease rate 8%

2. Assumptions: Depreciation at a rate of 25 years, cost of capital 7.20% and purchase price of $23,212,200. Regulatory rates of return and debt are based on regulated rates at the time of analysis which was completed in 2004.

NEW BUILDING

Size and Configuration

The original concept assumed 72,000 square foot building which would accommodate approximately 213 staff. In February and March 2005, at meetings with the Board of Directors and Building Committee, it was determined that the building capacity should be increased to 270 staff, to accommodate an increased estimate for required space and allowing for some future projected growth. In addition, it was determined that the control room function, (approximately 4,000 square feet) should be consolidated and located in the head office. Existing control room functions were split between the Vaughan and Markham locations. Each of these sites would have required extensive renovation, and it was not clear whether they would be available to PowerStream over the long term. In the result, the space specification for the new building was increased from 72,000 to approximately 92,000 square feet.

Space benchmarks were reviewed to ensure that the building was sized appropriately to industry standards. Based on information received from The International Facility Management Association ("IFMA"), the average gross square foot per occupant is 396 and the average usable square foot per occupant is 318. PowerStream's new head office gross area is approximately 92,000 square feet with 80,000 square feet of usable area. Based on 2008 office head count of 250 employees the gross square footage per employee is 368, below the IFMA average. The usable square footage per employee is 320, at the industry average. The building is designed to accommodate 270 staff. Based on the designed capacity the gross area per employee is 341 and the usable area per employee is 296, both well below the IFMA average. Further refining the space by industry type the average gross square footage per occupant for utilities is 425 and the usable square footage per occupant is 342. PowerStream is well below the benchmarks identified. Table 7 & 8 below summarize PowerStream's area per employee.

Table 7: Gross Square Footage per Employee

	Gross Area	Headcount	Square Footage per Employee
Pre-merger	155,243	256	606
Head Office Actual	92,000	250	368
Head Office Programmed Capacity	92,000	270	341

Table 8: Useable Square Footage per Employee

	Usable Area	Headcount	Square Footage per Employee
Head Office Actual	80,000	250	320
Head Office Programmed Capacity	80,000	270	296

Design/Build RFP

A design/build RFP was issued in March 2005 to five proponents and the conclusion was brought to the April 2005 Board Meeting. An amendment to the RFP was issued to incorporate the possibility of constructing to a "Leadership in Energy and Environmental Design (LEED)" standard. Each response to the RFP was evaluated in detail on the basis of cost, design and specification. A decision on the design/build RFP was made at the June 2005 Board Meeting based on a detailed decision matrix.

LEED

During the design/build RFP process it was determined that consideration for a LEED building should be added to the specification. In order to attain LEED certification, PowerStream would have to construct its new head office in accordance with five main environmental categories which included site sustainability, water efficiency, energy and atmosphere, materials and resources, and indoor environmental quality. The decision to pursue LEED certification was made for a number of reasons. Most new office buildings slated for construction were incorporating LEED and there was a concern that by not doing so the value of the new building would be impaired. As a leading utility in Ontario and good community citizen, setting an example by complying with the highest possible environmental standards while remaining within reasonable cost parameters was considered justified.

All design/build RFP responses included a premium to construct a LEED facility. Working with Enermodal (a LEED consultant), a detailed LEED scorecard was prepared to determine what points should be pursued. All items were evaluated on the basis of environmental impact and cost/payback period. Items deemed too expensive or with too long a payback period were eliminated. Other items were pursued and monitored by LNR and the LEED consultant. This was presented to the Board and authorized in June 2005. The LEED Plan as implemented anticipated that the majority of LEED related items would be cost justified with a payback period of seven years or less.

Financial Analysis: Lease versus Own

In 2005 PowerStream's EMT began evaluating "build-to-lease" versus "build-to-own" options. The build–to-lease option would require PowerStream to purchase land and enter into an agreement with a third party, who would construct and own the building and lease it back to PowerStream for an extended period of time. A sub-set of the build-to-lease option was Municipal ownership. The Board of Directors and Shareholders decided to explore the option of Municipal ownership rather than 3rd party ownership with lease arrangements to PowerStream. Further evaluation of this option revealed that it was not viable since it would be complex to administer and would likely require the creation of another holding company.

Based on the NPV analysis performed and the evaluation of all the financing options, in September 2006 it was decided to proceed with the "build-to-own" option. Table 6 below shows the NPV comparison of lease versus own.

Table 6: Net Present Value Analysis

Option	Net Present Value
Build to Lease	$30,173,538
Build to Own	$22,131,759

FURNISHINGS, FIXTURES AND INFRASTRUCTURE

After the decision was made to consolidate the administrative functions to a new head office, it was necessary to review PowerStream's requirements for furniture, a telephone system, and a data network. Management's review and decisions on these three issues are discussed below:

Furniture

Although PowerStream had made a decision to relocate administrative staff to a new corporate head office, the 2800 Rutherford Road and 8100 Warden Avenue sites would continue to be utilized as operations centres. A review of the existing furniture concluded that many items could be retained for an operating centre environment where staff divides their time between the office and the field. Few items met the modern ergonomic needs of an administrative office where staff spend most of their time at desks, often in front of computer screens, or in meeting rooms.

It was decided that furniture that was specialized in nature such as filing cabinets and fire-proof vaults would be relocated to the new head office building. However, most of the furniture for the head office would need to be replaced.

The vendor for the new head office furniture was selected through a competitive bid process. HOK Canada, an interior design company assisted PowerStream in this process. A budget of $2.6M was established for the new furniture.

In May 2006, a request for information (RFI) was sent to furniture manufacturers and suppliers that were known to be reputable. This RFI outlined PowerStream's requirements and asked for the vendors to provide company information, service capabilities, ergonomic approach, environmental approach and references.

Eight companies responded to the RFI: Alsteel, Global, Haworth, Herman Miller, Inscape, Knoll, Steelcase and Teknion. The companies were evaluated based on the prequalification criteria and the vendors were "shortlisted" to: Haworth, Herman Miller, Steelcase and Teknion.

A staff team visited local sites where the short-listed vendors had supplied furniture. The short-listed vendors also set up sample workstations using the furniture that was proposed for PowerStream.

After reviewing the pricing offered by the four vendors, it was decided to split the order between Steelcase and Teknion. The cost of furniture was $3,500,000. The budget was exceeded by $834,000. The principal cause for this overage was a decision to furnish areas that would accommodate future increases in PowerStream's staffing complement. Approximately 50 additional workstations were purchased. In the long run this will ensure consistency in design, quality and appearance. Moreover, the original interior design offered very little privacy to office areas based on the glass office fronts designed to meet LEED requirements. Privacy walls were added to improve the overall privacy of the offices. Items such as Room Wizard (a meeting room booking tool), Smart Boards, extra chairs, shelving, dry erase whiteboards were added to improve the functionality of meeting rooms, offices and the common work areas.

Telephone

The existing telephone system at the Rutherford Road and Warden Avenue sites was Nortel technology originally introduced in 1976 and upgraded in 1991. The upgrades provided modern features such as voice recognition, integrated fax and voice messaging from the desktop. The system itself however, was based on older underlying technology and could not be leveraged to provide the level of flexibility and scalability offered by more current systems. Management considered a number of potential solutions including moving the existing systems to the new building, implementing a net new Plain Old Telephone System (POTS), a mix of Voice over Internet Protocol (VoIP) and POTS or moving to a more current VoIP system.

VoIP technology offers a number of advantages including lower cost, ease of cabling, use of a single network, fewer hardware components and better security.

In the evaluation process three manufacturers were initially considered and they offered five technology solutions. Potential vendors were also assessed. Vendors considered and/or contacted were Bell, Telus, Brant Tel, Sygnal and FCI. After further screening and based on references or past performance, the list of vendors was short-listed to two. Brant Tel and Telus were invited to respond to PowerStream's telephone requirements as outlined in a Request for Information (RFI). Brant Tel's "Avaya" system was selected as it offered lower cost, greater functionality, a broader range of products and a better warranty.

The budget for the phone system, including changing the equipment at the two operating centres was $855,000. The actual installation cost $711,000.

Data Network

After PowerStream was formed and staff was relocated to the Rutherford Road or Warden locations this resulted in two separately designed data networks (Nortel and Cisco systems) with separate hardware and design standards. The system was also not suited to the continually increasing volume of voice and data traffic. The decision to consolidate to a new head office exacerbated the need to look at system upgrades. A budget of $645,000 was established for the head office data network that would link the two operations centres.

A design was developed to re-use the existing equipment, where possible, at the two operation centres. This was feasible given the lower staff and hardware requirement of these locations and would ensure that the head office and the devices required to connect the operations centres were both up to date and adaptable to technology change.

Management determined that the Cisco hardware was optimal based on the high level of in-house knowledge of the hardware. Cisco is the current market leader in network technology that offer fully featured enterprise solutions that match PowerStream's requirements.

A RFP was issued to IBM, Bell and Telus and after further clarification to vendor inquiries bids were submitted by Bell and Telus. The Telus bid was excluded since it did not meet RFP requirements. The total cost of the installation was $538,000.

CONCLUSION

Overall, PowerStream is confident that the new head office facility will provide greater future efficiencies to its ratepayers than operating two separate administrative locations. Moreover, the consolidation of the administrative offices will also reduce inefficiencies caused by geographic separation and assist with developing a team culture within the organization which in turn will result in a higher standard of service quality to the PowerStream customer.