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BY EMAIL and RESS

September 18, 2015
Our File: EB20150003

Ontario Energy Board
2300 Yonge Street
27th Floor
Toronto, Ontario
M4P 1E4

Attn: Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: EB-2015-0003 – PowerStream Inc. – SEC Notice of Motion

We are counsel to the School Energy Coalition ("SEC"). Enclosed, please find a Notice of Motion seeking production of certain documents requested, and refused, at the Technical Conference, related to the announced merger between the Applicant (PowerStream Inc.), Horizon Utilities Inc., Enersource Hydro Mississauga Inc., and Hydro One Brampton Network Inc.

SEC recognizes that the issues in this motion are intertwined with the threshold issue the Board has requested submissions on in *Procedural Order No. 3*.

Yours very truly,
Jay Shepherd P.C.

Original signed by

Mark Rubenstein

cc: Wayne McNally, SEC (by email)
Applicant and intervenors (by email)

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EB-2015-0003

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15, Schedule B;

AND IN THE MATTER OF an Application by PowerStream Inc. for an Order approving rates and other service charges for the distribution of electricity for the years 2016 through 2020;

AND IN THE MATTER OF Rule 8 of the Board's *Rules of Practice and Procedure*.

NOTICE OF MOTION

The School Energy Coalition ("SEC") will make a motion to the Ontario Energy Board ("the Board") at its offices at 2300 Yonge Street, Toronto, on a date and at a time to be fixed by the Board.

PROPOSED METHOD OF HEARING:

SEC has no preference in the method of hearing this motion.

THE MOTION IS FOR:

1. An order requiring PowerStream Inc. ("PowerStream") to provide certain documents requested and refused at the Technical Conference held in this proceeding on September 9th 2015, specifically refusals at lines:

    a. Page 19, Lines 3-4;
    b. Page 20, Lines 6-7; and
    c. Page 20, Lines 24-26.

2. Such further and other relief as SEC may request and the Board may allow.

THE GROUNDS FOR THE MOTION ARE:

1. On April 16 2015, the Government of Ontario announced a proposed merger between four of electricity local distribution companies: Enersource, Horizon Utilities, Hydro One Brampton and PowerStream.[1] A similar announcement was made on the same day by PowerStream.[2]

[1] Backgrounder: Hydro One Brampton Merger (Ministry of Energy), April 16 2015 http://news.ontario.ca/mei/en/2015/04/hydro-one-brampton-merger.html

[2] Four Ontario Electric Utilities Pursue Merger (PowerStream), April 16 2015 http://blog.powerstream.ca/2015/04/ontario-electric-utilities-pursue-merger/

2. On May 22nd 2015, PowerStream filed an application pursuant to section 78 of the *Ontario Energy Board Act, 1998* ("*OEB Act*") for an order or orders approving just and reasonable rates for the distribution of electricity for the years 2016 through 2020.[3]

3. PowerStream's Custom IR application is based on an itemized forecast of its costs and revenues for each year of the proposed plan (2016-2020).[4] In response to interrogatories, PowerStream stated that the impact of the proposed merger has not been included in the application.[5]

4. PowerStream evidence is that the merger, if approved, will be implemented by March 31, 2016.[6] The expectation would be that shareholder approval will be complete by September 30, 2015.

5. At the Technical Conference, SEC sought to understand an update of the merger. PowerStream stated that the September 30th date has slipped into sometime in October.[7] A joint press release was issued on September 15th discussing the timeline and benefits of the merger.[8]

The Documents

6. While no finalized full merger agreement has been reached, PowerStream has confirmed that there are documents that set out the broad framework of the agreement that is being translated into the full final merger agreement:[9]

> MR. RUBENSTEIN: Well, let me unpack that. I recognize from there's no -- from what you are saying there is no final merger agreement, but is there a signed letter of intent, signed principles, that you will -- that you are going to translate into that document that -- and that's what you are working on?

---

[3] Section II, Tab 2, Schedule 1, p.4, at para. 16

[4] Section II, Ex. A, Tab 1, Schedule 1, p.1:

> "PowerStream is proposing a five year Custom IR plan term, covering the 2016 to 2020 rate years, where the rates are determines in the following manner:
> - The revenue requirement for each year of the five year IR term is determined based on the forecast rate base and costs;
> - Inflation and productivity savings are incorporated in the capital and operating costs forecasts that underpin the revenue requirement calculation
> - Customer counts and billing determinations are forecast for year; and"
> - The Board's cost allocation methodology is applied for each year to ensure that the revenue requirement allocation to each customer class maintains the revenue to cost rations within the Board approved ranges."

[5] Interrogatory Response to I-Staff-1(a)

[6] Interrogatory Response to I-CCC-1(c)

[7] Technical Conference Transcript, p.16, Ln 18-20

[8] Local Electric Utilities Set to Approach Municipal Councils for Merger Approval (Joint), September 15 2015 (See **Appendix A**)

[9] Technical Conference Transcript, p.18, Ln 15 to p.19, Ln 2

> MR. MACDONALD: Actually, I think we are past that. I think we really are trying to get all these agreements that are needed as part of a merger to get them finalized in the next number of literally couple of weeks, because we are trying to get it done by the end of September.
> MR. RUBENSTEIN: So there is some document that exists that you have agreed to setting out some of the broad essences of the agreement that you haven't written into the final --
> MR. MACDONALD: That's correct. [emphasis added]

7. SEC requested these document(s) (the ("Preliminary Agreement Merger Documents"), but PowerStream refused to provide it.[10]

8. PowerStream further confirmed that it (or consultants working on its behalf) has performed financial analysis on the merger, such as cash flow analysis.[11] SEC requested the analysis ("(the "Financial Analysis Documents") but PowerStream refused to provide it.[12]

9. Finally, PowerStream confirmed that it (or consultants working on its behalf) has performed a forecast of where savings as a result of the merger could be achieved from.[13] SEC requested that information (the "Merger Savings Information"), but PowerStream refused to provide it.[14]

10. On August 15th, the City of Vaughan, a PowerStream shareholder, in preparation for a City Council Committee meeting, released general information on the merger on its website.[15] The briefing material references a number of in-depth attachments that are available to the public but due to their size would not be posted on the website and are only available for viewing at the City Clerk's Office.[16] These documents include:

a. Merger Business Plan from PowerStream Inc.
b. Merger Business Case from PowerStream Inc.
c. Navigant Consulting Ltd. (Consultant to PowerStream Inc.) analysis of Business Case

[10] Technical Conference Transcript, p.19, Ln 3-4 (See **Appendix B**). Similar documents were requested and not provided in response to 1-CCC-1(1).
[11] Technical Conference Transcript, p.20, Ln 1-5 (See **Appendix B**)
[12] Technical Conference Transcript, p.20, Ln 6-7 (See **Appendix B**)
[13] Technical Conference Transcript, p.20, Ln 8-12 (See **Appendix B**)
[14] Technical Conference Transcript, p.20, Ln 24-26 (See **Appendix B**)
[15] PowerStream Merger and Acquisition,'Briefing Document for the Vaughan City Council – Committee of the Whole (Working Session) Meeting September 22 2015, p.16, Figure 6 ["*Vaughan City Council Document*"] (See **Appendix C**) https://www.vaughan.ca/council/minutes_agendas/AgendaItems/CW(WS)0922_15_1.pdf
[16] *Vaughan City Council Document*, p.2 (See **Appendix C**

11. Since these are PowerStream's own documents, SEC has requested copies be provided to it since they are already public. PowerStream has now informed parties and the Board that these documents may not in fact be on the public record.[17]

12. Without having the opportunity to review these documents, it is not possible to tell if they are responsive in part to the requests made at the Technical Conference. Based on their titles, it is likely they are not responsive to the Preliminary Agreement Merger Documents requests, and only partially responsive to the other requests.

Documents Are Relevant and Should Be Produced

13. SEC submits that documents are relevant to the current application. PowerStream's refusal to provide the requested documents, on the basis that the merger is not relevant to the proceeding, cannot be correct.[18] Its own evidence is that the merger will likely lead to savings in capital and OM&A costs. For capital, this will mainly occur in the general plant investment category[19], but some may occur in other areas.[20]The forecast capital expenditures for general plant alone during the test period represent $86.2M.[21]

14. For OM&A, the forecast savings will mostly be concentrated in the administration and other back office categories.[22] PowerStream forecasts $315.8M in expenditures for 'Billing and Collecting', 'Community Relations' and 'Administration and General'.[23]

15. To determine just and reasonable rates, the Board at its core is determining what is a reasonable cost to serve PowerStream's customers. The evidence is that a merger is likely to occur and that this may have a significant effect on that cost. PowerStream's rate plan is not derived by an industry benchmarking or any other formula, but is based on its forecast costs and revenues for the test year.[24] The evidence is that the planned merger is likely to change the actual costs to serve PowerStream's customers during the test period. The forecasts in the application are now not accurate as they do not reflect what the actual forecast costs will be. At a hearing in this matter, PowerStream witnesses will not

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[17] Email from Colin Macdonald, dated September 16 2015, Re: EB-2015-0003 -- PowerStream -- SEC Motion Timing Information (See **Appendix D**)
[18] Technical Conference Transcript, p.19, Ln 3-10
[19] Technical Conference Transcript, p.55, Ln 19-22
[20] Technical Conference Transcript, p.55, Ln 14-18
[21] Section II, Ex.G, Tab 2, p.2, Table 3
[22] Technical Conference Transcript, p.56, Ln 1-9
[23]Appendix J-AA, Section I, Ex. J, Tab 1, Attachment
[24] Section II, Ex. A, Tab 1, Schedule 1, p.1

be able to say under oath that the forecasts they have provided in their evidence are their best estimate of the cost to operate the utility.

16. The Board and parties requires full information to do its job in setting just and reasonable rates. The forecasts contained in the application to serve PowerStream's customers are now not accurate as they do not include impacts of the merger.

17. While no final merger agreement has been signed, and no MAADs approval has been given, the evidence is that this is more than likely to occur. PowerStream appears to believe so.[25] Like any other aspect of a 5 year cost and revenue forecast, there are always unknowns and uncertainties. All the costs that PowerStream is seeking to recover in rates in this application are forecasts – i.e. projections based on the best information it has at the time of filing.

18. Publicly available information shows that PowerStream itself has told its shareholders that there will be a material cost savings benefit from the merger <u>within</u> the 5 year term of the plan.[26]

19. It is also not sufficient for PowerStream to rely on any MAADs application to deal with all merger related impacts. It is <u>this</u> proceeding that is setting the rates for PowerStream's customers until 2020, not the MAADs application. The Board cannot defer consideration of relevant information that affects the underlying costs that are being asked to be approved in this application. A MAADs application is made pursuant to section 86, not the Board's rate-setting authority under section 78 of *the OEB Act*.

20. Furthermore, even if the Board is ultimately going to set rates for PowerStream only on a stand-alone basis, details of the merger and its effect on PowerStream's customers are relevant for parties and the Board to determine if the proposed Custom IR plan's 'annual adjustments'[27] or 'reopening and plan terminations'[28] are appropriate. This evidence may also have an impact on any earnings sharing and capital spending variance provisions, among other things.

21. The information which SEC sought and PowerStream refused, is important for informing the Board of the merger's implications on the costs and revenues to serve Powerstream's customers during

[25] For example, PowerStream has set up a specific website to inform the public about the proposed merger. http://www.powerstream.ca/app/pages/MergerInfo.jsp
[26] '*Vaughan City Council Document*, p.16, Figure 6 (See **Appendix C)**
[27] Section II, Ex. A, Tab 1, p.3
[28] Section II, Ex. A, Tab 1, p.5

the proposed Custom IR plan term. In addition to information sought regarding savings, information regarding the general terms of the merger, and the financial information and projects are important to helping to understand what types of costs and savings of the merger are to be allocated to PowerStream's customers (as opposed to other parties).

22. PowerStream, SEC, and parties may ultimately disagree to how the information sought should be applied in this proceeding but that does not make the information irrelevant. The Board's determination of relevance must be determined by the task it is being asked to do in the application – set rates for PowerStream's customers from 2016-2020. PowerStream is seeking rates that would allow it to recover its expected future costs to operate the utility. The evidence is that those costs, and therefore potentially the resulting rates, may be different from those set out in its application because of the merger. The Board can only make a reasonable determination on how that information should be used by actually reviewing that information.

THE FOLLOWING DOCUMENTARY MATERIAL AND EVIDENCE WILL BE RELIED UPON AT THE HEARING OF THE MOTION:

1. The Record in EB-2015-0003.
2. Material referenced in, and appended to, this Notice of Motion, and those included in any further submissions made in support of this motion.
3. Such further and other material as counsel may advise and the Board may permit.

September 18, 2015

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AND TO: **All Intervenors**

APPENDICIES

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Local Electric Utilities Set to Approach Municipal Councils for Merger Approval

Customers, shareholders and communities would benefit from proposed Enersource, Horizon Utilities and PowerStream Merger

TORONTO, Sept. 15, 2015 /CNW/ - Over the next few weeks, the proposed merger of three Greater Golden Horseshoe Area electric utilities and joint purchase of a fourth, will be presented to municipal shareholders for approval.

The proposed merger of Enersource, Horizon Utilities and PowerStream and acquisition of the shares of Hydro One Brampton, would create a single new publicly-owned company that would serve over 900,000 customers in the Greater Golden Horseshoe Area. The business plan that will be presented to municipal councils is one that prioritizes benefits for customers, shareholders and communities.

The proposed merger, which was first announced on April 16, 2015, requires shareholder and regulatory approval by the Ontario Energy Board before it can proceed. Benefits include:

- 5.9% lower average annual customer distribution rates than with maintaining separate utilities, due to costs savings.
- $355 million (15%) in operating savings over the first 10 years.
- 24% increase in company earnings relative to the status quo, including improved returns for all municipal shareholders which will provide increased revenue for use in their communities.
- Shareholders of the existing utilities will be the shareholders of the new company. There would be no single controlling interest.
- Stronger platform for growth and the ability to implement new programs for customers due to company's larger geographical footprint; more diversification and greater capital resources.

The proposal being presented to municipal councils describes a utility with three head offices in existing locations, each with a strong, local presence: the Corporate Head Office would be located in Mississauga, the Utility Head Office would be located in Hamilton and the Sustainability and Innovation Head Office would be located in Vaughan. There would also be six service centres in the communities of Barrie, Brampton, Hamilton, Mississauga, Markham and St. Catharines.

Further details will be released after the proposal has gone before the shareholders of all merger participant companies. Given the multiple municipal shareholders and timing of their respective council meetings, voting by municipal councils is expected to conclude by early October.

Backgrounder

Quotes

"Our plan to merge our companies offers a winning scenario for customers, shareholders and communities," said **Peter Gregg, President and CEO of Enersource**. "The Corporate Office for the new company would remain at Enersource's current Derry Road location, allowing us to continue to provide a strong local presence. It's an exciting proposal and one we look forward to implementing pending necessary approvals."

"As I have stated in the past, this is a terrific opportunity for customers and shareholders in Hamilton and St. Catharines," said **Max Cananzi, President and CEO of Horizon Utilities**. "Over the long run, average rates will be 5.9% lower while shareholder dividends will average an additional $3.8 million per year in Hamilton and $1 million per year in St. Catharines. In addition, the utility head office will be located in Hamilton and St. Catharines will retain a customer service call centre."

"PowerStream is a product of several consolidations over its 11-year history," said **Brian Bentz, President and CEO of PowerStream.** "Bringing utilities together has enabled us to have distribution rates that are among the lowest in Ontario, improve reliability and implement new technologies for the benefit of our customers. We are looking forward to continuing this to an even greater extent as a larger entity."

<u>The Companies</u>:

Enersource Corporation serves over 200,000 residential and commercial customers across Mississauga. Ninety percent of Enersource Corporation is owned by the City of Mississauga, and 10 percent is owned by BPC Energy Corporation (Borealis), which is part of the Ontario Municipal Employees Retirement System (OMERS).

Horizon Utilities Corporation provides electricity and related utility services to over 242,000 customers in Hamilton and St. Catharines. Horizon Utilities is wholly owned by Horizon Holdings Inc., a company jointly owned by the cities of Hamilton and St. Catharines through their holding companies Hamilton Utilities Corporation and St. Catharines Hydro Inc.

Hydro One Brampton Networks Inc. has more than 150,000 residential, commercial and industrial customers and serves an area of 300 square kilometers.

PowerStream Holdings Inc. is a municipally-owned energy company providing power and related services to more than 375,000 customers primarily residing or owning a business in communities located immediately north of Toronto and in Central Ontario. It is jointly owned by the Cities of Barrie, Markham and Vaughan through their respective holding companies, Barrie Hydro Holdings Inc., Markham Enterprises Corporation and Vaughan Holdings Inc.

<u>Merger Facts</u>:

Ownership would remain in public hands and with existing shareholder municipalities
There would be no single controlling interest in the new company. The proposed plan does not involve a sale of Enersource, Horizon Utilities or PowerStream, but rather, would create a stronger company with a significant local presence.

Customer long-term distribution rates would be lower than what they would be without a merger, due to consolidation savings
The new utility will cost several millions of dollars a year less to operate than the four current utilities. The savings are primarily driven by lower costs associated with shared IT services including, for example, billing systems. These savings will be passed on to customers through reduced pressure on rate increases on the distribution portion of their electricity bills.

Improved services and access to new technologies for customers
A merger would allow the companies to share best practices and have access to increased resources to deliver a better and broader range of products and services to customers. Merger resources will facilitate improved service reliability.

Benefits for shareholders
Shareholders would own a more valuable utility and would see increased value and capital that can be used for investment priorities which will be identified locally, and for the benefit of communities.

Job duplication
Job duplication would be addressed through retirements, normal attrition and voluntary exit options to the fullest extent possible. The merger participants recognize the success of a new, larger company lies in the participation of strong, motivated employees who would function in a positive workplace.

Identifying the benefits of a merger
Working groups consisting of individuals in key departments from the three utilities and led by the Chief Financial Officers worked to identify best practices, cost savings, benefits for customers, shareholders and communities. Third party valuation was provided by Deloitte and the valuation model and business case were rigorously tested by four leading firms: Ernst & Young Global Inc., Navigant Consulting Inc., MorrisonPark Advisors Inc., and PricewaterhouseCoopers LLP.

SOURCE Enersource Corporation

For further information: Media Contact: John Crean, National Public Relations, jcrean@national.ca, Cell: 416-209-5831

RELATED LINKS
http://www.horizonutilities.com (http://www.horizonutilities.com)

Organization Profile

Enersource Corporation

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ONTARIO ENERGY BOARD

FILE NO.:	**EB-2015-0003**	**PowerStream**
VOLUME:	**Technical Conference**	
DATE:	**September 9, 2015**	

out press releases, Markham, Vaughan, and Barrie, the same day, similar press releases, and I think that date has slipped, because the documentation is just not ready yet. It's taking longer than we expected.

MS. YOUNG: Yeah, we haven't gone to our board at this point yet, and the time lines did slip. So I think in the press release that was the intention, but we haven't gone to our board and got approval yet as of today --

MR. RUBENSTEIN: Has an agreement in principle been reached between the four LDCs?

MR. MACDONALD: I would say, yes, that's true. Like, not a written agreement in principle, but I think there is a -- this is an agreement to try to put everything together, yes.

MR. RUBENSTEIN: Well, let me unpack that. I recognize from there's no -- from what you are saying there is no final merger agreement, but is there a signed letter of intent, signed principles, that you will -- that you are going to translate into that document that -- and that's what you are working on?

MR. MACDONALD: Actually, I think we are past that. I think we really are trying to get all these agreements that are needed as part of a merger to get them finalized in the next number of literally couple of weeks, because we are trying to get it done by the end of September.

MR. RUBENSTEIN: So there is some document that exists that you have agreed to setting out some of the broad essences of the agreement that you haven't written into the final --

MR. MACDONALD: That's correct.

MR. RUBENSTEIN: Can you provide that?

MR. SIDLOFSKY: No.

MR. RUBENSTEIN: Now, in your preparation -- well, first let me ask why.

MR. SIDLOFSKY: Because the merger isn't relevant to this application, Mr. Rubenstein, there will be a MAADS application in relation to the merger, if there is a merger agreement reached.

MS. GIRVAN: Can I just ask for clarification? When we were at the presentation day, I believe there was some discussion about -- was it August -- or July 31st, or something about sort of a milestone in July? I just wondered if that happened.

MS. YOUNG: I think what's happened is we have, as you can imagine, several municipalities and boards to deal with. We are still negotiating on some pretty significant items, and timelines have definitely slipped, actually a couple of times, for the approval of this merger.

Again, it's complicated and there are a lot of tax issues and structural issues that we have to agree on and now, you know, it's still getting the parties and getting final agreements together.

We haven't gotten to that point yet. So definitely we were hopeful a couple of times that we would wrap this up earlier and we have just, you know, hit the milestone dates and we just haven't been ready.

MR. RUBENSTEIN: Has PowerStream, or the consultants who are working on the merger for PowerStream, prepared financial analysis on what the merged entity would look like, cash flow analysis?

MR. MACDONALD: Yes.

MR. RUBENSTEIN: Can you please provide that?

MR. MACDONALD: No.

MR. RUBENSTEIN: And has PowerStream, or its consultants working for PowerStream prepared, either within that document or in that information, or separate from that a forecast of where savings could be achieved from?

MR. MACDONALD: Yes.

MR. RUBENSTEIN: And can you please provide that?

MR. MACDONALD: We will provide that type of information if the merger is approved and proceeds to a MAADS application. I would imagine that if it gets as far as a MADS application, all of those types of document would be provided.

MR. RUBENSTEIN: Let me just unpack that for a second. So it will be provided at a MADS application, or will be provided when there is a final merger agreement?

MR. MACDONALD: Mr. Rubenstein, just to clarify, it will be as part of a MADS application to the Board.

MR. RUBENSTEIN: Can I ask you to provide what you have now?

MR. SIDLOFSKY: No.

MR. MACDONALD: You can ask, but no.

MR. SIDLOFSKY: Maybe I should have been clearer.

C

POWERSTREAM MERGER AND ACQUISITION

Recommendation

The Commissioner of Finance and City Treasurer, and Interim Commissioner of Legal and Administrative Services and City Solicitor, in consultation with the Director of Development Finance and Investments recommend:

1. That the presentation by PowerStream Inc. on the merger and acquisition proposal be received;

2. That the presentation by Navigant Consulting Ltd. on the proposal's financials be received;

3. That the presentation by Gowlings LLP on the proposal's governance topics be received;

4. That such resolutions or recommendations as may be submitted by Vaughan Holdings Inc. be considered; and

5. That the City Clerk be requested to schedule a Special Meeting of Council between September 23, 2015 and October 9, 2015 to consider the recommendations of Committee of the Whole (Working Session) in this matter.

Contribution to Sustainability

Additional revenue opportunities provide support and financial sustainability to the City of Vaughan. Therefore investment opportunities must be considered and evaluated to determine if they present investment value and are aligned with the City's investment principles.

Economic Impact

Vaughan Holdings Inc. (VHI), which is wholly owned by the City of Vaughan, has been presented with a new investment opportunity for a three way merger between PowerStream Holdings Inc., Enersource Corporation and Horizon Holdings Inc. and subsequent acquisition of Hydro One Brampton. The proposed transaction would require an equity cash injection of approximately $56M from VHI, subject to closing costs. There is a potential for increased dividend income for the City and synergy savings are expected to result in reduced upward pressure on future hydro rates to the average rate payer. As discussed in detail further in this report several funding options were considered for the estimated $56M cash injection, including a combination of using funds accumulated within VHI and available funds within the City's investment portfolio, or a conversion of the City's promissory note with PowerStream, or 10% sale of equity in PowerStream. A combination of using funds accumulated within VHI and the 10% equity sale is deemed the preferred funding option as it allows the City to benefit from the proposed transaction with minimal cash injection. However, available funds within the City's investment portfolio will be leveraged until a sale is finalized.

Several key economic impacts are discussed in further detail throughout the body of this report.

Communications Plan

On April 16, 2015, the Premier of Ontario made several announcements with respect to recommendations received from her Advisory Council of Government Assets including the initiation of negotiations with PowerStream, Enersource, and Horizon on a transaction that would see the three local distribution companies merge and also acquire 100 per cent of Hydro One Brampton Networks Inc. to create the second largest local distribution company in Ontario.

Negotiations have been ongoing over the last several months. Given the imminent shareholder decisions expected on the proposal, communications has been an important consideration, which is why the Communications teams from Vaughan, Markham, Barrie and PowerStream have had meetings and ongoing discussions to develop a collaborative approach to informing stakeholders about the proposal.

The first phase of the communication approach was the issuance of a news release by the City of Vaughan on August 24, 2015. It cited the status of the ongoing negotiations of the merger and acquisition, background on the proposal, benefits to the community, a quote from the Mayor and expected decision timelines. This release was posted on the City of Vaughan's website. PowerStream has also created a webpage with information on the proposal at www.PowerStream.ca/Merger.

The next phase in the approach was promoting this at the September 22, 2015 Committee of the Whole Working Session and informing members of the public that they are welcome to attend and make a deputation. This was done with advertisements in four local newspapers – Vaughan Citizen, Thornhill Liberal, Lo Specchio, and Corriere Canadese, posts on the City's corporate social media sites, and through promotions on Vaughan TV, the City's blog and an eBlast to subscribers of the City's eNewsletter. The City contacted local reporters directly to ensure they were aware of this meeting.

MergeCo is considering issuing a joint news release prior to the first Committee or Council meeting Working Group of any shareholder among the shareholder cities. If this release is issued, the City will promote it via Vaughan's website, social media accounts and eNewsletter.

If all the PowerStream shareholders approve the merger proposal, MergeCo will issue a joint news release after final shareholder approval has been completed. Subsequently, MergeCo may also place advertisements in several dailies. The City will support these activities and promote them via Vaughan's website, social media accounts and eNewsletter.

Purpose

The purpose of this report is to inform Council and the public on the proposed three way merger and subsequent acquisition of Hydro One Brampton.

PowerStream, Enersource and Horizon utilities are working to finalize details of their proposed merger and joint proposal to purchase Hydro One Brampton from the Government of Ontario. This proposal is the result of many months of effort and negotiation between the parties, and is currently at the critical phase of PowerStream's Board approval. Once endorsed by PowerStream's Board recommendations will flow to the shareholder's holding companies and subsequently to their respective municipal Councils for consideration.

Subject to PowerStream's Board meeting on September 11, 2015 and Vaughan Holdings Inc. (VHI) Board meeting on September 16, 2015, a written communication will follow this report outlining VHI Board's recommendation.

The attached Business Case and Navigant Consultant report provides full details of the proposed Merger and Acquisition.

The contents of this report are based substantially on the investment proposal negotiated to date and business case provided and highlights key areas for consideration. Given the size of the documents, for the reader's reference, the MergeCo Business Plan from PowerStream (Attachment 1), the MergeCo Business Case from PowerStream (Attachment 2) and the written consultant report from Navigant Consulting (Attachment 3) are available for viewing in hard copy at the Office of the City Clerk located on the 1st floor of Vaughan City Hall at 2141 Major Mackenzie Drive, Vaughan, ON L6A 1T1.

Given the complexity of the report, the contents are reported in the following format:

Executive Summary
A. Background on PowerStream
B. Local Distribution Company's (LDCs) mergers in the Provincial context
C. History of current merger and acquisition proposal
D. Shareholder due diligence
E. Context for evaluation of proposal
F. Benefits and Risks of proposal
G. Governance issues associated with proposal
H. Funding options for acquisition
I. Financial impacts to the City
J. Benefits to the rate payer from merger and acquisition

Background - Analysis and Options

Executive Summary

On April 16, 2015, four of Ontario's largest electricity distribution companies (LDCs) announced they would work together to form a new utility that would serve almost a million customers in York Region, Simcoe County, Peel Region, Hamilton and St. Catharines.

The proposed merger transaction comprises the following:

- A merger of the regulated and non-regulated business activities of: PowerStream, Enersource, and Horizon (individually, a 'Party' and collectively, the 'Parties').
- An acquisition by the Parties of the regulated electricity distribution business of Hydro One Brampton Networks Inc. (HOBNI) for gross proceeds of $607M, net of any purchase price adjustments

The combined entities described above are referred to as "MergeCo" and the corresponding transactions are referred to as the "Transaction". The creation of MergeCo must be approved by all shareholders and is subject to regulatory approvals.

The Transaction will create the second largest electricity distribution company in Ontario with almost 1 million customers, 2.7 billion in assets, and 2.5 billion rate base. In total, MergeCo is expected to deliver approximately **$427M of net cash savings (pre-tax) through synergies** in the first 10 years following the merger thereafter sustained at approximately $51M per year ($310M in operating synergies + $111M of capital synergies, net of transition costs).

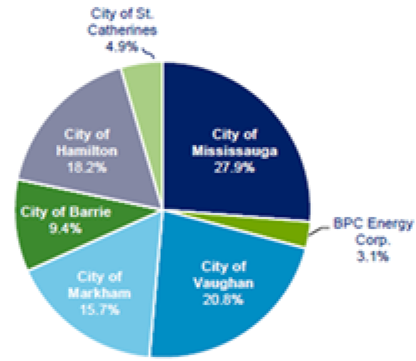
The City of Vaughan holds 45.31% of PowerStream via its holding company VHI. Under the merger, the City's ownership of MergeCo will be approximately 20.80% (second largest shareholder in the proposed MergeCo). Figure 1 below illustrates the pre and post ownership shares involved in the Transaction.

The City of Vaughan receives regular dividend and interest revenues from PowerStream, estimated to be approximately $16M in 2015. The equity investment required from the three PowerStream shareholders is expected to be $125M, while Vaughan's portion of this is approximately $56M.

Figure 1: Individual Shareholder Ownerships

Pre-Merger Shareholding	
Enersource	
City of Mississauga	90.0%
BPC Energy Corp. (Borealis)	10.0%
	100.0%
PowerStream	
City of Vaughan	45.3%
City of Markham	34.2%
City of Barrie	20.5%
	100.0%
Horizon Utilities	
City of Hamilton	78.9%
City of St. Catharines	21.1%
	100.0%

Potential Merge Co Shareholding Contribution



Key Aspects of the Merger

Following months of negotiation with merger partners, PowerStream, on behalf of its shareholders, has reached substantial agreement on a number of key aspects.

1. Relative Value: PowerStream Shareholders will own 46% of the new company, (Vaughan's portion will be 20.8%)

2. Solar "Carve Out": PowerStream's Solar business is expected to be kept as a separate operating subsidiary under MergeCo; the dividend stream from existing PowerStream solar investments will be maintained through special shares

3. Local Presence & Facilities: all of PowerStream's existing facilities will be maintained following the merger

4. Governance: Six of 13 board members are to be appointed by PowerStream Shareholders, (Vaughan will have 3 representatives)

5. Executive: significant Executive presence of current PowerStream staff

6. Liquidity Rights: improved rights to raise capital for growth, or to monetize existing investments

Managing the Risks of the Transaction

The key risks to the Transaction may be seen as follow:

- Synergies (cost savings) may not be achieved
- Integration challenges
- Unidentified expenses / liabilities
- Regulatory uncertainty affects business plan going forward
- Shared ownership and a greater investor focus

Many of the risks identified above are seen to be mitigated through PowerStream's history of achieving synergy and integration post-merger/acquisition. PowerStream has entered four transactions of a similar nature in the last ten years. Additionally, the consolidation of these smaller LDCs will produce a larger and presumably more prominent corporation that will have the ability to exert more influence on the industry and related policy. The new MergeCo will also see greater independence on the Board of Directors with more powers delegated to that Board to steer the corporation in its pursuit to create value for the shareholders and bring savings to the electricity consumer. PowerStream was more closely held by its shareholders whereas MergeCo will see many more shareholders providing a greater deal of autonomy to its Board to steer the organization to a larger corporation mentality. This risk is mitigated by the fact that current PowerStream shareholders are still represented by 6 of the 13 Board members, of which Vaughan has 3 representatives. Effectively, Vaughan will need to focus its attention towards being an investor rather than the operations of the corporation.

Key benefits of the Transaction

Improved Financial Returns to Shareholders

- Steady and growing dividend stream at a higher level than the current arrangement; Vaughan can expect dividends to increase in the first 10 year post transaction by $62M
- Payback of equity investment for Hydro One Brampton of approximately ten years; Vaughan's $56M equity investment expected to increase to a value of approximately $90M – $135M over 10 years

Reduced upward pressure on future hydro rates for customers compared to the current arrangement

- Overall, approximately 8% decrease in future distribution rates (e.g. mitigates future increases). Customers will benefit through the savings of $450M over 25 years or an average of $40 annually. This will help reduce upward pressure on future rates.

Stronger Platform for Growth in the Future

- Much larger utility with a bigger geographic footprint, more diversification, and greater capital resources and opportunities to finance expansion

Greater Influence on Government Policy

- Merged utility will be in a key position of leadership to influence government and regulatory energy policy for the benefit of customers and shareholders

Part A - Background on PowerStream

PowerStream is the second largest municipally owned LDC in Ontario, serving over 370,000 residential and commercial customers. PowerStream is regulated by the Ontario Energy Board (OEB).

The principal activity of PowerStream is the distribution of electricity within Alliston, Aurora, Barrie, Beeton, Bradford West Gwillimbury, Markham, Penetanguishene, Richmond Hill, Thornton, Tottenham and Vaughan, as well as Collingwood, Stayner, Creemore and Thornbury through its strategic partnership with Collus PowerStream.

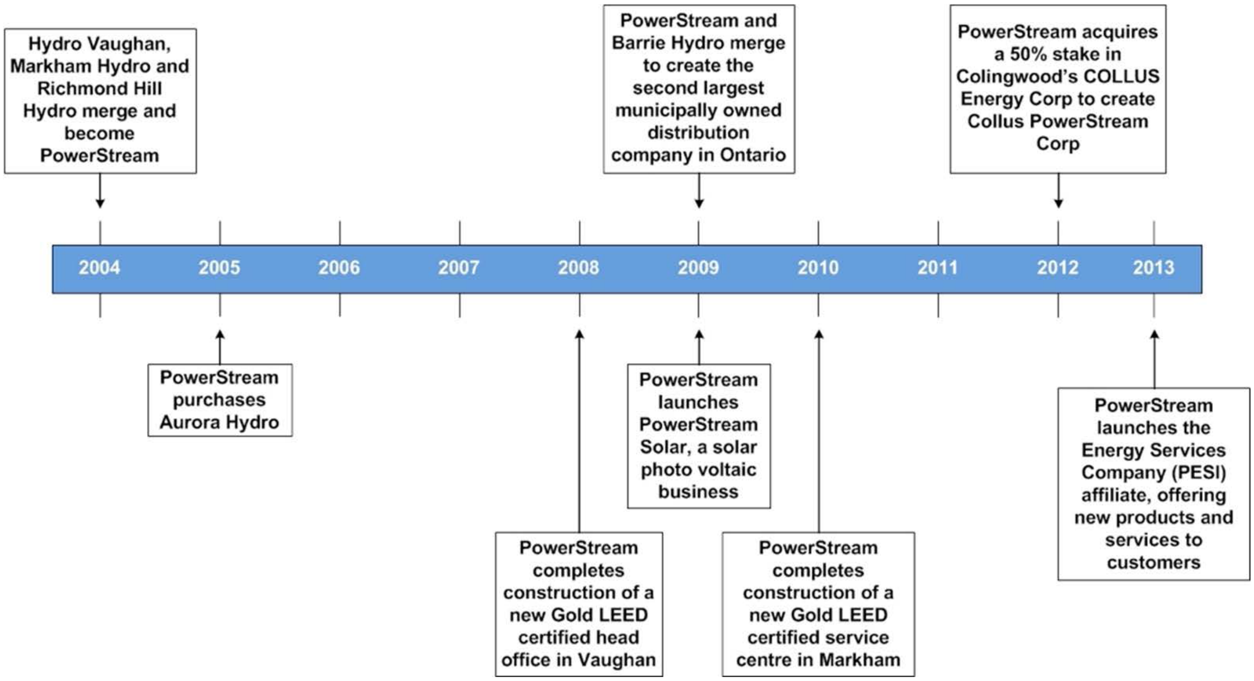
PowerStream encompasses an 854 sq. km service territory and delivers over 8,384 GWh of electricity to customers annually.

Growth is a key performance driver for PowerStream

PowerStream's strategy is to build on its core distribution business to become Ontario's premier integrated energy service provider. PowerStream's aim is to be a leading utility with respect to size, scale and scope, enabling the Corporation to realize the potential synergies and efficiencies that come with growth.

PowerStream has led the industry with successful mergers, improving service reliability, reducing upward pressure on rates, and has been an active member that supports its local communities. A few of PowerStream's recent business activities are illustrated below.

Figure 2: PowerStream 10 Year History



Part B - LDC mergers in the Provincial Context

LDCs in Ontario operate in a complex regulated environment highly responsive to shifts in Ontario government policy. The current distribution sector makeup is a product of a number of pieces of legislation and is summarized below.

Up until 1996 most municipalities in Ontario had their own Municipal Electricity Utility or MEU. These MEU's were governed similar to any other municipal department such as water or sewage and were not revenue generating. This changed in 1996 when the Macdonald Commission suggested significant changes to the structure of MEUs. Legislation enacted by the Ontario government in 1998 confirmed that municipal governments should continue to own electric utilities, but required that they be transformed into business corporations under the Ontario Business Corporations Act (OBCA).

The City's existing PowerStream assets (Principal Investment) were inherited

The incentive to structure sustainable corporations, or LDCs, in a deregulated market contributed to the initial wave of consolidation in the sector. This brought the number of MEUs in the province from 307 to around 89 by 2001. Since then, government policy surrounding a transfer tax holiday have led to a handful of LDC consolidations, (with PowerStream in a notable leadership position) and acquisitions by Hydro One which have brought the number of utilities currently operating in the province down to 66. There has also been some private equity participation in LDCs, although these have been by and large limited to 10% due to prohibitive tax treatment.

The Province of Ontario has endorsed LDC consolidation

The policy rationale for LDC consolidation (for the benefit of ratepayers and shareholders) has been well established and consistently advanced from multiple sources over the past few years.

In 2012, the Ontario government created the multi-partisan Distribution Sector Review Panel to provide expert advice to the government on how to improve efficiencies in the electricity sector with the aim of reducing costs for customers and increasing efficiencies. The Panel strongly endorsed industry consolidation and noted the following:

Regarding Consolidation:

"...LDCs in Ontario should be consolidated into eight to twelve larger regional distributors...six to ten regional distributors would be located in southern Ontario and typically have a minimum of 400,000 customers..."

"...regional distributors must be contiguous and stand shoulder to shoulder."

Regarding New Investment:

"New investment in the distributor sector, notably from pension funds, should be encouraged. The report recommends that the Ontario Government enter into negotiations with the Federal Government on a tax agreement which would facilitate the removal of the transfer tax on the sale of LDC assets."

Regarding Governance:

"The membership of the boards of directors of regional distributors should have at least two thirds independent directors..."

Part C - History of Current Merger and Acquisition Proposal

LDC consolidations reduce upward pressure on hydro rates

In the spring of 2014, the Ontario government, seized with the issue of seeking efficiencies out of publicly-owned assets, began the review of government-owned assets. The review was specifically geared towards the optimization of government-owned assets including Hydro One and Ontario Power Generation (OPG). PowerStream was actively engaged in the review headed by former TD Bank Chair, Ed Clark. Although not originally tasked with the issue of LDC consolidation, the Clark panel quickly determined that the potential savings to ratepayers were too significant to not address. The panel released their final report in the spring of 2015.

The report stated the following with respect to Hydro One Brampton and utility consolidation:

1. The Province should proceed immediately with a sale or merger of its interest in Hydro One Brampton Networks Inc. to or with Enersource Corporation, PowerStream Holdings Inc. and Horizon Holdings Inc., intended to catalyze consolidation in the Greater Toronto and Hamilton Area and to strengthen competition in the electricity distribution sector by increasing the number of LDCs with the capacity to drive further consolidation.

2. The Province should amend the transfer tax rules and departure tax rules that apply when municipal electricity utilities leave the payment-in-lieu of taxes regime both on a time-limited basis and implement these changes as quickly as possible.

3. The mandate and powers of the Ontario Energy Board should be strengthened to ensure that changes in industry structure do not put upward pressure on rates.

Through the passing of the 2015 budget and ongoing efforts with the OEB, the government has effectively endorsed all of the Clark panel's recommendations with respect to electricity distribution. Refer to Attachment 4, Province of Ontario press release on April 16, 2015, for a description of the relationship of these recommendations to this Transaction.

At the May 1, 2015 PowerStream Board Strategic Planning Session options were discussed and it was resolved that the preferred option to be executed was a 3-Way Merger acquiring Hydro One Brampton.

The proposed merger transaction comprises the following:

- A merger of the regulated and non-regulated business activities of: PowerStream Inc., Enersource Corporation, and Horizon Holdings Inc. (individually, a 'Party' and collectively, the 'Parties').
- An acquisition by the Parties of the regulated electricity distribution business of Hydro One Brampton Networks Inc. (HOBNI) for gross proceeds of $607M net of any purchase price adjustments

Merger Synergy Savings benefits customers in the form of reduced upwards pressure on rates

As a result of the merger, MergeCo expects to generate the following material savings (values are pre-tax):

- Aggregate gross operations, maintenance and administration expenditure (OM&A) savings of $355M over the first 10 years, or 14% of total OM&A expenditures, thereafter continuing at a savings rate of approximately 15% annually, (i.e., not cumulative).
- Aggregate gross capital expenditure savings of $168M over the first 10 years, thereafter continuing at a sustained level of $8M annually.

MergeCo will incur transition costs of approximately $95M in the first three years with respect to systems and process integration and human resource costs.

In total, MergeCo will deliver approximately $427M of net cash savings (pre-tax) in the first 10 years following the merger thereafter sustained at approximately $51M per year.

Part D - Shareholders Due Diligence

To determine if the Transaction is in VHI's and in turn the City's best interest, due diligence has been undertaken on the valuation, level of investment and financing options. To ensure independent advice and recommendations are provided; the shareholders of PowerStream have jointly retained industry experts Navigant Consulting, Ltd. and BDR North America Inc. In addition, Gowlings LLP has been jointly retained for legal advice. PowerStream Inc. agreed to pay for the Consulting fees incurred. Furthermore, each utility company in the Transaction have secured their own independent advisor to perform due diligence work.

Navigant (NYSE: NCI)

Navigant is a specialized, global professional services firm dedicated to assisting clients in creating and protecting value in the face of critical business risks and opportunities. Navigant Consulting services include a wide range of financial management services, investigation services, litigation support services, and business management consulting services, as well as software programs for use in database management, analysis and benchmarking.

Through senior level engagement with clients, Navigant professionals deliver expert and advisory work through implementation and business process management services. The firm combines deep technical expertise in Disputes and Investigations, Economics, Financial Advisory and Management Consulting, with business pragmatism to address clients' needs in highly regulated industries, including Construction, Energy, Financial Services and Healthcare.

BDR North America Inc.

BDR is a Toronto-based consulting firm of seasoned professionals specializing in the energy sector in terms of mergers and acquisitions, business and strategic planning and regulatory.

BDR has for many years managed and advised regarding the process of merger, acquisition and divestment of both generation and "wires" facilities in the electricity industry and related affiliates. Key to these assignments is the development of appropriate valuations for the businesses in the context of the relative risks.

Gowlings LLP

Gowlings is a leading Canadian and international law firm, with over 700 legal professionals serving clients in 10 offices across Canada and around the world.

Process Approach and Roles for Merger and Acquisition Proceedings

The Transaction is the result of many months of effort and negotiation between the Parties.

Working Groups - *w*orking groups were established and comprised of representatives from each LDC's departments to determine synergies and transition costs

Deloitte - Deloitte was engaged to provide a third party valuation of PowerStream, Enersource, and Horizon*.* Deloitte produced a business case model to assess the merger and purchase transaction, considering net synergies, capital structure, financing, and regulatory impacts

The Valuation model and Business Case model were reviewed, stress tested, and negotiated over six months by each of the following parties:

Navigant Consulting, Ltd. - representing PowerStream Shareholders

Morrison Park Advisors Inc. – providing advisory services to PowerStream

PricewaterhouseCoopers LLP – representing Enersource Shareholders

Ernst & Young Global Limited – representing Horizon Shareholders

CFO & Supporting Management Teams – of each LDC

The Business Plan (Attachment 1) which described comprehensive details of the proposed transaction and the Business Case (Attachment 2) are both available for viewing at the Office of the City Clerk.

Part E - Evaluation of the proposed transaction

The City's Investment Policy is a good context for evaluating the opportunity

The City's Investment Policy lists three investment objectives in priority order:

1. Preservation of principal investment
2. Maintenance of adequate level of liquidity
3. Earning a competitive rate of return

Based on the order priority from the above list it can be seen that certain risk "trade-offs" may occur between the items. While preservation of principal is the number one priority, investment in a utility corporation does not come with the same guarantees that might accompany a bond transaction for instance. Furthermore, due to prohibitive tax consequence as discussed further below in this report, the ability to withdraw the investment based on cash needs is minimal at best pointing to a very low level of liquidity. In turn, these two items must be weighed against the opportunity for a rate of return that is not available under virtually any other investment opportunity that a municipality is able to enter within the City's existing portfolio and legislation. The City does, however, have legal authority to enter this proposed transaction as set out in the Ontario's Electricity Act, 1998 and Ontario's Municipal Act. Some of these elements are discussed further throughout this report.

Since the City's investment in PowerStream is different than a traditional municipal investment (i.e.T-bill, bonds, etc.), there are other factors that also need to be taken into consideration. These other factors may include governance/control, impact on customer hydro rates, and utility market trend and risks.

The written report by Navigant, the shareholders financial consultant, provides professional and independent analysis on the proposed transaction.

Staff and consultants have been in frequent discussions with PowerStream to assess the proposed transaction. The written Navigant report is based on these discussions and the business case provided to the shareholders by PowerStream. Information discussed in the report is based on a variety of topics, but most importantly the following key areas of consideration:

- Is the PowerStream's relative valuation in MergeCo reasonable?
- How much equity investment is required by the City of Vaughan?
- What are areas to maximize value in the transaction?
- What is the treatment for Solar shares?
- What are the benefits and risks to City of Vaughan?
- How does the City fund its share of the acquisition of Hydro One Brampton?
- What are the governance issues to consider?

Further details on these key areas are discussed below and in subsequent parts of the report, but a more fulsome discussion from the consultants may be found in their written analysis.

Is the PowerStream's relative valuation in MergeCo reasonable?

The proposed relative valuation of PowerStream Inc. under the merger is approximately 46% (excluding the Solar Class A shares) based on enterprise values using discounted cash flows of the three utilities. Reasons to exclude Solar Class A shares are discussed in more detail below.

The City owns 45.315% of PowerStream and based on the relative valuation, the City's ownership of MergeCo will be approximately 20.80%. The 20.80% represents the proportional market value of PowerStream in the combined market value of MergeCo.

Navigant Consulting Ltd., the shareholder's financial consultant, had review the valuation model and did an independent standalone valuation of the PowerStream relative valuation. Navigant's assessment is that the relative valuation of PowerStream is reasonable and fair.

How much equity investment is required by Vaughan?

The proposed acquisition of Hydro One Brampton is priced at $607M. The rate base valuation is approximately $404M. The equity injection required from the three PowerStream shareholders is expected to be $125M, while Vaughan's portion of this is approximately $56M, subject to closing costs. The closing costs are uncertain at this time, however it is expected that a contingency of up to 10% of the equity injection ($5.6M) will be requested in order to cover these expenses. Additionally, the transaction costs may also have an effect on the 2015/2016 dividend payouts by PowerStream. The acquisition price of Hydro One Brampton has been set at 1.5 times the rate base valuation of approximately $404M. The market valuation (premium) for utilities companies has increased due to the current low interest rate environment.

What are areas to maximize value in the transaction?

There are two areas that were substantially agreed to in the negotiation that maximize value in the transaction for Vaughan, which include: 1) Separation of PowerStream's Solar business Class A shares under MergeCo, and 2) Favourable Transfer tax treatment for the Brampton purchase.

1) Separation of PowerStream's Solar Business Class A Shares

Based on Navigant's analysis, keeping the Class A shares of Solar business separate in the merger transaction is preferred. Solar would be kept as an operating subsidiary of MergeCo and existing PowerStream shareholders would retain ownership of economic interests of those assets. There are three advantages to this:

- Undervalued - the Solar business is undervalued in the relative valuation. Separating it out through Special Class shares maximize value.
- Certainty of cash flow the Solar business is based on fixed contracts and provides a predictable income stream. Table 1 below provides the Solar cash flow forecast provided by PowerStream under the MergeCo Transaction.
- Liquidity – The Solar program provides a repayment of the initial investment providing greater financial flexibility and access to cash.

Table 1 – Solar Dividends 10 year forecast

Solar Dividends (10 Years Forecast) - All values in $'Mil	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**Total**
Status Quo											
Dividend - Total	10.10	10.60	10.20	9.20	8.10	7.00	6.00	5.70	4.40	3.40	74.70
Dividend - Vaughan 45.31%	4.58	4.80	4.62	4.17	3.67	3.17	2.72	2.58	1.99	1.54	33.85
MergeCo											
Dividend - Total	10.10	10.30	9.90	8.70	7.20	6.40	5.40	5.20	4.10	3.20	70.50
Dividend - Vaughan 45.31%	4.58	4.67	4.49	3.94	3.26	2.90	2.45	2.36	1.86	1.45	31.94
Variance: Status Quo vs. MergeCo*	-	(0.14)	(0.14)	(0.23)	(0.41)	(0.27)	(0.27)	(0.23)	(0.14)	(0.09)	(1.90)

Source: PowerStream's forecast

* Variance of the Solar Dividend under MergeCo due to service management fees, financing costs, and dividend policy

While the dividends are tracking slightly less under the merger scenario it should be noted that this is mainly attributable to interest rate adjustments resulting from a planned debenture renewal and the management services cost recovery to MergeCo for the management of these assets. These are costs that were previously covered through PowerStream overhead and are therefore now affecting the dividends in a more direct manner. Combined with the increased dividends for MergeCo as a whole, this dividend schedule forecast is still deemed reasonable in the context of the overall transaction.

The terms and conditions of keeping the Solar business separate from MergeCo will be based on the draft Solar term sheet. The draft Solar term sheet outlines the nature of the agreement including management services, cost recovery, ownership principles, dividend policy and intercompany financing.

Although the final form will not be ready until transaction closing, addressing the terms above provide a good basis for assurance to the current PowerStream shareholders that the segregation of the Solar business continues returning an expected high level of value while being fully incorporated in to the merger and acquisition transaction. Additionally, it is important to note that PowerStream shareholders are still able to participate and benefit from any **new** solar asset projects under MergeCo.

2) Reducing future Tax obligation for the Brampton Purchase

The Transfer Tax on Hydro One Brampton is 33% of the sale price, which translates to approximately $200M. PowerStream negotiated with the Province for the removal of this tax. Through discussion with the Province has not removed this tax, they have agreed to provide a PILs tax credit of approximately $60M, which can be used to partially offset the future transfer taxes.

This will help with liquidity concerns, but the full departure and transfer tax would be applied to PowerStream or MergeCo sale transactions above 10%. To assist with future growth, limited partnerships are being proposed, which effectively permits growth capital investment without triggering tax liabilities. This will be determined through future tax rulings before closing the Brampton purchase.

To further illustrate the severity of the tax consequence, if PowerStream shareholders were to receive an equity value of $900M for their current holdings in PowerStream then approximately $350M in tax would be owing, which equates to approximately 40% of the value.

Part F - Risks and Benefits

What Are the Benefits and Risks to the City of Vaughan?

Figure 3 below illustrates the benefits and risks to the City of Vaughan of a potential merger.

Figure 3: Benefits and Risks of Merger

Benefits

- Potential net synergies of $427M
- Potential average rate of return of 6.3%
- Consistent with Provincial mandate for consolidation
- Future utility rate reductions of $40 per customer per year
- Potential for increased cash flow and equity growth over forecast
- Provide economies of scale for growth and innovation
- Platform to expand in to new lines of business
- Greater opportunity for alternative equity funding
- Retain the value of Solar business

Risks

- Payback period is long term if funded by cash
- Forecasted synergy, returns, and equity growth lower than expected
- Purchase price of Hydro One Brampton on the high end
- Burdensome tax treatment on ownership changes
- Disruptive technologies could impact value
- Regulatory changes could affect future value
- Less direct control in terms of governance
- Growth strategy will require undetermined additional future equity investment

Part G – Governance issues associated with proposal

Gowlings LLP will provide a memo to speak to many of the governance issues cited and this memo will be attached to a communication to Committee of the Whole (Working Session) subsequent to the VHI Board meeting, however below is a list of the issues for consideration.

- Board Composition
- Independent vs. Non-Independent Members
- Proposed Management Structure
- Special Approvals
- Dividend Policy
- Agreement Structure

Part H - Funding options

How does the City fund its share of the acquisition of Hydro One Brampton?

The proposed transaction would require an equity investment of approximately $56M, subject to closing costs, from Vaughan.

The three funding options identified in order of preference are:

- Sell 10% of existing PowerStream shares
- Use City cash reserves
- Convert promissory note in PowerStream

Selling 10% of PowerStream to fund transaction is the recommended funding option

The sale of 10% of PowerStream Inc. is expected to bring in approximately $40M to Vaughan specifically. This cash can be used to fund most of the equity investment required at approximately $56M, with the remainder coming from funds retained in VHI for investment opportunity.

Based on Navigant's analysis, the sale of 10% is preferred for the following reasons:

- Provide higher dividend cash flow with minimal equity investment
- Lock in the current market value
- Minimize risk on liquidity and preservation of capital with no tax consequence
- Hold City's cash reserve for future investment opportunities
- May attract a strategic private partner that could influence tax rule change and increase internal competition on future divesture
- Selling 10% effectively transfers a portion of the risk
- 10% sale aligns with Provincial mandate
- Allows the merger to move forward which will ultimately benefit utility users

On August 12, 2015, VHI Board approved the potential sale of 10% of existing PowerStream shares as a source of funding for the approximately $56M equity investment required from Vaughan. The acquisition will be initially funded by funds retained within VHI of $16M and the remaining $40M funded through the City's investment portfolio. It is anticipated that the City's portion will be recovered by the sale of the 10% shares of PowerStream.

Other funding options are available, but less financially advantageous

The use of available City cash in the City's investment portfolio without a subsequent sale of 10% of PowerStream for recovery is the second preferred funding option. There is approximately $16M funds retained in VHI. The additional cash required would need to come from the City's investment portfolio with no immediate recovery. Although, the City can financially manage the funding, these are earmarked for other purposes, albeit in the distant future. The use of cash investment is subject to risks, particularly liquidity constraint of the transaction. The City's cash on hand is the most liquid financial asset whether it's collecting interest in the bank or investment in low risk and high liquidity short term investments. This investment would not allow easy access to fund the City's future long-term capital program when required, hence the sale of 10% is preferred to reduce these risks. This merger transaction should be viewed as a long term income generator, with a long payback period and restricted liquidity.

Converting the promissory note to fund the transaction is the least preferred option. The City currently has an $86M promissory note with PowerStream. The promissory note has a rate of return of 5.58% on $78M and 4.03% on $8M and can be called at any time. Therefore the promissory note is a liquid asset that earns a very competitive rate in today's environment. The promissory note is not subject to other risks, namely liquidity and preservation of principal, which would exist if converted.

Part I - Financial impacts to the City

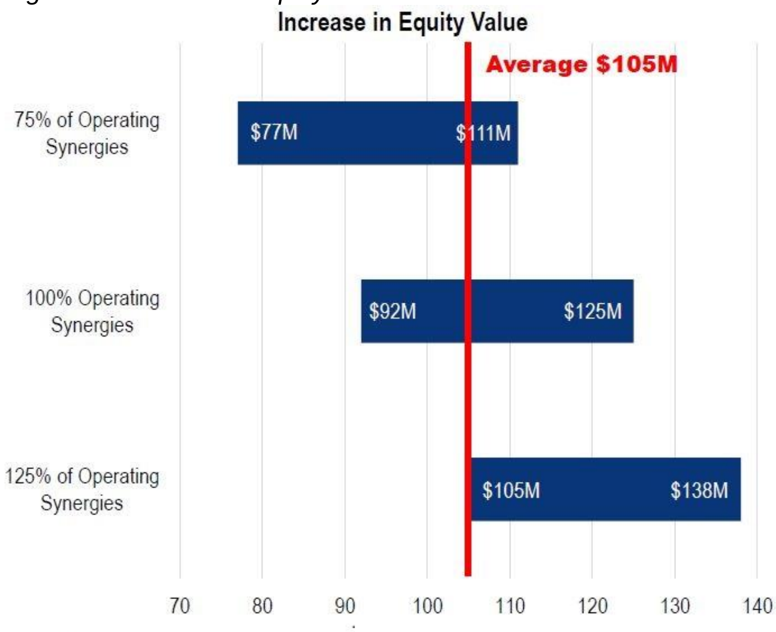
The proposed transaction is expected to increase equity value and provide a steady and growing dividend stream to shareholders

Subject to assumptions and risks described in this report and attachments, MergeCo is expected to deliver meaningful shareholder benefits both in terms of equity growth and dividend cash flow. The following assumes financing through a cash contribution and are summarized as follows:

To the benefit of City of Vaughan

- Vaughan's contribution to the acquisition of Hydro One Brampton is estimated at $56M. Vaughan's share of the $230M – $300M increase in shareholder value is approximately $90M-$135M.

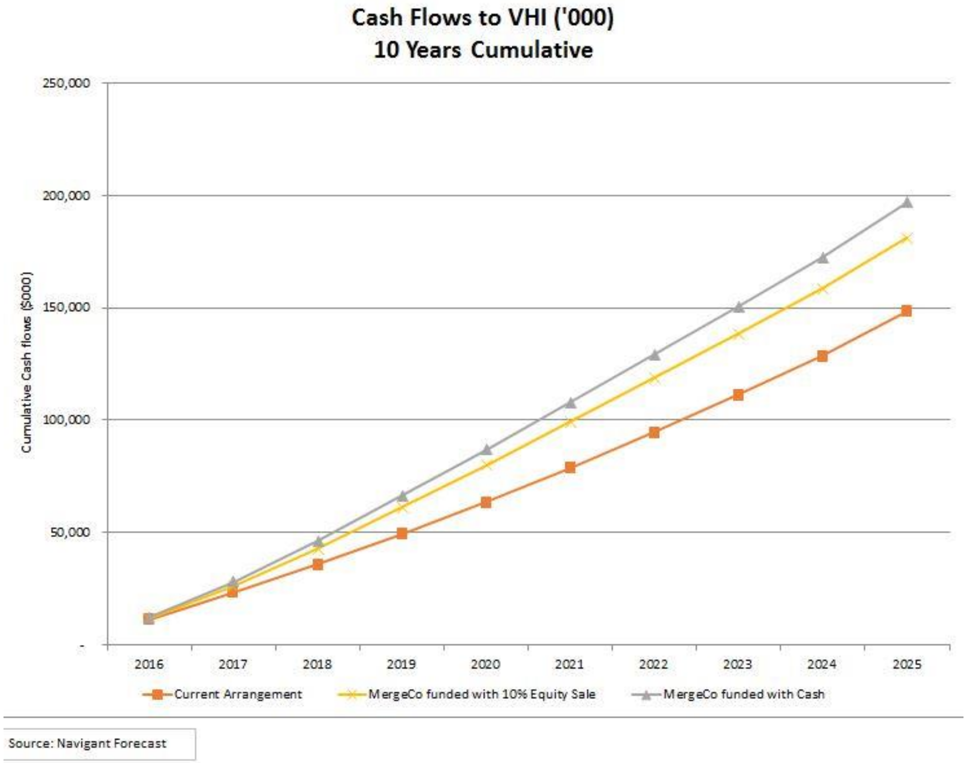
Figure 4 – Growth of equity value



Source: Navigant Project Aura Valuation and Business Case Model (August 28, 2015)
Notes:
1) Range of for each synergy scenario based on alternative terminal value calculations, e.g., perpetuity growth rate, final year cash flow, and exit multiple
2) Assumes 5% discount rate

- Vaughan can expect their dividend to increase in the first ten years post transaction by $62M.

Figure 5 – Cash flows to Vaughan



MergeCo

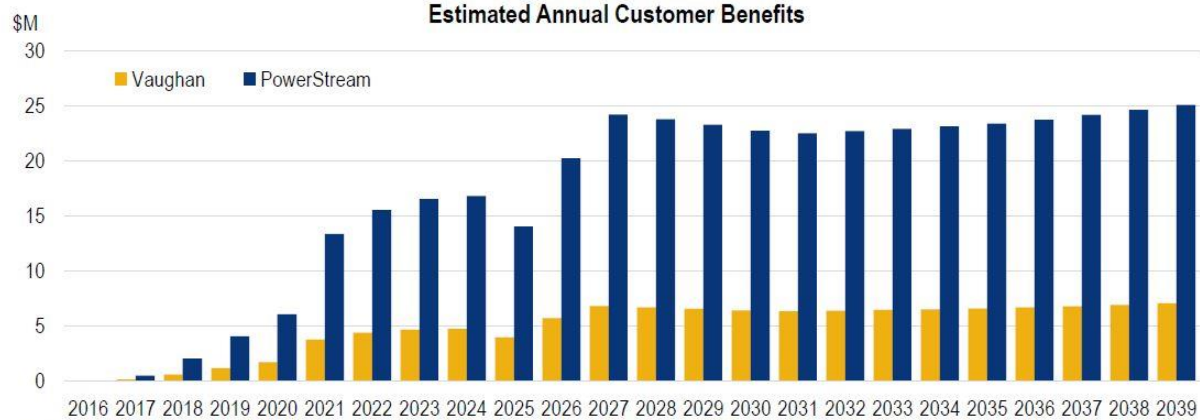
- Increase in the Net Present Value (NPV) of earnings of approximately $276M from $1,154M to $1,430M from 2016 to 2036 relative to the current arrangement, a 24% increase.
- Rates of return begin to normalize post 10 years, however projections beyond 10 years become less predictable given several uncertainties. Therefore, the focus is predominantly on the initial 10 year period.

Part J - Benefits to the rate payer

The proposed merger between PowerStream, Enersource and Horizon Utilities and the acquisition of Hydro One Brampton would bring significant value to customers. Analysis has found that customers will be able to save approximately $450 million over 25 years (an average of $40 per customer annually). Efficiencies realized as a result of the merger would reduce the upward pressure on distribution rates, allowing customers to benefit directly through lower bills than would be seen if the merger does not take place.

Figure 6 below illustrates the estimated annual customer benefits from the merger. It shows the overall savings to PowerStream customers and the Vaughan specific customer benefits. Included in these savings are also direct savings on City of Vaughan facilities, which equates to approximately $222K per annum. This results in an added benefit to City of Vaughan property tax payers in the form of reduced pressure on annual tax levy increases.

Figure 6 – Customer benefits



Source: Navigant Project Aura Valuation and Business Case Model (August 28, 2015)
Notes:
1) All values nominal
1) Customer benefits over the first 10 years are driven primarily by avoided capital expenditures
2) Customer benefits after the first 10 years are driven primarily by lower operating costs

In addition, there are numerous benefits of the merger that go beyond cost savings on customer bills. These include:

- Better ability to serve customers through enhanced and shared systems and range of products or services available.
- Increased resources to respond to reliability issues.
- Investment in new business opportunities improves economic development in the City.

<u>Regional Implications</u>

Residents of York and greater Toronto and Hamilton areas being served by MergeCo can expect reduced upward pressure on future hydro rates with the proposed transaction.

<u>Conclusion</u>

PowerStream, Enersource and Horizon utilities are working to finalize details of their proposed merger and joint proposal to purchase Hydro One Brampton from the Government of Ontario. This proposal is the result of many months of effort and negotiation between the parties, and is currently at the critical phase of PowerStream's Board approval. Once endorsed by PowerStream's Board, recommendations will flow to VHI and subsequently to City Council for consideration.

Subject to a PowerStream Board meeting on September 11, 2015 and a VHI Board meeting on September 16, 2015, a written communication will follow this report outlining VHI Board's recommendation.

The proposed transaction would require an equity cash injection of approximately $56M, subject to closing costs. There is a potential for increased dividend income for the City and synergy savings are also expected to reduce upward pressure on future hydro rates. The investment should be viewed as long term in nature. Additionally, the proposed transaction will result in more risk, slightly less liquidity, and a transformation in the governance structure compared to current arrangement, but is still seen as favourable given the potential economic benefits.

Attachments

1. MergeCo Business Plan from PowerStream Inc. (available at the Office of the City Clerk for viewing)
2. MergeCo Business Case from PowerStream Inc**. (**available at the Office of the City Clerk for viewing)
3. Navigant Consulting Ltd. written analysis of Business Case (available at the Office of the City Clerk for viewing)
4. Province of Ontario April 16, 2015 Press release on proposed transaction

Report prepared by:

John Henry, Commissioner of Finance and City Treasurer
Heather Wilson, Interim Commissioner of Legal and Administrative Services/City Solicitor
Lloyd Noronha, Director of Development Finance and Investments
Alex Ly, Senior Analyst, Development Finance and Investments

Respectfully submitted,

John Henry Commissioner of Finance and City Treasurer	Heather Wilson Interim Commissioner of Legal and Administrative Services/City Solicitor

ATTACHMENTS 1, 2, 3 available at the Office of the City Clerk for viewing

ATTACHMENT 4

Province of Ontario announcement on April 16, 2015:

In accepting the recommendation of the Premier's Advisory Council on Government Assets, the province intends to proceed with a merger of Enersource Corporation, Horizon Utilities, Hydro One Brampton Networks Inc. and PowerStream Holdings Inc. to ensure value for the province and to help catalyze Local Distribution Company (LDC) consolidation for the benefit of ratepayers.

Together, the merger of these three strong performing utilities with Hydro One Brampton will create the second-largest electricity distributor in Ontario by number of customers. The merged entity would deliver efficiencies and economies of scale while continuing to provide safe, reliable and clean electricity. This represents a major step forward in promoting LDC consolidation in Ontario, in line with the recommendations made in the 2012 Ontario Distribution Sector Review Panel Report.

The municipalities that own the three partner LDCs have all expressed support for this merger.

Enersource

Enersource Corporation serves over 200,000 residential and commercial customers across Mississauga. It is a diversified energy and technologies company that serves customers through the distribution of electricity and the delivery of services related to the design, operation and maintenance of electrical systems. Ninety per cent of Enersource Corporation is owned by the City of Mississauga, and 10 percent is owned by BPC Energy Corporation (Borealis), which is part of the Ontario Municipal Employees Retirement System (OMERS).

Horizon Utilities

Horizon Utilities Corporation provides electricity and related utility services to over 240,000 customers in Hamilton and St. Catharines. Horizon Utilities is wholly owned by Horizon Holdings Inc., a company jointly owned by the cities of Hamilton and St. Catharines through their holding companies Hamilton Utilities Corporation and St. Catharines Hydro Inc.

Hydro One Brampton

Hydro One Brampton Networks Inc. was acquired by Hydro One from the City of Brampton in 2001. It has more than 150,000 residential, commercial and industrial customers and serves an area of 300 square kilometers. In order to meet the growth of the community and needs of its customers, Hydro One Brampton continues to work with the City of Brampton and other organizations to improve Brampton's infrastructure and distribution system.

PowerStream

PowerStream Holdings Inc. is a municipally owned energy company providing power and related services to more than 375,000 customers primarily residing or owning a business in communities located immediately north of Toronto and in Central Ontario. It is jointly owned by the Cities of Barrie, Markham and Vaughan through their respective holding companies, Barrie Hydro Holdings Inc., Markham Enterprises Corporation and Vaughan Holdings Inc."

D

Message: D15-11342

From: BoardSec
To: Shelly-Anne Connell
Cc:
Sent: 9/16/2015 at 11:47 AM
Received: 9/16/2015 at 11:47 AM
Subject: FW: EB-2015-0003 -- PowerStream -- SEC Motion Timing Information

From: Colin Macdonald [mailto:colin.macdonald@powerstream.ca]
Sent: September-16-15 11:20 AM
To: Mark Rubenstein; BoardSec; Maureen Helt; Martin Davies
Cc: jsidlofsky@blg.com; Tom Barrett; DavidMacIntosh@nextcity.com; randy.aiken@sympatico.ca; mjanigan@piac.ca; markgarner@rogers.com; bharper@econalysis.ca; shelley.grice@rogers.com; awhite@ampco.org; jgirvan@uniserve.com; rgreey@gmail.com; tbrett@foglers.com; Marion.Fraser@rogers.com; dionisio.rivera@live.com; siaontario@gmail.com; wmcnally@opsba.org; jay.shepherd@canadianenergylawyers.com
Subject: RE: EB-2015-0003 -- PowerStream -- SEC Motion Timing Information

Martin and Maureen,

In response to the e-mail from SEC below, PowerStream would like to provide an update.

As part of its review of the proposed merger involving PowerStream, Enersource, Horizon and Hydro One Brampton, City of Vaughan staff have posted a report on the City's website. This report, which provides a fairly detailed overview of the proposed transaction, has been provided in advance of the September 22, 2015 Vaughan Committee of the Whole (Working Session) Meeting. The report can be found at the following link.

https://www.vaughan.ca/council/minutes_agendas/AgendaItems/CW(WS)0922_15_1.pdf

Page 17 of the report indicates that Attachments 1, 2, 3 to the report (Business Plan, Business Case and Navigant Analysis of Business Case) are available at the Office of the City Clerk for viewing. It is PowerStream's current understanding that these three attachments have in fact not been made available for viewing. We are working to clarify this as soon as possible.

Thanks, Colin

Colin Macdonald, P. Eng.

SVP. Regulatory Affairs & Customer Service

PowerStream Inc.

161 Cityview Boulevard

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905-532-4649

416-629-6745

From: Mark Rubenstein [mailto:mark.rubenstein@canadianenergylawyers.com]
Sent: September-11-15 3:19 PM
To: BoardSec; HYPERLINK "mailto:maureen.helt@ontarioenergyboard.ca"maureen.helt@ontarioenergyboard.ca; HYPERLINK "mailto:Martin.Davies@ontarioenergyboard.ca"Martin.Davies@ontarioenergyboard.ca
Cc: Colin Macdonald; HYPERLINK "mailto:jsidlofsky@blg.com"jsidlofsky@blg.com; Tom Barrett; HYPERLINK "mailto:DavidMacIntosh@nextcity.com"DavidMacIntosh@nextcity.com; HYPERLINK "mailto:randy.aiken@sympatico.ca"randy.aiken@sympatico.ca; HYPERLINK "mailto:mjanigan@piac.ca"mjanigan@piac.ca; HYPERLINK "mailto:markgarner@rogers.com"markgarner@rogers.com; HYPERLINK "mailto:bharper@econalysis.ca"bharper@econalysis.ca; HYPERLINK "mailto:shelley.grice@rogers.com"shelley.grice@rogers.com; HYPERLINK "mailto:awhite@ampco.org"awhite@ampco.org; HYPERLINK "mailto:jgirvan@uniserve.com"jgirvan@uniserve.com; HYPERLINK "mailto:rgreey@gmail.com"rgreey@gmail.com; HYPERLINK "mailto:tbrett@foglers.com"tbrett@foglers.com; HYPERLINK "mailto:Marion.Fraser@rogers.com"Marion.Fraser@rogers.com; HYPERLINK "mailto:dionisio.rivera@live.com"dionisio.rivera@live.com; HYPERLINK "mailto:siaontario@gmail.com"siaontario@gmail.com; HYPERLINK "mailto:wmcnally@opsba.org"wmcnally@opsba.org; HYPERLINK "mailto:jay.shepherd@canadianenergylawyers.com"jay.shepherd@canadianenergylawyers.com
Subject: EB-2015-0003 -- PowerStream -- SEC Motion Timing Information

Maureen and Martin,

Could you please bring this information to the attention of the Board panel, regarding the timing of a motion SEC may bring in this proceeding.

At the Technical Conference held on September 9th, PowerStream refused on the basis of relevance to provide certain documents related to the proposed merger between itself, Horizon Utilities, Enersource, and Hydro One Brampton Networks Inc. SEC believes the merger is clearly relevant to the setting of rates for PowerStream's customers. The forecast costs to serve PowerStream's customers may no longer those that are set forth in the application. Thus, we received instructions to file a motion to compel answers to the Technical Conference questions.

As we were preparing our motion material today, PowerStream kindly informed us that some of the information we requested may become public next week. It is PowerStream's understanding that one of its shareholders, for the purposes of its own approval process, will be placing information about the merger on the public record on or before September 15th. That information may be responsive to at least some of the requests refused at the Technical Conference.

In light of this new development, SEC believes it would not be an efficient use of the Board's resources to file a motion until we have had an opportunity to review this forthcoming information. Hopefully it will narrow the scope of any disputed disclosure.

SEC therefore expects to be in a position to file any motion it may need to make by Thursday, September 17th.

Mark

Mark Rubenstein

Associate

Jay Shepherd Professional Corporation

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