B-CCC-2

Reference(s): Ex. B/T2/S1

Preamble:

Please confirm that under the Applicants' proposals it is possible that ratepayers will not receive any benefit associated with the merger savings until Year 11. This assumes that the ESM as proposed is approved, and earnings do not exceed 300 basis points over the allowed ROE in Years 6-10.

Response:

The proposed transaction will positively impact the customers of the Parties with respect to price and the adequacy, reliability, and quality of electricity service. Over the course of the ten year rebasing deferral period, customers will benefit from distribution rates that are lower than they would have been had the *status quo* of four independent LDCs been maintained (Exhibit B, Tab 2, Schedule 1, p. 2).

The ESM, proposed by the Applicants, is consistent with the OEB's *Report of the Board: Rate-Making Associated with Distributor Consolidation*, March 26, 2015, p. 6 and with the OEB's January 19, 2016 *Handbook to Electricity Distributor and Transmitter Consolidations*, which states on page 16 that: "*consolidating entities that propose to defer rebasing beyond five years, must implement an ESM for the period beyond five years*". An earnings sharing would be triggered if LDC Co's regulatory adjusted ROE is greater than 300 basis points above the allowed ROE and will be based on a 50:50 sharing of excess earnings with consumers (Exhibit B, Tab 7, Schedule 2). Please also see the Applicants' response to Interrogatory ATTACH2-BOMA-16 iii).

B-CCC-3

Reference(s): Ex. B/T2/S1/p. 1

Preamble:

The evidence states that the Application is the result of many months of negotiations and agreement among the Applicants and their Shareholders, and is reflective of the terms of the consolidation approved by six Municipalities, one private sector party, and the Province of Ontario. Please provide all correspondence between the Applicants, their Shareholders and the Province of Ontario regarding the consolidation.

Response:

The correspondence between the Applicants, their Shareholders and the Province of Ontario regarding the consolidation relates to documents used in the course of the negotiation process. The OEB's *Handbook to Electricity Distributor and Transmitter Consolidations* provides that such information should not be filed as the OEB does not consider it relevant to the proceeding. Therefore, the Applicants are not filing such documents.

B-CCC-4

Reference(s): Ex. B/T2/S1/p. 1

Preamble:

The evidence states that the Application is the result of many months of negotiations and agreement among the Applicants and their Shareholders, and is reflective of the terms of the consolidation approved by six Municipalities, one private sector party, and the Province of Ontario.

a) Please explain the extent to which the LDC customers, those most impacted by this transaction, were engaged regarding the proposed consolidation discussions and how their views impacted the negotiations;

b) Did the LDCs specifically undertake surveys or focus groups related to the proposed transaction and the rate proposals that form part of the Application? If not, why not? If so, please provide all materials related to these engagement activities;

c) How were the proposals embodied in the Application impacted by customer engagement?

d) Please provide all communication provided to date to the LDCs' customers regarding the proposed transaction.

Response:

a) At page 9 of its *Handbook to Electricity Distributor and Transmitter Consolidations*, the OEB states:

> "Also as set out in the Combined Proceeding decision, the OEB will not consider issues relating to the overall merits or rationale for applicants' consolidation plans nor the negotiating strategies or positions of the parties to the transaction. The OEB will not consider issues relating to the extent of the due diligence, the degree of public consultation or public disclosure by the parties leading up to the filing of the transaction with the OEB."

The OEB reiterates this at pages 9-10 of the Handbook, in advising that applicants and stakeholders "should not file certain types of information as they are not considered relevant to the proceeding". Among those types of information are "details of public consultation prior to the filing of the application". The Applicants will not discuss customer engagement as it is not relevant to the Application before the OEB.

b) Please see the Applicants' response to Interrogatory B-CCC-4a) above.

c) Please see the Applicants' response to Interrogatory B-CCC-4a) above.

d) Please see the Applicants' response to Interrogatory B-CCC-4a) above. The Applicants can confirm, however, that since the filing of the Application, the Applicants have followed the OEB's directions with respect to the notice of the Application.

B-CCC-5

Reference(s): Ex. B/T2/S1/p. 2

Preamble:

The evidence states that over the course of the 10 year rebasing deferral period, customers will benefit from distribution rates that are lower than they would have been had the status quo of four independent LDCs been maintained. Assuming PowerStream receives approval of its five-year Custom IR plan as filed, how would the rates be any different relative to the status quo given the application assumed rates for a stand-alone entity? How will PowerStream's customers benefit in the first five years of the rebasing deferral period with respect to rates?

Response:

As identified in the Application, at Exhibit B, Tab 2, Schedule 1, "*over the course of the ten year rebasing deferral period, customers will benefit from distribution rates that are lower than they would have been had the status quo of four independent LDCs been maintained.*" Not every LDC Co rate zone will be affected by the rebasing deferral period in the same way.

PowerStream's customers will be neutral in the first four years post consolidation assuming that year one is 2017. They will benefit from year five (2021) onward because, in the absence of the consolidation, PowerStream would have filed another Custom IR application for rebasing of its electricity distribution rates for the 2021-2025 period. Post consolidation, in year four and until the end of the rebasing deferral period, PowerStream rate zone will instead be on Price Cap IR. As a result, PowerStream customers will benefit from rates that are lower than they would have been had the *status quo* of four independent LDCs been maintained.

B-CCC-6

Reference(s): Ex. B/T2/S1/p. 2

Preamble:

The evidence states that over the course of the 10 year rebasing deferral period, customers will benefit from the distribution rates that are lower than they would have been had the status quo of four independent LDCs been maintained.

a) Given Horizon Utilities Corporation ("Horizon") is currently on a five-year Custom IR plan that is in place until December 31, 2019, how will its customers benefit in the first four years of the rebasing deferral period with respect to rates?

b) Given Hydro One Brampton Inc.'s rates are scheduled to be in place until December 31, 2019, how will its customers benefit in the first four years of the rebasing deferral period with respect to rates.

Response:

a) The Applicants anticipate that the transaction related to the Application before the OEB will close by December 31, 2016. Consequently, the predecessor organizations of Enersource, Horizon Utilities, PowerStream and HOBNI will continue as LDC Co, commencing January 1, 2017 (estimated date) and the rate orders transferred to LDC Co. As identified in the Application, at Exhibit B, Tab 2, Schedule 1, "*over the course of the ten year rebasing deferral period, customers will benefit from distribution rates that are lower than they would have been had the status quo of four independent LDCs been maintained*."

Not every LDC Co rate zone will be affected by the rebasing deferral period in the same way. Horizon Utilities' customers will be neutral in the first three years after the completion of the consolidation assuming that year one is 2017. They will benefit from year four (2020) onward because, in the absence of the consolidation, Horizon Utilities would have filed another Custom IR application for rebasing of its electricity distribution rates for the 2020-2024 period. Post consolidation, in year four and until the end of the rebasing deferral period, Horizon Utilities rate zone will instead be on Price Cap IR. As a result, Horizon Utilities customers will benefit from rates that are lower than they would have been had the *status quo* of four independent LDCs been maintained.

b) As discussed above, and as identified in the Application, at Exhibit B, Tab 2, Schedule 1, "*over the course of the ten year rebasing deferral period, customers will benefit from distribution rates that are lower than they would have been had the status quo of four independent LDCs been maintained.*" Once again, not every LDC Co rate zone will be affected by the rebasing deferral period in the same way.

HOBNI's customers will be neutral in the first three years post consolidation assuming that year one is 2017. They will benefit from year four (2020) onward because, in the absence of the consolidation, HOBNI would have filed a rebasing application (either Cost of Service or Custom IR) of its electricity distribution rates. Post consolidation, in year four and until the end of the rebasing deferral period, HOBNI rate zone will instead continue on Price Cap IR. As a result, HOBNI customers will benefit from rates that are lower than they would have been had the *status quo* of four independent LDCs been maintained.

B-CCC-7

Reference(s): Ex. B/T2/S1/p. 3

Preamble:

The evidence states that it is the Applicants' submission that the proposed consolidation meets the Board's "no harm" test. This is on the basis that distribution rates would be lower that they would have been had the status quo been maintained. Why is it not considered "harm" to customers if they are paying rates that are based on costs that exceed the cost of providing them service?

Response:

a) This appears to be a submission, and not an information request. The Applicants will address this as necessary in their submissions in this proceeding. The Applicants have chosen a rebasing deferral period of ten years. That choice was made in compliance with the OEB's *Handbook to Electricity Distributor and Transmitter Consolidations* (the "Handbook"), dated January 19, 2016. The OEB confirmed in its July 23, 2007 Report on *Rate-making Associated with Distributor Consolidation* that rebasing deferral periods of up to five years would be permitted. That was extended to ten years (subject to an earnings sharing mechanism in respect of years six-ten) in the OEB's March 26, 2015 Report on *Rate-making Associated with Distributor Consolidation*, and the ten-year period was confirmed in the Handbook this year. The Applicants' selection of the ten-year rebasing deferral period, and the underlying availability of a deferral period, are consistent with long-standing OEB policy.

B-CCC-8

Reference(s): Ex. B/T2/S1/p. 2

Preamble:

The evidence states that the Applicants anticipate realizing real cost synergies and operational efficiencies, as well as benefits from economies of scale. Please provide a detailed list of the specific areas where these synergies, operational efficiencies and benefits from economies of scale are expected to occur. Please indicate when these synergies, operational efficiencies and benefits from economies of scale are expected to occur.

Response:

a) Please see the Applicants' responses to Interrogatories B-AMPCO-4a), b) and c) for cost savings and the timing relating to these savings.

B-CCC-9

Reference(s): Ex. B/T2/S1/p. 3

Preamble:

Please explain how being the "second largest electricity distributor in the Province, based on number of customers" necessarily benefits the customer base.

Response:

The size of LDC Co, in and of itself, is not what benefits customers. It is the increased business scale that provides the opportunity for efficiency gains. It is these potential gains that are beneficial to the customer base. The existing four utilities operate in the current performance-based regulatory framework; one which incents LDCs to find efficiency gains that are ultimately beneficial to the customer base.

The merger of Enersource, Horizon Utilities and PowerStream and their joint acquisition of HOBNI is an opportunity for both operating and capital efficiencies, particularly in administrative, "back office" and IT functions. The consolidation of Customer Information Systems ("CIS") is an example of this. Each of the four utilities currently has its own CIS with separate operating and capital costs that drive a unit cost of operation based on its number of customers. Following consolidation the costs associated with operating the CIS will be lower.

The same cost rationalization is expected to be applied to most of LDC Co, especially in "back office" functions. The efficiency gains from the scale and lower unit cost of operation are ultimately for the benefit of the customer base under the OEB's incentive rate making framework.

B-CCC-10

Reference(s): Ex. B/T2/S1/p. 7

Preamble:

The purchase price for Hydro One Brampton networks Inc. is $607. How was this price arrived at? Please provide evidence that this payment will be in the best interests of the ratepayers of all of the Applicants' ratepayers.

Response:

a) The Applicants observe that the preamble provided above indicates a purchase price for HOBNI of $607. The Applicants understand this to be a typographical error that should read '$607MM".

Please see the Applicants' response to Interrogatory B-BOMA-22a) for information on the purchase price for HOBNI. The consolidation of HOBNI with Enersource, Horizon Utilities and PowerStream will help enable synergy and ratepayer savings as identified in the Applicants' response to Interrogatory B-Staff-2a) and b).

MUN-CCC-11

Reference(s):

Preamble:

Please provide copies of all presentations and reports made to each relevant municipal council (those involved in the consolidation) regarding the merger. For example, on September 22, 2015, the City of Vaughan was given a presentation by the City of Vaughan Staff. The documentation included the following:

a) Staff Memorandum dated September 18, 2015;

b) Memorandum from Gowlings LLP dated September 18, 2015;

c) MergeCo Business Plan;

d) MergeCo Business Case Overview; and

e) Navigant Consulting Ltd – Analysis of Business Case

Please include these documents and all other documents presented to each of the other municipalities.

Response:

Please see attached the following documents:

Mississauga

MUN-CCC-11-ATTACH1

1-Presentation to City of Mississauga, September 23, 2015, *"Enersource Merger Proposal"*

2-Presentation to City of Mississauga, May 27, 2015, by Norm Loberg and Peter Gregg, *"2014 Annual Report"*

Hamilton

Presentations from counsel and/or by experts retained by counsel to the Horizon Utilities shareholders will not be produced in any manner, as they were presented to the shareholders in camera and are subject to solicitor-client privilege. Additionally, material that is beyond the scope of this proceeding, including, without limitation, information related to matters such as due diligence and/or public consultation, will not be produced. Finally, the Applicants confirm that material is being produced in response to this Interrogatory without prejudice to the Applicants' right to argue that the answers and the materials relate to matters that are beyond the scope of this proceeding; that they are not relevant to the decision the OEB is required to make; that they should not be considered by the OEB; and that they should not form part of the record. The reasons why the shareholders approved the proposed transactions, and the material that was before them when they made their decisions, are outside the scope of this proceeding.

MUN-CCC-11-ATTACH2

[redacted]

2- Presentation to City of Hamilton, September 30, 2015, "*Reducing the Rising Cost of Electricity"*

[redacted]

St. Catharines

MUN-CCC-11-ATTACH3

[redacted]

2- Presentation to City of St. Catharines, October 5, 2015 *"Reducing the Rising Cost of Electricity"*

[redacted]

Barrie

MUN-CCC-11-ATTACH4

1-Staff Report CCS002-15, September 28, 2015 "*Merger of PowerStream, Enersource and Horizon and Acquisition of Hydro One Brampton*"

2-Memorandum from Gowlings to Mayor and Members of Council for the City of Barrie, September 24, 2015, "*Project Aura Interim Report*"

3-General Committee Meeting Presentation, September 28, 2015, "*PowerStream Merger*"

Markham

MUN-CCC-11-ATTACH5

1-Backgrounder on PowerStream Merger, September 10, 2015, "*Proposed Merger of PowerStream with three other Electric Utilities"*

2-BDR report to City of Markham, October 3, 2015, "*Decision Support with Respect to the Proposed Merger between PowerStream, Enersource and Horizon and the Acquisition of Hydro One Brampton"*

3-Navigant report to City of Markham, October 7, 2015, "*PowerStream Merger and Acquisition: Decision Support*"

4-Staff update to Special General Committee, October 7, 2015, "*Proposed Merger of PowerStream, Enersource, and Horizon, and Acquisition of Brampton Hydro*"

5-Staff presentation, Special General Committee Meeting, November 11, 2015, "*Proposed Merger of PowerStream, Enersource, and Horizon, and Acquisition of Brampton Hydro"*

6-Staff report, Special General Committee Meeting, November 11, 2015, "*PowerStream Merger*"

- Appendix "1" Chart Comparing PowerStream Unanimous Shareholders Agreement (PSI USA) and Proposed MergeCo Unanimous Shareholders Agreement (MergeCo USA)
- Appendix "2" Proposed Structure

7-Navigant Presentation, November 11, 2015, Special General Committee Meeting, "*PowerStream Merger and Acquisition: Decision Support*"

8-Powerstream update, Special General Committee Meeting, November 11, 2015, "PowerStream Update- M&A Transaction"

9-Staff Recommendations Report, Special Council meeting, November 19, 2015, "*Proposed Merger of PowerStream, Enersource, and Horizon and Acquisition of Brampton Hydro"*

10-Markham Special Council Meeting, November 19, 2015, "*PowerStream Update—M&A Transaction*"

11-Business Case Overview Document, "MergeCo: Business Case PowerStream Overview"

Vaughan

MUN-CCC-11-ATTACH6

1-Memorandum from Gowlings to Mayor and Council, September 18, 2015, "*Project Aura Interim Report*"

2-Memorandum from City Staff to Mayor and Council, Committee of the Whole (Working Session) September 22, 2015, "*PowerStream Merger and Acquisition*"

3-PowerStream update to Committee of the Whole (Working Session), September 22, 2015

4-Navigant report to Committee of the Whole (Working Session), September 22, 2015 "*PowerStream Merger and Acquisition: Decision Support*"

5- Recommendation to Committee of the Whole (Working Session) Meeting, September 22, 2015, "*PowerStream Merger and Acquisition"*

Attachments:

- 1-MergeCo Business Plan: although the City of Vaughan website lists the MergeCo Business Plan as one of the attachments that can be viewed upon request, the Business Plan was never provided to the City. As an alternative, PowerStream provided all three of its shareholders with a Business Plan Overview document (Attachment 2)
- 2-MergeCo Business Case Overview
- 3-Navigant's Final report on the proposed three-way merger between PowerStream Holdings Inc., Enersource Corporation, and Horizon Holdings Inc., and the joint acquisition of Hydro One Brampton Networks Inc.

6-Extract from Special Council Meeting Minutes of October 7, 2015

more than energy™

2014 Annual Report to City Council

Norm Loberg, Chair
Peter Gregg, President and CEO

May 27, 2015

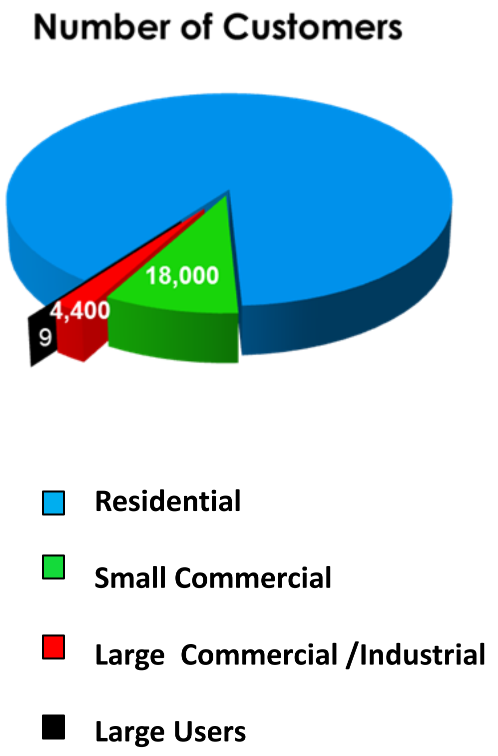
enersource
more than energy™

2014: Year In Review

- Understanding Our Customers
- Operational Performance
- Financial Performance
- Enersource Power Services
- Energy Conservation
- Corporate Social Responsibility & Community Engagement
- Awards and Recognition
- Looking Ahead to 2015 & beyond

Understanding Our Customers

- Serving over 200,000 customers
- ~98% are residential and small commercial, remaining 2% are large commercial and industrial
- In 2014, Enersource conducted customer satisfaction surveys for each of our customer classes.



Customer Survey - Key Points

- ✓ High Overall Customer Satisfaction from all classes
- ✓ Customers frustration over price
- ✓ Requesting more on-line service options
- ✓ Preferred contact method is still the telephone
- ✓ Good communications makes a difference
- ✓ Large Users are more sensitive to reliability

Enhancing the Customer Experience

- ✓ Created a Chief Customer Officer position and developing a stronger customer focused strategy.
- ✓ Launched a new mobile site to improve customer access to outage information.
- ✓ Launched a successful Twitter contest to increase followers and facilitate rapid-response during outages.
- ✓ Implementing a customer-centric education platform for our employees.
- ✓ Increased customer outreach and communication on upgrades and investments to system.

Operational Performance

- Connected ~1,500 new customers to our distribution system including over 900 Individual Suite Meters (Condos / Apartments)

- Maintained world-class reliability numbers:
  - System Average Interruption Duration Index: **31.38** minutes
  - System Average Interruption Frequency Index: **0.97** interruptions / customer
  - Customer Average Interruption Duration Index: **32.3** minutes / customer

Operational Performance

- Began or completed construction on 8 major underground rebuilds and 4 major overhead rebuilds.

- Worked closely with City Staff on planning high customer growth areas: Downtown 21, Port Credit, etc.

Summary of Financial Results

($000's)

	Dec 31, 2014	Dec 31, 2013
Consolidated Revenues	$ 940,933	$ 918,890
Operating Income	47,449	46,316
Shareholder Net Income	**26,714**	**24,285**
Total Dividends Paid	**$ 14,571**	**$ 12,080**
	(60 % of previous year's net income)	

Enersource Power Services

- **Cities of Mississauga & Brampton**
  - Management, Maintenance and Operation of 85,000 Street Lights
- **City of Mississauga**
  - Converting ~ 50,000 Street Lights to High Efficiency LED Lamps
- **City of Hamilton**
  - New contract to converting 40,000 Street Lights to High Efficiency LED Lamps
- **Greater Toronto Airports Authority**
  - Maintenance & Operation of GTAA-Owned Electricity Distribution Infrastructure

Conservation Programs Results

2011- 2014 Overall Results

Type	Target	Forecast	Achieved
Demand MW Savings	93	82*	~ **90%** **
Energy GWH Savings	417	457*	~ **110%**
Cost Efficiency Incentive (% under budget)	**18.5%**	17.8%	

* Final 2014 numbers to be confirmed by IESO

** Best amongst the 6 large distribution companies

2011- 2014 Results by Program Types

Type	Participants	MW Savings	GHW Savings
Residential & Low Income	424,000	15	52
Commercial & Institutional	10,000	27	351
Industrial	120	40	54
Total	434,120	82 (~90%)	457 (~110%)

Note: Final 2014 numbers to be confirmed by IESO

Corporate Social Responsibility

- Worked with employees to raise over $30,000 in donations for **United Way** Peel Region.
- Donated $20,000 to **Interim Place** for improvements to the shelter's facilities.
- Ongoing work with **Credit Valley Conservation**.
  In 2015, Enersource committed $25,000 to the Conservation Youth Corps (CYC) to restore and maintain the Credit Valley River watershed.
- Supported higher education with 3-year partnership of $100,000 donation to **Sheridan College**.
- Partnered with **Mississauga Marathon** to develop Enersource MaraFun Program.

Corporate Social Responsibility

Toys 4 Tots

Worked with Peel Regional Police to promote program & collect toys

CVC Credit River Guardian

Donated one tree to CVC for every customer who switched to e-billing

Donated 1,500 trees

Enersource volunteers helped plant trees

More than Energy

Involved in the Community

Mississauga Steelheads

School Day

Mississauga
Santa Claus Parade

@enersourcenews

Infographics and Fun Facts

TWEET HIGHLIGHTS (2015)

Top Tweet earned 6,564 impressions

Power in Mississauga will be shut off from 1–9pm for emergency repairs. Our equipment was damaged by a wild unicorn pic.twitter.com/zF7qt2PXKX

4 · 41 · 31

View Tweet details | View all Tweet activity

Top media Tweet earned 2,582 impressions

We are proud to announce a $25,000 donation to @CVC_CA to help support the Conservation Youth Corps. pic.twitter.com/EHs0yHnACH

7 · 10

View Tweet details | View all Tweet activity

Top outage Tweet earned 3,979 impressions

Power is out due to pole fire along Dundas between Mississauga Rd and Wolfdale. Estimated restore time is 11pm.*SG pic.twitter.com/NFrDbyZvVq

10 · 2

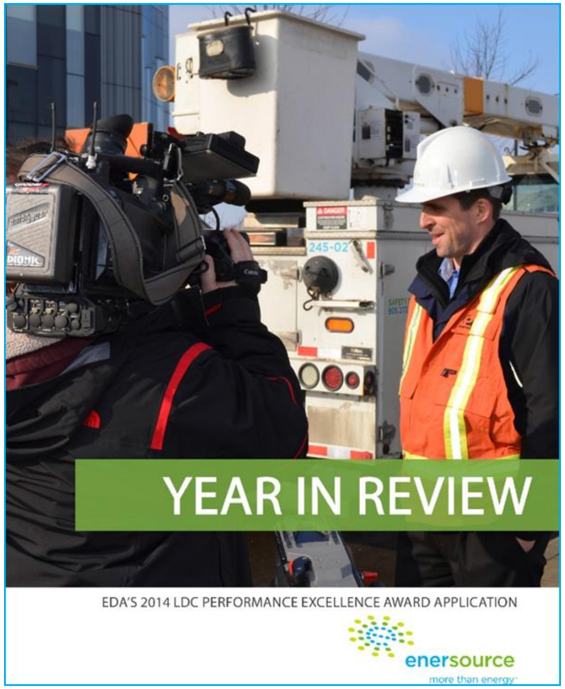
View Tweet details | View all Tweet activity

Your followers also follow

35%	citymississauga
29%	TorontoStar
26%	PeelPoliceMedia
25%	CityNews
25%	CBCNews
24%	globeandmail
24%	680News
21%	MissiNewsRoom
20%	TorontoHydro

LDC Performance Excellence Award

Enersource awarded the **LDC Performance Excellence Award** for 2014.



Excellence in:

- health and safety;
- operational and financial performance;
- conservation; and
- contributions to the community.

Second time in six years, Enersource has won this excellence award.

Recognition

Community Support Recognition

Credit Valley Conservation awarded Enersource with an **Award of Distinction** for its commitment to the local environment.

Looking Ahead to 2015 & beyond

- April 2015, Enersource Corp., Horizon Utilities, Hydro One Brampton and PowerStream announced a formal commitment to merge the four utilities into one company.
- Proposed new utility would serve almost one million customers operating within York Region, Simcoe County, Peel Region, Hamilton and St. Catharines.
- This action flows from the recommendations made by the Premier's Advisory Council on Government Assets and is consistent with Enersource's growth strategy.
- Proposed merger must be approved by all shareholders and will be subject to regulatory approvals.

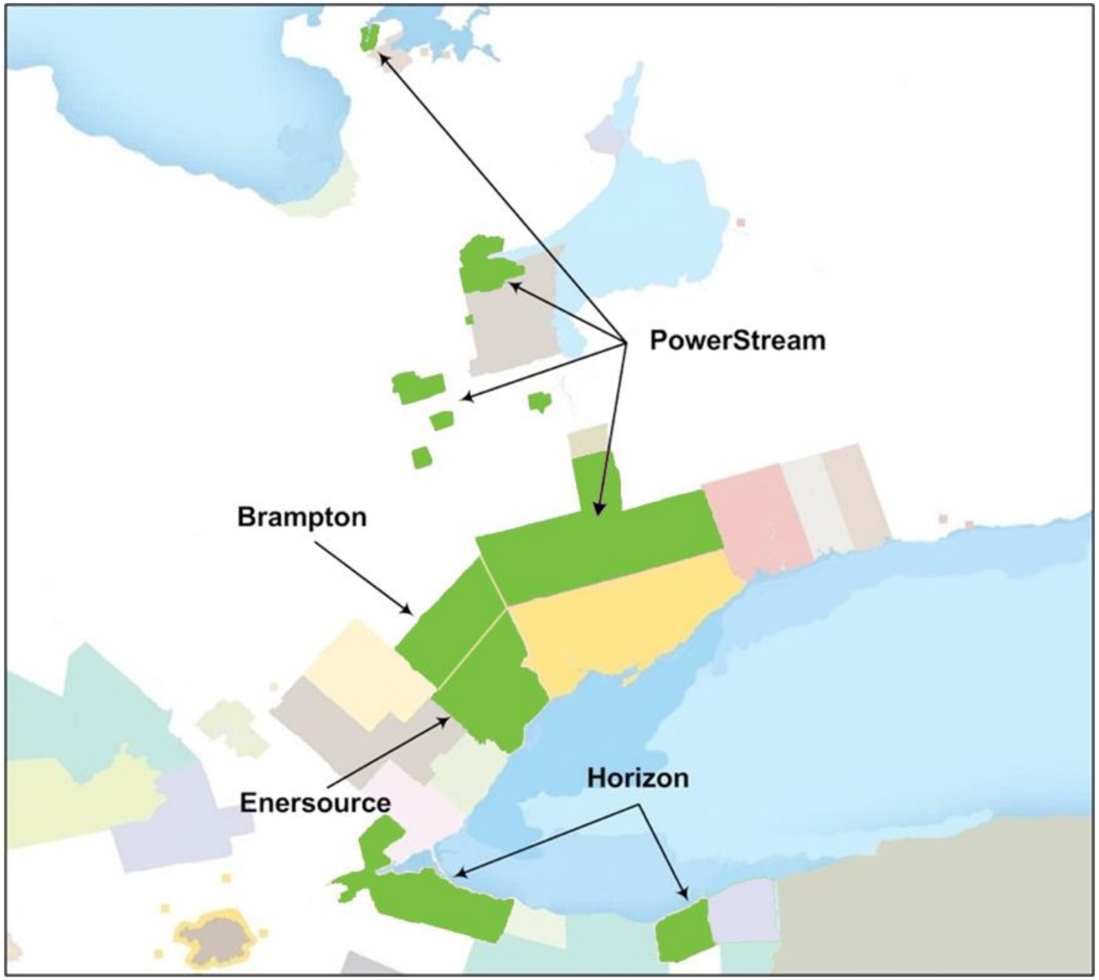
Status

- Enersource has signed a non-binding Letter of Intent (LOI) to merge with PowerStream, Horizon and Hydro One Brampton.
- Enersource, PowerStream and Horizon have indicated to the Provincial Government, its intention to exercise the option to purchase Hydro One Brampton vs merging.
- The CEOs, senior representatives from each utility and external advisors have been working on: governance, due diligence, legal agreements, organizational structure and synergies, financial modelling as well as the business case for shareholder and the regulatory approval.

Status

- The goal of each of the LDCs is to ensure a beneficial outcome for our customers, our communities and shareholders.
- Each LDC will be going to their respective City Councils to seek formal approval in the coming weeks.

Territories of the Proposed Merger



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Enersource Merger Proposal

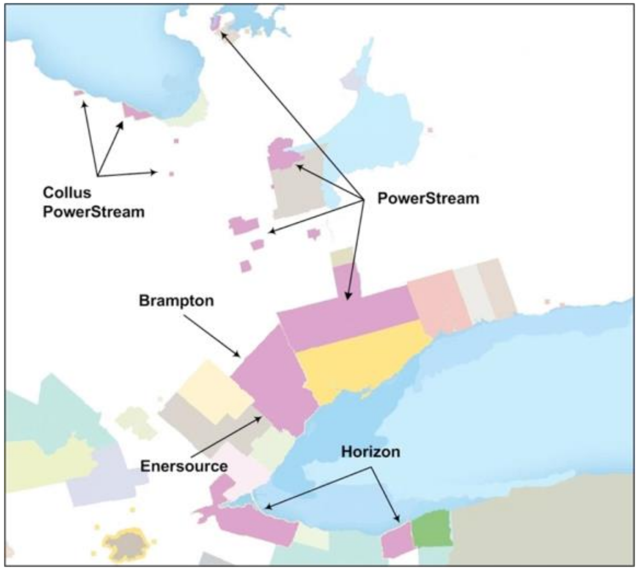
Presentation to the City of Mississauga Council Chambers

September 23, 2015

enersource
more than energy™

Overview

- Enersource Corp. (EC), Horizon Utilities Corp. (HUC), and PowerStream Inc. (PS) plan to merge and jointly acquire Hydro One Brampton (HOBNI)
- MergeCo will serve ~1M customers in York Region, Barrie-Simcoe County, Peel Region, Hamilton and St. Catharines
- MergeCo will be Ontario's second largest electricity distribution company by customer count and third largest by asset value
- MergeCo corporate head office with significant executive presence will be located at 2185 Derry Road, Mississauga



Benefits for Customers and Shareholders

When considering merger benefits, MergeCo partners evaluated:

- ✓ **Lower distribution rates** for customers
- ✓ **Increased cash flow** to the Shareholder
- ✓ **Increased enterprise value**

Benefits for Customers and Shareholders

Additional customer benefits

- Better served through enhanced and shared systems
- Broader range of products and services than what is currently available
- Merged resources will facilitate better response to reliability issues
- Merged resources will facilitate enhanced customer service through innovative technologies

Synergies

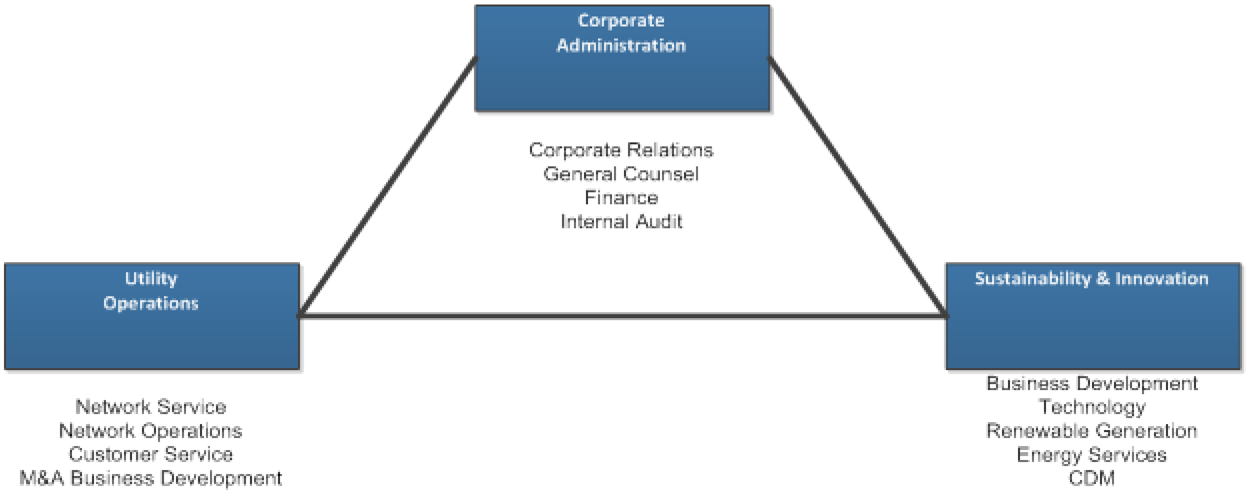
Improve service delivery to customers

- MergeCo will focus on five attributes to improve customer service:
  - ✓ Efficiency (distribution rates/price)
  - ✓ Electricity reliability
  - ✓ Bill accuracy and quality
  - ✓ Responsiveness
  - ✓ Trust and corporate image

MergeCo

Organized around three corporate entities:

- ✓ **Corporate entity** will act as holding company (HoldCo)
- ✓ Utility or **LDC entity** will manage regulated utility business
- ✓ **Sustainability & Innovation entity** will focus on future growth in addition to delivery of corporate services



Conclusion

The transaction is consistent with EC's stated Growth Strategy

Customers will benefit from improved services and reduced pressure on distribution rates

Shareholders will benefit from increased cash flows and growth in value

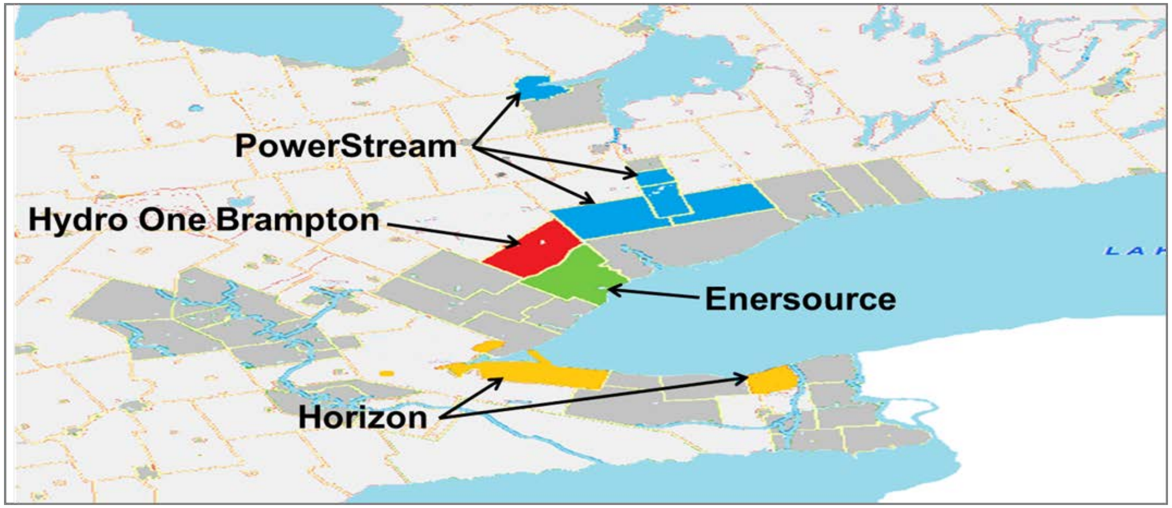
This transaction provides the organization capacity to grow strategically and expand into new lines of business

This transaction provides access to capital and people the organization needs to drive growth and innovation

Conclusion

Enersource Board of Directors recommends to City Council to:

- Approve the Transaction to merge Enersource Corp. with Horizon Utilities Corp., and PowerStream Inc. and acquire Hydro One Brampton



Reducing the Rising Cost of Electricity

Overview of the Proposed Merger of

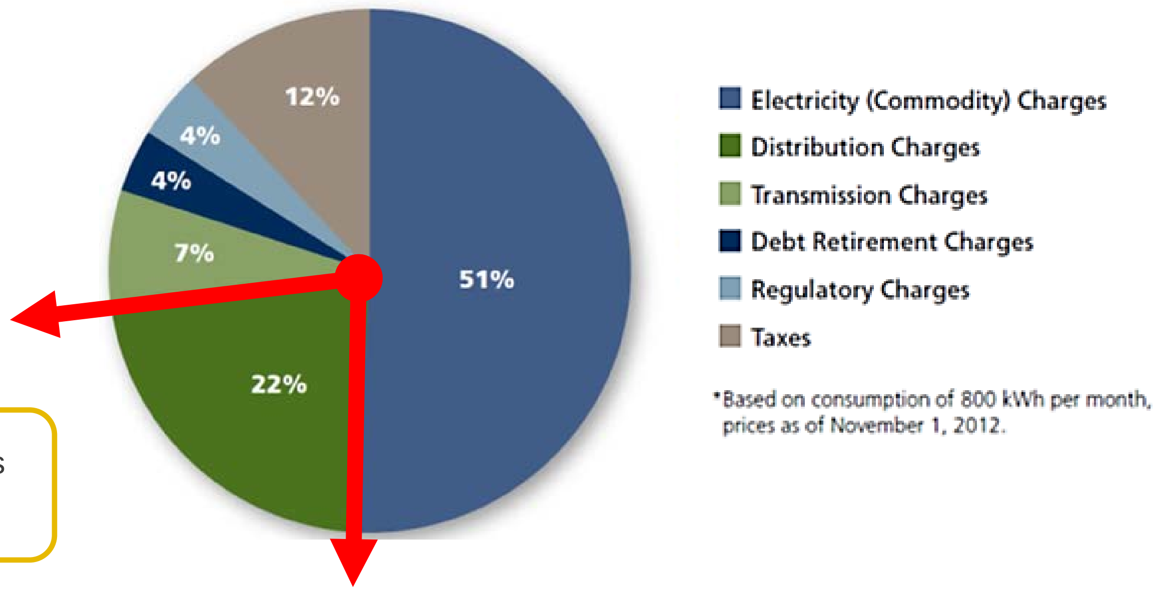
Horizon Utilities to City of Hamilton

September 30, 2015

Horizon’s vision and its goal in mergers?

- Keep cost electricity distribution as low as possible for customers
- Strategy, as supported by council, has been:
  - Delivering value to customers and growing business profitably
  - Pursue merges to enhance value for municipality and customers

– Results – top performer, responsible growth, St. Catharines merger, track record of excellence



In **1996,** distribution charges represented **15%** of the bill

Source: Ontario Distribution Sector Panel

What has Horizon done on higher costs?

Create economies of scale through mergers.

2000 Merger of 5 utilities created Hamilton Hydro

2005 Merger of Hamilton Hydro and St. Catharines Hydro created Horizon

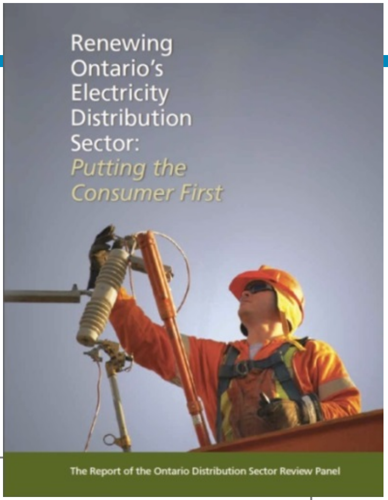
100% Municipally-owned	242,000 customers	425 employees	$675 million in total assets

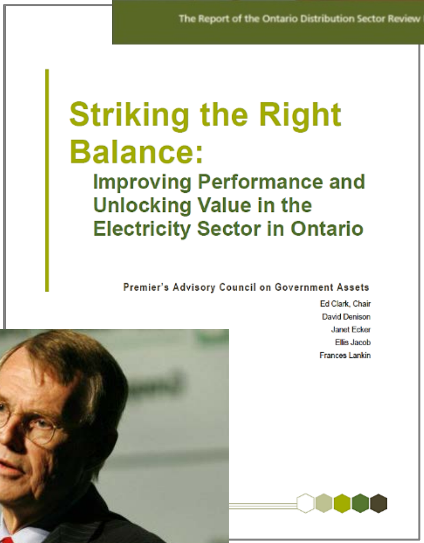
2015 Proposed merger of Horizon with Enersource, PowerStream and Hydro One Brampton – option to purchase Hydro One Brampton

What do experts now recommend?

2012 and 2015

- Ontario Distribution Sector Panel report favoured 8 to 12 regional utilities
  - $1.7B in operating cost savings and $1.3B in avoided infrastructure investment in first 10 years from consolidation
- Clark Panel favoured just “three of four strong distribution players”, down from 73 currently
- Hydro One Brampton seen as being “key to breaking deadlock” and proposed merging utility with other urban utilities to achieve consolidation





What has Regulator and Budget done?

2015

- Ontario Energy Board introduced new rules to incent utility mergers
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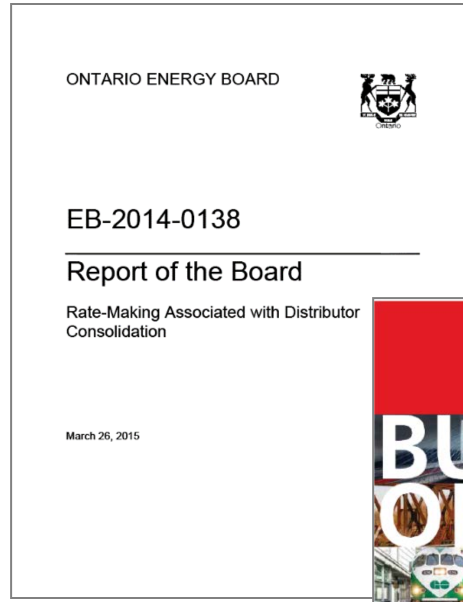
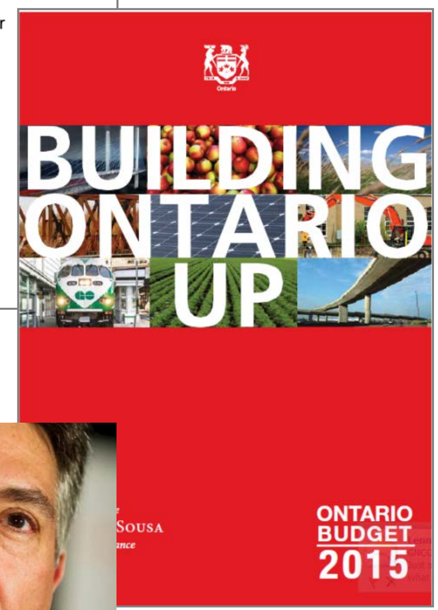

ONTARIO ENERGY BOARD

EB-2014-0138

Report of the Board

Rate-Making Associated with Distributor Consolidation

March 26, 2015



New municipal utility – same shareholders

Shareholders:

- Hamilton (Horizon)
- St. Catharines (Horizon)

- Enersource (Mississauga and Borealis/OMERS)*

- Barrie (PowerStream)
- Markham (PowerStream)
- Vaughan (PowerStream)

+

Not a Shareholder:

Acquire Hydro One Brampton Inc.

* Enersource would be the actual shareholder, since Borealis (a division of OMERS) cannot be a direct shareholder).

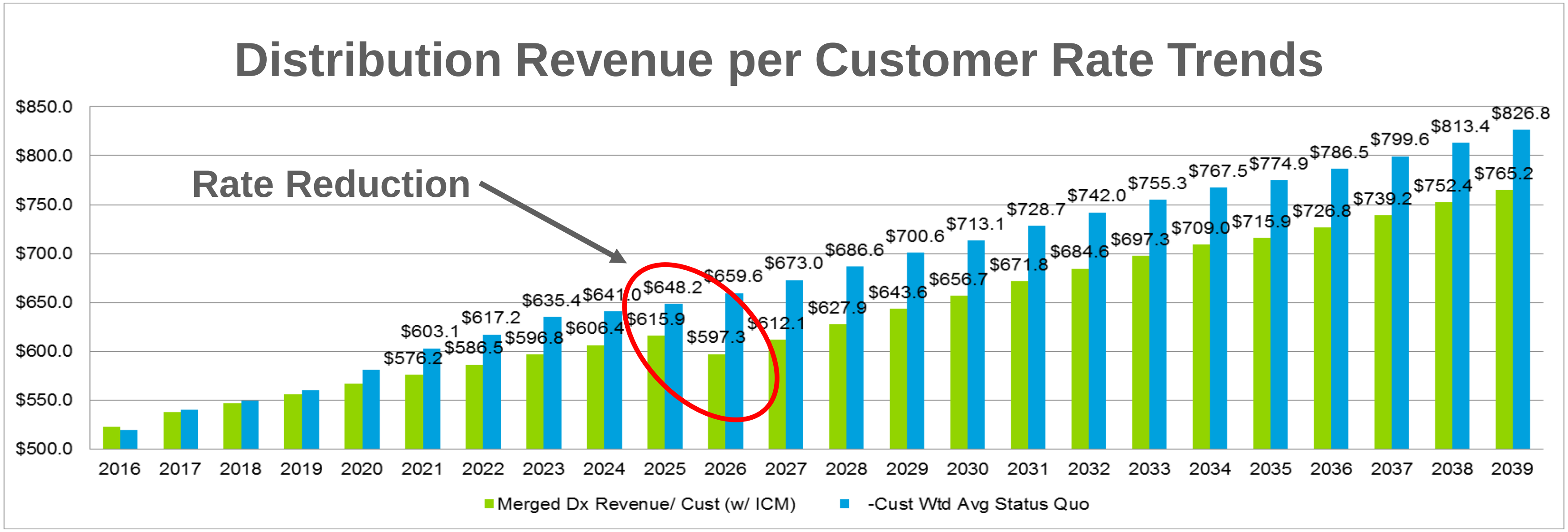
Community benefit – Hamilton core

- Regulated utility to be located in Hamilton at Horizon office
  - New 960,000 customer utility to be based in Hamilton – Horizon is 242,000
  - $7 million in recent building renovations
  - $4-6 million planned renos for 2016-20

- Utility company President and executives located in Hamilton – responsible for:
  - Majority of employees in new company
  - Positions Hamilton as an attractive place to work
  - Utility operations / capital investments
- City benefits from increased activity – hotels, restaurants, etc.
- Location ideally suited to benefit from future utility consolidations and corresponding employment growth, centrally located

horizon® UTILITIES Looking beyond...

Customer benefit – lower rate impact



- Merger provides **5.9%** lower average annual rates through entire 25 year forecast period 2016-39, **8%** lower after 10 years
- Merger would, on average, require $9 million less per year from customers, or about $40 less on average per customer per year
- *NB: blue bars show existing projected average revenue per customer and green bars show projection under merger*

Customer benefit – service levels

- No changes to service centres
- Service centres ideally located and will continue to remain in place – Hamilton and St. Catharines
- Service response will be exactly as prior to merger
- No deterioration in service levels or response time

Nebo Rd., Hamilton

Vansickle Rd., St. Catharines

horizon UTILITIES Looking beyond...

Shareholder benefit – significant cost savings

- **$355 million** or 15% of operating cost savings in first 10 years
- **$168 million** of capital expenditure savings in first 10 years
- **$97 million** transition costs
- **$426 million** of net cash savings in the first 10 years
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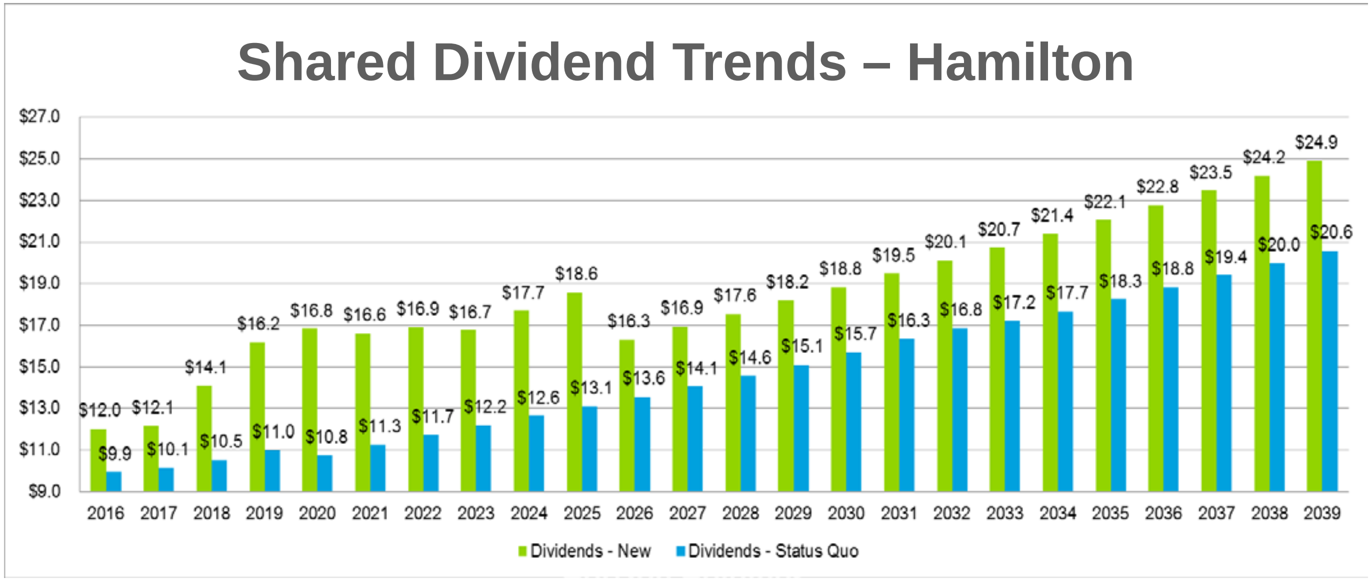
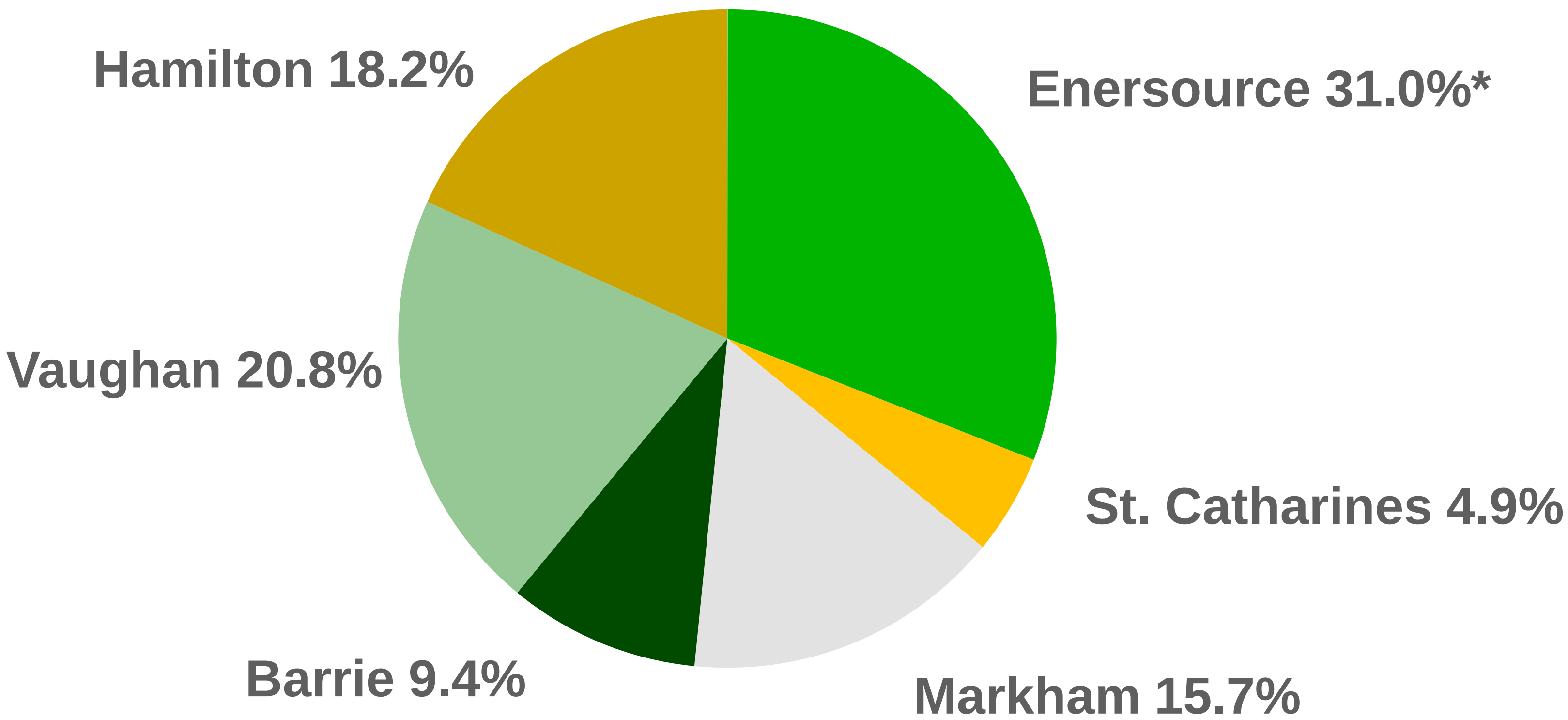
horizon UTILITIES Looking beyond...

Shareholder benefit – stronger dividends



- 29% average increase in dividends over status quo
- Hamilton – $3.8 million average increase per year in dividends across entire forecast period 2016-39
- Dividend increases from average of $13 million per year to $16.8 million per year
- *NB: blue bars show existing dividends and green projected*

Shareholders – no controlling interest



* Enersource is 90% owned by City of Mississauga and 10% owned by OMERS (Borealis). Enersource is the shareholder rather than Mississauga or Borealis because Borealis cannot be a direct shareholder of a merger.

Mergers have benefits for Hamilton

The CUSTOMER

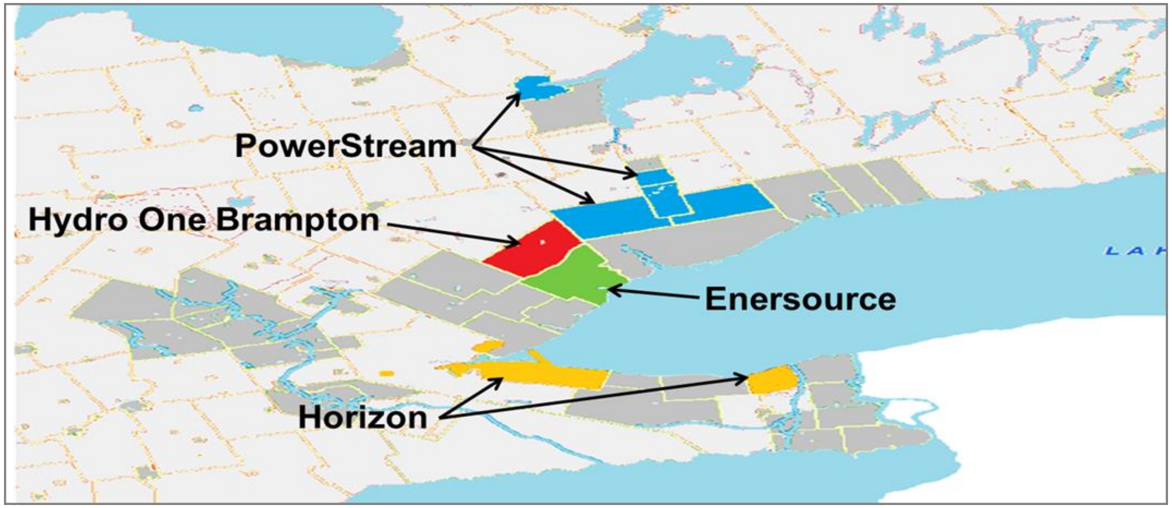
- Lower cost of living and cost of doing business with great customer service – affordability and local competitiveness
- Combined industry leadership on smart grid, community planning, sustainability, conservation and energy mapping
- Efficiency savings result in lower customer rates than business as usual – mitigate pressure for rate increases

The COMMUNITY

- Contribute to shareholder communities being great places to live and work through technological innovation and community sustainability principles
- Build a great company together on a platform large enough to take full advantage of the combined company strengths – more investment in future – technology and innovation

The SHAREHOLDER

- Lower enterprise risk with consistent and strong shareholder performance – more financial strength and resilience
- Larger dividend payments possible without otherwise higher customer costs – more return from the same assets, less pressure on municipal taxes, more resources for community projects



Reducing the Rising Cost of Electricity

Overview of the Proposed Merger of

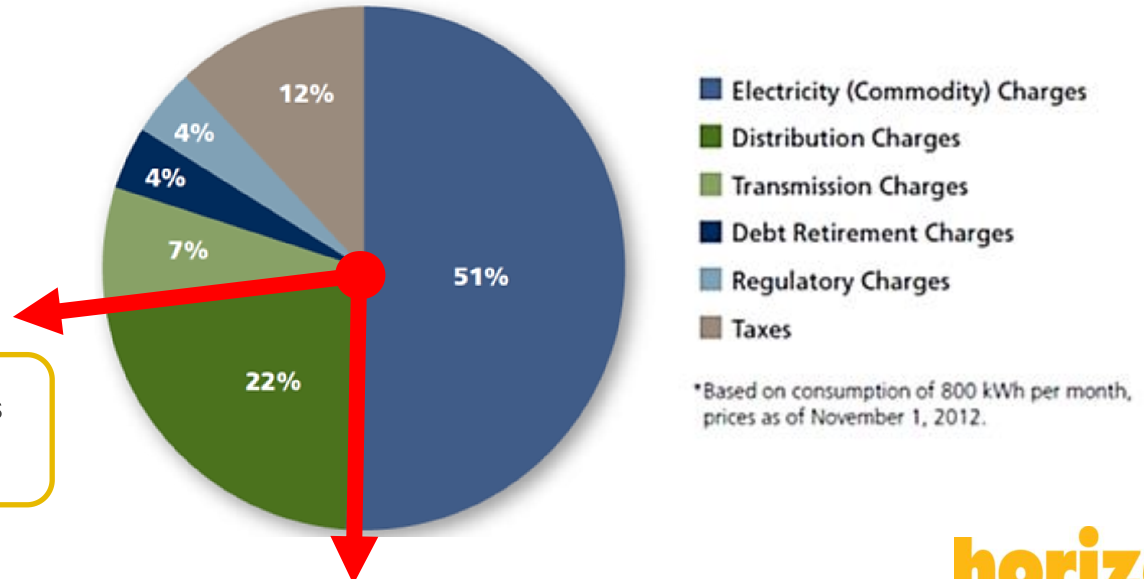
Horizon Utilities to City of St. Catharines

October 5, 2015

Horizon's vision and its goal in mergers?

- Keep cost electricity distribution as low as possible for customers
- Strategy, as supported by council, has been:
  - Delivering value to customers and growing business profitably
  - Pursue mergers to enhance value for municipality and customers
- Results – top performer, responsible growth, St. Catharines & Hamilton merger, track record of excellence

In **1996,** distribution charges represented **15%** of the bill



Source: Ontario Distribution Sector Panel

What has Horizon done on higher costs?

Create economies of scale through mergers.

2000 Merger of 5 utilities created Hamilton Hydro

2005 Merger of St. Catharines Hydro and Hamilton Hydro created Horizon

100% Municipally-owned	242,000 customers	425 employees	$675 million in total assets

2015 Proposed merger of Horizon with Enersource, PowerStream and Hydro One Brampton – option to purchase Hydro One Brampton

horizon® UTILITIES Looking beyond...

What do experts now recommend?

2012 and 2015

- Ontario Distribution Sector Panel report favoured 8 to 12 regional utilities
  - $1.7B in operating cost savings and $1.3B in avoided infrastructure investment in first 10 years from consolidation
- Clark Panel favoured just “three of four strong distribution players”, down from 73 currently
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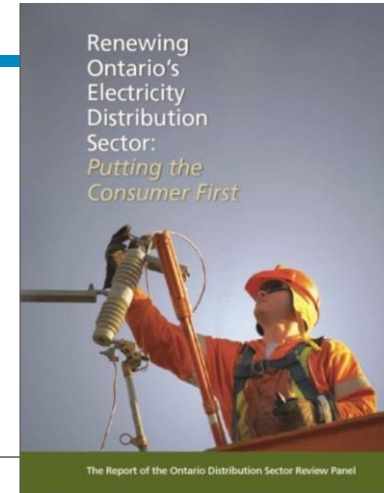

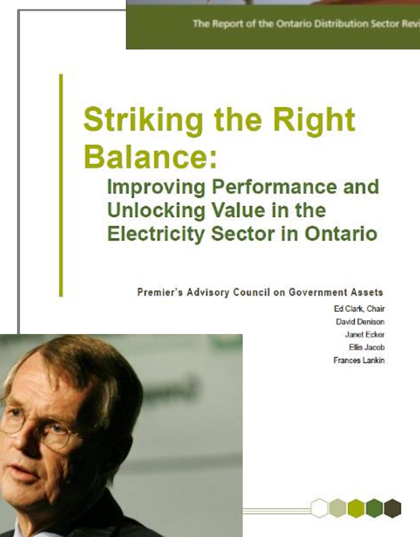

horizon UTILITIES Looking beyond...

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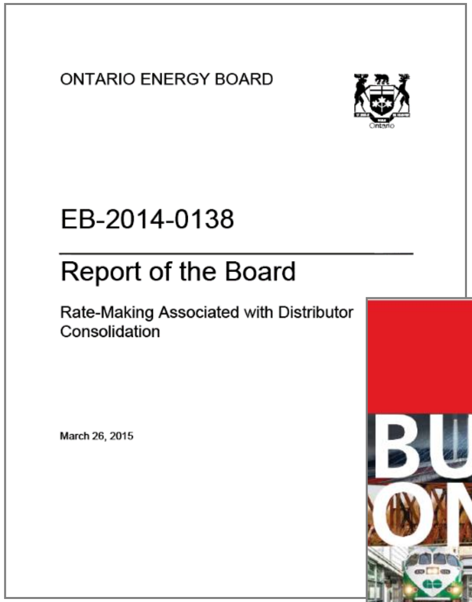
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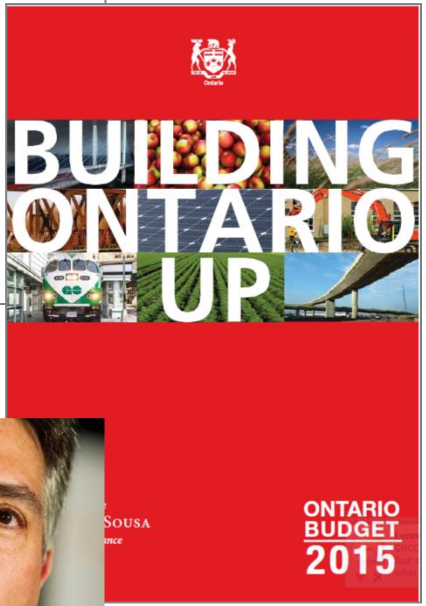

horizon UTILITIES Looking beyond...

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- City benefits from increased activity – hotels, restaurants, etc.
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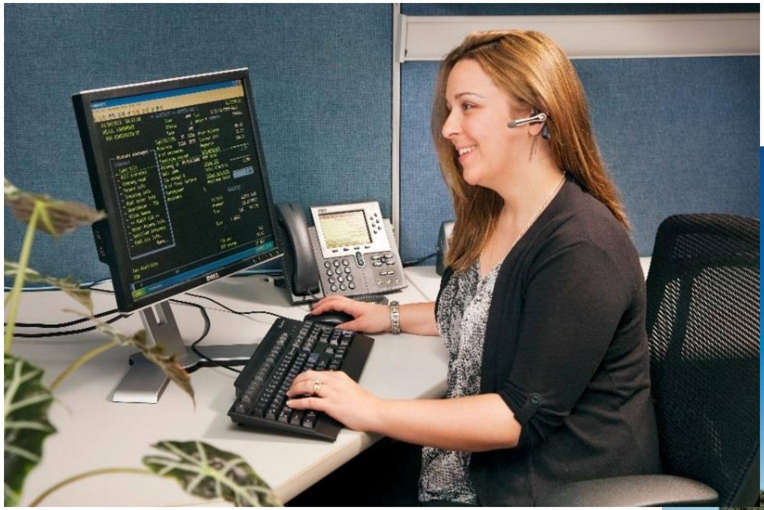
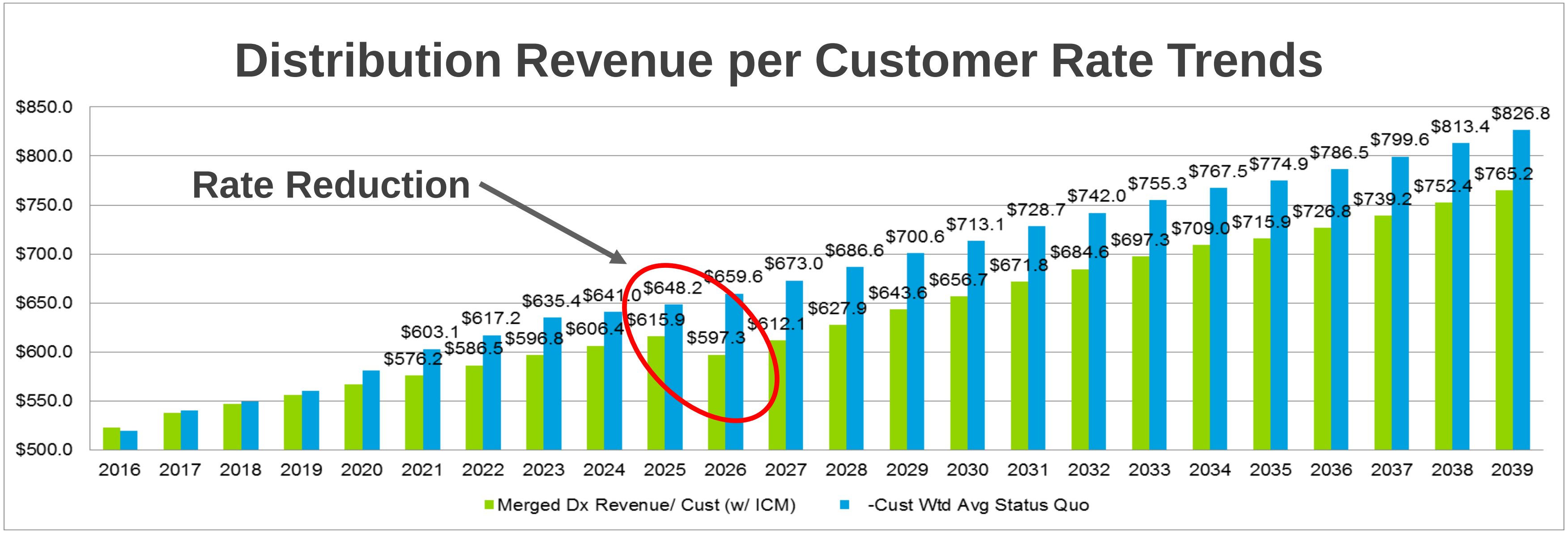
horizon® UTILITIES Looking beyond...

Community benefit – St Catharines

- St. Catharines will be location of one of two call centres for whole utility company



Customer benefit – lower rate impact



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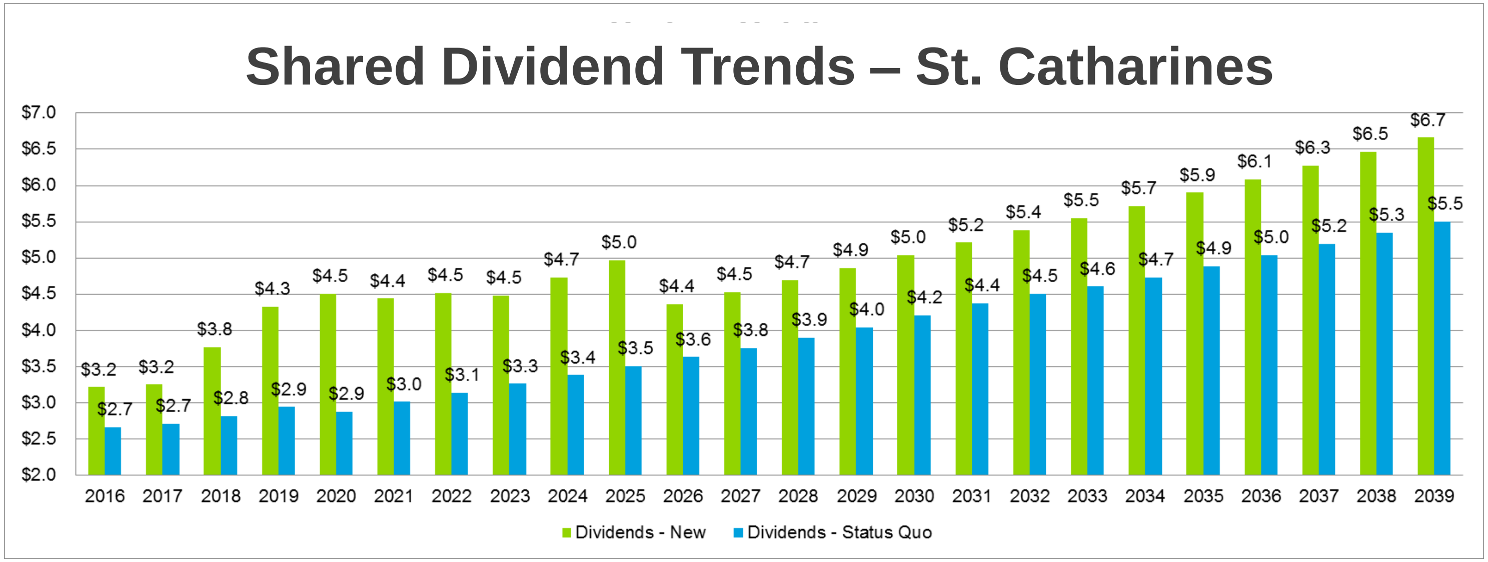
Shareholder – stronger St. Catharines dividends



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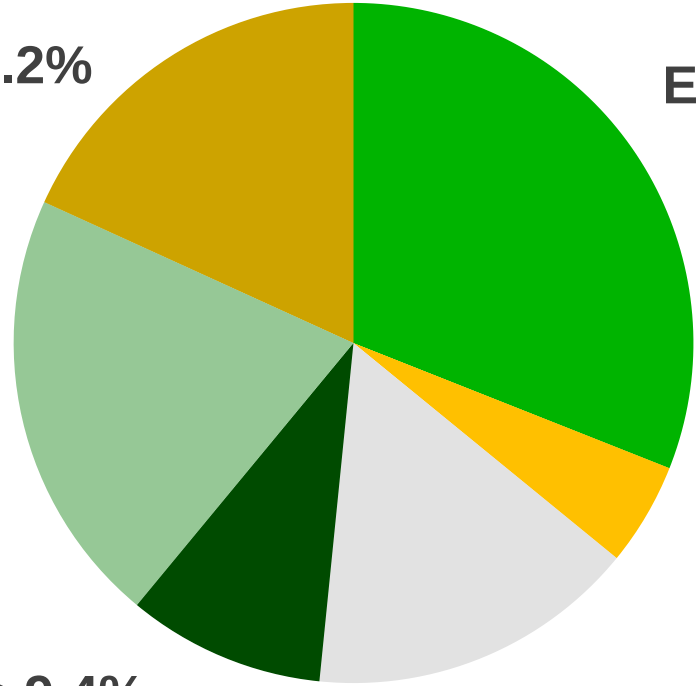
12

Shareholders – no controlling interest



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The City of BARRIE

STAFF REPORT CCS002-15
September 28, 2015

TO:	**GENERAL COMMITTEE**
SUBJECT:	**MERGER OF POWERSTREAM, ENERSOURCE AND HORIZON AND ACQUISITION OF HYDRO ONE BRAMPTON**
PREPARED BY AND KEY CONTACT:	**P. ELLIOTT-SPENCER, GENERAL MANAGER OF COMMUNITY AND CORPORATE SERVICES** **I. PETERS, DIRECTOR OF LEGAL SERVICES**
SUBMITTED BY:	**P. ELLIOTT-SPENCER, GENERAL MANAGER OF COMMUNITY AND CORPORATE SERVICES**
GENERAL MANAGER APPROVAL:	**P. ELLIOTT-SPENCER, GENERAL MANAGER OF COMMUNITY AND CORPORATE SERVICES**
CHIEF ADMINISTRATIVE OFFICER APPROVAL:	**C. LADD, CHIEF ADMINISTRATIVE OFFICER** for CL

RECOMMENDED MOTION

1. That the Corporation of the City of Barrie approve the Barrie Hydro Holdings Inc. (BHHI) Board's recommendation that PowerStream Holdings Inc. (PowrStream) enter into a three way merger with Enersource Corporation (Enersource) and Horizon Holdings Inc. (Horizon) and then proceed to acquire Hydro One Brampton Networks Inc. (Hydro One Brampton) , subject to the identical conditions set out by BHHI as identified in Appendix "A" to Staff Report CCS002-15.

2. That an equity injection of up to $28.6 million, to be provided to MergeCo to finance BHHI's share of the purchase of Hydro One Brampton, be approved

3. That the equity injection of up to $28.6 million be financed in the following manner:

   a) Through the proceeds of a 10% sale of BHHI to a third party and the balance through available cash in BHHI, and by a partial redemption of the City's Promissory Note with BHHI for $20 million (and BHHI's promissory note with Powerstream); or

   b) In the event that a sale of 10% of BHHI does not transpire, financing be provided by the redemption of the City's Promissory Note with BHHI for $20 million (and BHHI's promissory note with Powerstream); available cash in the BHHI, and finally, by cash investment of up to $8.6 million, from the City's current cash and investment portfolio.

4. That the Mayor and City Clerk be authorized to execute all agreements, documents, notices, articles, certificates under or in connection with the proposed merger and acquisition in a form satisfactory to the City Solicitor and that City staff be authorized to take any action necessary in respect of the foregoing.

PURPOSE & BACKGROUND

5. In February, 1999, City Council directed that the City of Barrie retain ownership of the assets of the Barrie Public Utilities Commission and incorporate a Holding Company and other Affiliate corporations under the Ontario Business Corporations Act to operate Barrie's electrical distribution corporation (the Corporation) for the benefit of the citizens of Barrie.

6. In October, 2000, City Council directed, through Resolution 00-G-291, the establishment of a Holding Company and its related subsidiaries in accordance with the requirements of The Electricity Act, 1998. The Holding Company was named "Barrie Hydro Holdings Inc." and the subsidiaries were named "Barrie Hydro Distribution Inc." and "Barrie Hydro Energy Services Inc."

7. In September, 2008 City Council approved the merger of Barrie Hydro Holdings, with PowerStream. PowerStream is owned, through their holding Companies by the Cities of Vaughan, Markham and Barrie. The City of Barrie owns 20.5% of the shares of PowerStream, and Vaughan and Markham hold 45.3% and 34.2%, respectively.

8. PowerStream is the second largest municipally owned electrical distribution company in Ontario, with over 350,000 customers, in 15 communities located immediately north of Toronto and in Central Ontario.

9. PowerStream's Strategic Plan focuses on growth to the company through unregulated businesses and through the acquisition or merger with other LDC's. In 2009, PowerStream created the PowerStream Solar Business and in 2012 acquired 50% of Collus. Various other possible transactions have been investigated. The City of Barrie, through BHHI has supported this strategy through the reinvestment of dividends to support the Solar business and finance core business asset renewal.

10. The Province of Ontario has been encouraging the consolidation of the electrical distribution business – since 1999 local distribution utilities/companies have declined in number from 300 to 68.

11. In April of 2014, the Premier created an Advisory Council to provide recommendations to unlock the full value of provincial assets, including Hydro One Distribution networks. The panel was chaired by Ed Clark, and in November 2014 the Council recommended that the Province should retain Hydro One Transmission but should reduce its ownership in Hydro One Brampton and the rest of their distribution business. Hydro One Brampton was identified as a catalyst for consolidation, by possibly merging with one or more GTA-distribution companies. On December 12th, 2014 the Council issued a request For Information for ideas related to their initial recommendations.

12. In January, 2015 PowerStream received unanimous support from its shareholders to enter into a letter of intent for merger with Enersource and Hydro One Brampton, and to submit a response to the RFI. Subsequent to this Horizon Utilities expressed a desire to also pursue a merger.

13. On April 16, 2015: the Province announced that it intended 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.*"

14. 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).

15. 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.

16. 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.

17. Merger discussions have been undertaken throughout the spring and summer of 2015. A business case has been prepared, relative valuations of each party's ownership of the new "MergeCo" have been determined, and draft agreements have been prepared. Deloitte has prepared the detailed business analysis for the merged organization. The three shareholders of PowerStream retained industry experts, Navigant and BDR North America Inc., to provide independent analysis, advice and recommendations on the business case analysis being undertaken by the parties to the proposed merger, as well as Gowlings LLP for independent legal advice. PowerStream has agreed to pay for the consulting costs incurred.

18. PowerStream and Navigant have provided a number of updates and presentations to the Board of BHHI. The formal Business Case has been received from PowerStream, and a report has been received from Navigant setting out their analysis.

19. The Business Case and proposed agreements, in substantially final form are now being presented to the various holding Companies for approval. The Board of PowerStream unanimously approved the transaction on September 11, 2015. The merger of PowerStream into the new MergeCo requires the unanimous consent by all shareholders (Barrie, Vaughan, and Markham). VHI approved the transaction on September 16th, 2015, and the City of Vaughan on September 22, 2015. MEC Board will consider the transaction on September 30th, and the City of Markham on October 7th, 2015. The approval of the other parties to the MergeCo are anticipated through mid-September and early October. Following approval by the holding companies each municipal Council must consider the transaction for approval.

20. On September 14th, BHHI approved the Business case, conditional on a revised dividend policy acceptable to the City of Barrie. A revised dividend policy has been accepted by the CEOs of Powerstream, Horizon and Enersource which addresses the concerns raised by city staff. However, the policy is still being reviewed by tax experts.

ANALYSIS

21. The proposed merger of PowerStream, Enersource and Horizon and the acquisition of Hydro One Brampton is a very large and complex transaction, with many issues and considerations. Considerable due diligence has been undertaken by all parties. Deloitte was mandated with developing the detailed financial model of the Business Case and determination of the relative value of each proposed shareholder. The CEOs of Enersource, Horizon and PowerStream were tasked with negotiating the terms of the Merger Agreement, Shareholder Agreement and Purchase Agreement for Hydro One Brampton. The Mayors of the six municipalities that own the three LDCs sat on the Advisory Committee to the negotiating team.

22. In order to receive independent advice and recommendations on the business case analysis with respect to the proposed Merger, the shareholders of the three LDCs all retained separate consulting firms. In the case of PowerStream, the Cities of Barrie, Vaughan and Markham, through their Holding companies, engaged Navigant Consulting and BDR North America Inc. to

provide consolidated and individual advice and analysis on the transaction. The analysis provided a comparison of various scenarios to the forecasts for PowerStream as a standalone business, referred to as the "status quo". Staff of the three municipalities have met numerous times collectively, and also individually, with Navigant and BDR North America Inc.

23. Updates have also been provided to the Boards of the respective holding companies. The decision to merge with Enersource and Horizon is a unanimous consent item under the PowerStream shareholder agreement and understanding the views of each municipality was an important aspect of the due diligence.

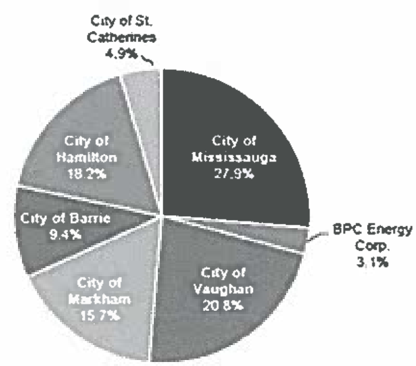
24. The Business Case recommended to the parties to the Merger consists of the following:

i) Relative ownership of MergeCo is:
   a. PowerStream - 46%
   b. Enersource – 31%
   c. Horizon 23%

The chart below shows the relative ownership of each municipality in the proposed MergeCo. The City of Barrie's ownership of the new MergeCo is 9.4%.

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



ii) Brampton Hydro is proposed to be purchased for $607 million. PowerStream's share of the purchase is $186.3 million, of which $61.6 million is proposed to be funded by debt. The balance of $124.7 million requires an equity injection from PowerStream shareholders. Options to finance this equity injection include cash, conversion of existing promissory notes owed to the municipalities to equity, or a possible sale of 10% of PowerStream to a private investor. The option to sell 10% to a private investor is being investigated, but will not be known until a later date.

iii) The Solar assets of the PowerStream shareholders will be segregated as a special class of shares, "Class A Shares" to be held only by the PowerStream shareholders to ensure the return of equity investments made by the municipal shareholders and maintain forecast cash flows from dividends.

iv) The MergeCo is forecast to achieve operating synergy savings of $355 million, and Capital synergies of $168 million, over the next ten years. These are partially offset by transition costs of $95 million. In total, over the first ten years following the merger, MergeCo is forecast to achieve net cash savings of $427 million.

v) Dividend payments to the PowerStream shareholders are forecast to exceed the status quo by a net present value of $121.7 million over the period 2016 to 2039 (discounted at 9.3%), an increase of 45% over the status quo. Net present value discounts future cash flows to today's dollars – the average annual increase in dividends over the period is $12.8 million per year.

The specific financial impacts to the City of Barrie are discussed under the Financial section of this report.

25. In addition to the financial impacts of the proposed merger there are a number of considerations, related to Governance which are contained in the three main agreements required to undertake the Merger and the purchase of Hydro One Brampton – the Merger Agreement, the Share Purchase Agreement and the Shareholders Agreement. These considerations include shareholder rights, board representation, dividend policy, liquidity or ability to sell provisions and treatment of the Solar assets.

26. The proposed Merger will also have possible impacts on customers, facilities, and employees of PowerStream. Finally, the strategic direction of MergeCo will be set out in the Strategic Plan to be developed by the new Board. Without doubt, this strategic direction will focus on further consolidation of the LDC industry and growth in new business areas. The Shareholder's agreement discusses the role of the Shareholders in approving these transactions and the possible sources of new capital.

27. Governance Issues

i.) Shareholder Rights

A memorandum prepared by Gowling Lafleur Henderson LLP, who are representing Barrie and the other two shareholders, is attached to this report and details the main provisions of the proposed Unanimous Shareholders' Agreement (USA) that will govern the new merged entity (Merge Co).

Currently, as a shareholder of PowerStream, the City of Barrie, through BHHI, has a significant role in governance – the current shareholder agreement has numerous items which require unanimous shareholder approval. As a shareholder in Merge Co, Barrie becomes primarily an investor whose influence is exercised through its nominee on the Board of Directors. There are only a very limited number of matters that require unanimous shareholder approval. A new category of matters that require 66 2/3 % shareholder approval has been created under the proposed shareholders agreement – this creates the need for a supermajority but does not result in each shareholder having a veto.

ii.) Board Representation

Currently, the the City of Barrie, through BHHI, has three board members out of 13 on the PowerStream Board. In MergeCo, The City of Barrie, through BHHI, becomes one of six shareholders in the new merged entity and holds its interest directly (not through PowerStream Holdings). It has the right to appoint one director to a 13 person board of directors. That one director is not required to be independent as defined under Section 2.1.3 of the Affiliate Relationship Code. As BHHI is not required to appoint an independent director, it could appoint a director who is an officer or director of BHHI, a member of Council or an employee of the municipality or distributor.

The distribution of Board seats is as follows:

Shareholder	**Number of Director Nominees**
Enersource	4
Markham Enterprises Corporation	2
Barrie Hydro Holdings Inc.	1
Vaughan Holdings Inc.	3
Hamilton Utilities Corporation	2
St. Catharines Hydro Inc.	1

iii) Dividend Policy

The current dividend policy of PowerStream provides for dividends based on 50% of earnings. A change to the dividend policy is currently a unanimous shareholder decision item.

MergeCo is developing a formal dividend policy that will be attached to the shareholders agreement. The policy is still under discussion, but appears to set out financial parameters. The Business Case is based on a dividend policy of 60% of earnings. However, post-merger Dividends are to be declared solely by the board of directors and certain conditions are defined as to when the Board could amend the policy. It will be difficult for any shareholder to "enforce" the dividend policy as contained in the Business Case. This creates a risk to future cash flows to BHHI and its Shareholder, the City of Barrie, if the policy is reduced to dividends below 60% of earnings. There are conditions which must be met to reduce the dividends.

Most are acceptable, however, in the draft available at the time of the consideration of the transaction by BHHI, one condition allowed the Board of MergeCo to reduce dividends when *"an impediment in the maintenance and* ***growth*** *of approved businesses, or logical extensions of existing or related businesses, in line with a Board approved business plan"*. All PowerStream shareholders have requested that this condition be removed, as dividends should not be reduced to fund growth of the Business. As such BHHI's approval was conditional on the development of a dividend Policy that was acceptable to the City of Barrie. Negotiations have taken place on this matter, and a revised draft has been prepared that is acceptable to the CEOs of PowerStream, Enersource and Horizon, therefore this condition was removed. However, it is still being reviewed by tax experts. Therefore, staff are recommending that Council approve the BHHI resolution, subject to a final dividend policy acceptable to the Chief Administrative Officer, General Manager of Community and Corporate Services and the Director of Legal Services. An update will be provided to Council at the General Committee meeting on September 28th, 2015.

iv) Liquidity / Ability to Sell

The ability to sell a share in PowerStream by existing shareholders is a unanimous shareholder item. Under the proposed shareholder agreement for MergeCo, any and all transfers of the shares of Merge Co by a shareholder are governed by the terms of the shareholder agreement. Overall, the shareholder agreement provides slightly more liquidity for the shareholders than is the case under the existing scenario with PowerStream. Specific examples of "Permitted Transfers" by municipalities are outlined in more detail in the attached Gowlings memo. Generally, a municipality is allowed to sell its shares if: (i) the shares are first offered to the other municipalities by a "right of first offer"; and (ii) the sale does not result in any adverse tax consequences to the other municipalities. (The tax consequences being referred to are those that would result from the transfer and departure tax regime under *Ontario's Electricity Act.*)

The shareholder agreement provides that should a Shareholder transfer or sell its Shares where the transaction triggers taxes payable, the selling Shareholder is responsible for all the taxes triggered. However, the remaining shareholders agree to repay these taxes to the first party triggering and paying taxes, at the time they sell or transfer their shares.

28. Merger Agreement

The Merger Participation Agreement sets out the terms and conditions by which PowerStream, Horizon and Enersource will amalgamate their businesses following and conditional upon receiving both OEB and Competition Act approval. The merger agreement provides for the segregation of the Solar Business to special Class A shares to be held only by PowerStream Shareholders and for the sale of 10% of the shares held by PowerStream, and Horizon shareholders. As Enersource already has 10% private equity investment, it is excluded from this clause.

The new MergeCo will be held by the Municipal Holding Companies, and as such PowerStream and Horizon cease to exist.

i.) Solar Business

In 2009, PowerStream management mobilized a team to assess the opportunities offered to Local Distribution Companies (LDCs) by the *Green Energy and Green Economy Act, 2009* in renewable generation and the Feed-in-Tariffs (FIT) program, and concluded that PowerStream should invest in a portfolio of solar generation projects concentrating in rooftop solar generation (the "Solar Business").

As described in CRP006-09 and 11-G-261, through Barrie Hydro Holdings Inc. (BHHI), the City participated in the PowerStream Solar Business, with a total funding commitment of $12.3 million. As a shareholder of PowerStream, Barrie Hydro Holdings Inc. (BHHI) invested in the PowerStream Solar Business and has received related dividends of $1.3 million in 2014 and $1.0 million in 2015 to-date.

In order to preserve the Solar cash flows and return of equity investments, the merger Business Case provides for the segregation of the Solar assets as a special class of shares, "Class A Shares" to be held only by the PowerStream shareholders. A detailed term sheet is being developed to enable the net income from PowerStream's solar business to be flowed exclusively to the three shareholders of PowerStream (Barrie, Vaughan and Markham). This schedule involves creation of a special class of shares having its own dividend policy and a management agreement providing that Merge Co will manage the solar business on essentially a pass through basis (including payments for the solar business' costs attributable to the specific business). There is a commitment to repay equity related to the solar business provided by the PowerStream shareholders within 20 years, subject to preconditions. The forecasted cash flows relating to the Solar Business are included in Appendix D.

ii.) Right to sell up to 10%

Barrie, Vaughan, Markham, Hamilton and St. Catharines will be permitted to sell up to 10% of their outstanding shares in MergeCo to any large Canadian third party pension plan or fund that is registered in Ontario, to any large Canadian bank, insurance company or investment fund, or to another direct or indirect shareholder of PowerStream, Horizon or Enersource, provided one or more municipalities continue to own at least 90% of the municipal holding company.

29. Share Purchase Agreement

The share purchase agreement sets out the terms for the purchase of Hydro One Brampton from the Province of Ontario. The agreement is between PowerStream, Horizon, Enersource and the Province. The purchase price is $607 million. The agreement includes an anti-flip clause where the purchasers of Hydro One Brampton cannot sell substantially all of the business carried on by Hydro One Brampton for five years after the closing date. As well, for three years after the closing date, no shareholder of the corporation shall sell shares which results in an organization or private corporation, other than the municipalities of Vaughan, Barrie, Markham, Mississauga, St. Catharines and Hamilton, BPC Energy Corporation and any third party institutional investor who has purchased up to 10% of the shares from any of the municipalities, owning more than 49% of MergeCo. Within the three year period, up to 49% of MergeCo could be sold to another organization or private corporation and substantially all of the Hydro One Brampton business could be sold.

30. Strategic Plan and Growth

The initial Strategic Plan will be approved by all the Shareholders as an attachment to the Shareholders Agreement. At the time of writing it was not clear that further changes would require the approval of the shareholders, or would be a Board decision. It is anticipated that the Plan will include a focus on continued growth through further mergers or acquisitions. This raises the issue of where additional capital can be obtained, as the municipal shareholders do not have the ability to continue with equity injections to finance growth. Due to the tax rules that govern LDCs, this puts a heavy reliance on debt to finance growth, as other options generate significant tax consequences. However, this situation exists in the status quo, as well.

Following the acquisition of Hydro One Brampton, MergeCo will not have sufficient debt capacity to achieve its strategic growth objectives. Consequently, a structured approach is required to allow new capital to enter MergeCo, without triggering taxes. The parties to the merger are investigating alternative corporate structures such as the use of a Limited Partnership to allow for equity injections to be received from a private partner, without triggering the negative tax consequences that would occur if the equity was received through a merger or acquisition of 10% or greater of the business. The parties are seeking rulings and technical interpretations from the Ministry of Finance (Ontario) with respect to the partnership structure. Assuming that such rulings/interpretations are favourable, MergeCo should have considerable access to private equity capital to finance its strategic growth objectives

31. Impacts on Customers

The Business Case for MergeCo demonstrates that customers will benefit from lower distribution rates as compared to the rates that would exist if the merger transaction did not occur. On average, customers will benefit by approximately $40 per year in terms of the distribution portion of their electricity bills. According to Ontario Energy Board (OEB) policy, all of the savings resulting from LDC consolidations are transferred to customers at its first rate re-basing following a merger. The maximum length of time post-merger that a utility can wait to re-base is no later than 10 years. The period prior to such first re-basing is defined as the Re-basing Deferral Period.

However, customers will still benefit significantly through the period leading up to the first rate re-basing.

Overall, the Merger is expected to deliver lower distribution costs to MergeCo customers with average savings of:

- $48.6 million per year, or 5.9%, through the entire Forecast Period.
- $19.5 million per year, or 3.3%, through the Re-basing Deferral Period.
- $69.3 million per year, or 8.0%, following a transfer of merger benefits to customers in 2026.

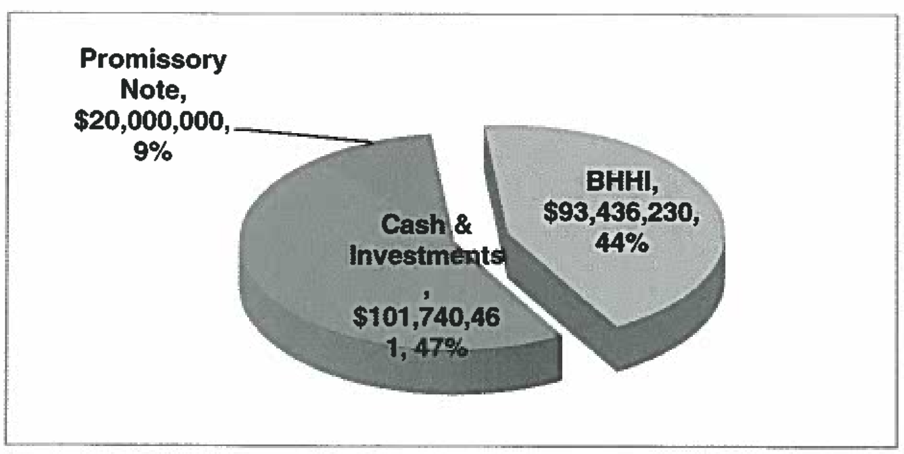
32. Facilities & Staff

The Business Case for MergeCo states that the six existing service centres that support asset related services such as construction and maintenance, trouble response, logistics, fleet services and metering will be generally maintained at existing levels. Based on the business case assumptions and the service territory to be covered, the operations centre in Barrie is proposed to remain. However, it should be noted that in the future, the closure of a facility is no longer a unanimous consent item.

The synergies that are estimated to be achieved through the merger do include considerable savings in personnel costs. These savings will be achieved through a sensitive and appropriate human resource plan. Workforce reductions will be managed in a manner to minimize disruption, be fair and transparent, and move towards the end state as quickly as possible. It is anticipated that organic growth and natural attrition will significantly assist in this process. The Business Case for MergeCo indicates that MergeCo will recognize the representative rights and collective agreements of each respective bargaining units and its members and intends that those rights and agreements will be maintained and respected.

FINANCIAL

33. This section deals with the specific financial impacts of the proposed merger on the City of Barrie. The investment in PowerStream, and possibly MergeCo, is the largest investment held by the City of Barrie. Based on the City of Barrie's 2014 Financial Statements, the investment in PowerStream, through the shares of BHHI, totalled $93.4 million, or 44% of the City's investments. The $20 million promissory note to BHHI comprised another 9% of total investments, for total investments related to BHHI/PowerStream of $113.4 million or 53% of all investments. The chart below shows the allocation of the City's total investments of $215.2 million, as at December 31, 2014.



34. The City's investment in PowerStream, through BHHI, generates annual returns from the Promissory Note of $1.1 million based on an interest rate of 5.58%. These funds are included in the City's operating Budget as a source of general revenue.

    The City also receives dividends from its investment in shares. Since the Merger of Barrie Hydro with PowerStream, the City has received dividends totalling $60.2 million; including special dividends of $37.4 million, related to amalgamation (see Appendix B). Excluding the special dividends, dividends have ranged between $2.2 million to $4.4 million. The increase in the last few years relates to Solar dividends.

35. Appendix C sets out the use of the these dividends - $27.6 million was used to fund special capital projects such as the grant to Royal Victoria Hospital, Barrie Molson Centre and Barrie Sports Complex; and $14.9 million was transferred to the tax capital reserve, for funding of various capital projects. The remaining $18.9 million has been reinvested in PowerStream to fund the solar business, suite metering and core business infrastructure renewal. None of the dividend revenue has been used to support the City's Operating Budget.

36. There are a number of aspects that must be considered in reviewing the financial impacts of the proposed Merger. First, the evaluation must consider if the transaction generates additional value to PowerStream shareholders, including BHHI and the City of Barrie, when compared to the existing investment, without undue risk. This is measured in terms of cash flow through dividend income and appreciation of the market value of the Business. This includes ensuring the price being paid to acquire Hydro One Brampton is consistent with market value, and that the PowerStream shareholders receive an appropriate share of the equity in the new MergeCo. Additionally, the investment must be considered with regard to the *Municipal Act* and supporting regulations, as well as the City's investment policies that require that investments ensure preservation of principal, liquidity, diversification, and then return on investment. Finally, as the transaction requires investment of additional equity, appropriate financing options of the injection must be identified.

37. The Business Case supporting the Merger has been received by the City of Barrie. The following is a summary of the main financial aspects as presented in Business Case:

    - PowerStream shareholders will hold 46% of the new MergeCo. The City of Barrie, through BHHI, owns 20.5% of PowerStream and will therefore hold 9.4% of MergeCo.

    - Brampton Hydro is proposed to be purchased for $607 million, subject to closing adjustments. PowerStream's share of the purchase is $186.3 million, prior to closing costs, of which $61.6 million is proposed to be funded by debt. The balance of $124.7 million requires an equity injection from PowerStream shareholders. The City of Barrie's share of the equity injection, through BHHI, is $26 million, prior to closing costs. PowerStream has suggested a contingency of 10% be provided for closing costs increasing the City's requirement up to $28.6 million.

    - The Solar assets of the PowerStream shareholders will be segregated as a special class of shares, "Class A Shares" to be held only by the PowerStream shareholders to ensure the return of equity investments made by the municipal shareholders and maintain forecast cashflows from dividends. However, dividends will be slightly reduced as a result of the necessity to replace Infrastructure Ontario debt with private sources, as MergeCo will not be 100% publicly owned. The reduction to the City will be approximately $1.2 million over the next ten years.

    - The MergeCo is forecast to achieve operating synergy savings of $355M, and Capital synergies of $168 million, over the next ten years. These are partially offset by transition costs of $95 million. In total, over the first ten years following the merger, MergeCo is forecast to achieve net cash savings of $427 milliion.

- Dividend payments to the PowerStream shareholders are forecast to exceed the status quo by a net present value of $121.7 million over the period 2016 to 2039, an increase of 45% over the status quo. Net present value discounts future cash flows to today's dollars – the average annual increase in dividends over the period is $12.8 million per year. The City of Barrie's share of increased dividends has a net present value of $25 million. The average annual increase in dividends to the City, through BHHI, is forecast at $2.6 million.

38. Navigant's Findings

As noted earlier, in order to receive independent advice the PowerStream shareholders retained industry experts, Navigant and BDR North America Inc., to provide independent analysis, advice and recommendations, on the business case analysis supporting the merger. Navigant's independent analysis addressed the aspects for evaluation, noted earlier, of additional value and risk, including cash flow and future market value compared to status quo; acquisition price of Hydro One Brampton; and the Power Stream shareholders relative value of MergeCo. Additionally they considered the liquidity of the investment and the impact of various financing options for the required equity injections on forecast returns.

Their high level findings show the transaction creates value for the City of Barrie, but does come with some additional risks. Navigant's findings are based on a review, testing and sensitivity analysis of the Business Case assumptions. A summary of their conclusions follows:

- The purchase price for Hydro One Brampton is within market value but is in the high end of recent transactions;

- The relative value of ownership in MergeCo given to PowerStream Shareholders is reasonable;

- Navigant supports the segregation of Solar assets as a separate class of shares owned by the existing PowerStream shareholders, as their analysis suggested the Solar assets were undervalued within the whole of MergeCo;

- The operating and capital expenditure synergies identified to be achieved by the transaction are reasonable and achievable. Navigant evaluated returns to the shareholders under a scenarios where the synergies were only partially achieved and the returns to shareholders still exceed the status quo;

- Navigant's analysis forecasts that the investment of $26 million in equity is expected to create $43 million in shareholder value, over the analysis period of 25 years, an increase of $17 million. This conclusion represents the average of a number of sensitivity scenarios:

- Over 25 years, customers will benefit on average $40 per year for all customers and $25 per year for residential customers, on the distribution portion of their electricity bill;

- While the investment in MergeCo has more risk and will provide a lower return than investments made to date in PowerStream, the rate of return is projected to exceed what would be realized if the transaction was not completed;

- The existing investment in PowerStream is illiquid because of unanimous shareholder consent requirements and transfer and departure taxes and the transaction will not have a major impact on liquidity. The alternative corporate structures being investigated (Partnership structure) could improve liquidity but there is a high degree of uncertainty attached to them;

- The transaction requires an additional equity investment of approximately $26 million, to finance the purchase of Hydro One Brampton, excluding a contingency of up to 10% for closing costs. Navigant estimates the return on this investment is approximately 7.7%;
- The equity investment is expected to be recovered through increased dividends over 10 years, on a net present value basis (NPV), however, returns compared to status quo vary depending on the method of financing the equity injection (shown excluding contingency for closing costs):
    - If the transaction is financed by cash, NPV of cash flows over the first ten years are lower than the status quo by $3 million;
    - Financing the transaction by converting the existing promissory note held by the City to equity improves NPV cash flows over the next 10 years so they exceed status quo by $9 million.
    - Financing the equity injection through the sale of 10% of PowerStream, estimated to generate approximately $18.4 million further improves NPV cash flows over the next 10 years so they exceed status quo by $11 million, although long term returns will be reduced as the City will have a lower ownership share in MergeCo.
    - Appendix D summarizes Navigant's analysis of ten year cash flows, under the various financing options for the equity injection.

<u>Staff Comments and Conclusions</u>

39. Staff have reviewed Navigant's analysis of the Business Case, through numerous meetings and presentations. The conclusions reached by Navigant support the Business Case for the Merger.

Staff considered the merger transaction in terms of the requirements of the *Municipal Act* and the City's investment policy. The *Municipal Act* and its related regulations define what securities a municipality can invest in. The requirements limit investments to only the highest quality securities. It is important to note that Municipalities are restricted from owning shares in a corporation, with the exception of Electrical Utilities, or through the CHUMS One Fund. The *Act* states that preservation of principle, or low risk securities is the highest criteria, followed by liquidity and then return on investment. The *Act* also restricts the amount that can be invested in different securities, to reduce risk by ensuring diversification.

40. The investment in the MergeCo is very similar to the City of Barrie's investment in BHHI and PowerStream. The investment is an eligible investment under the *Municipal Act* and the quality and credit rating of the investment is anticipated to be very similar. The liquidity of the investment is no more illiquid than the existing PowerStream investment, with a possible slight improvement as suggested by Navigant. Forecast returns on investment increase in terms of dividend income, repaying the equity injection after 10 years. Finally, the return on equity invested to purchase Hydro One Brampton is estimated at 7.7% by Navigant.

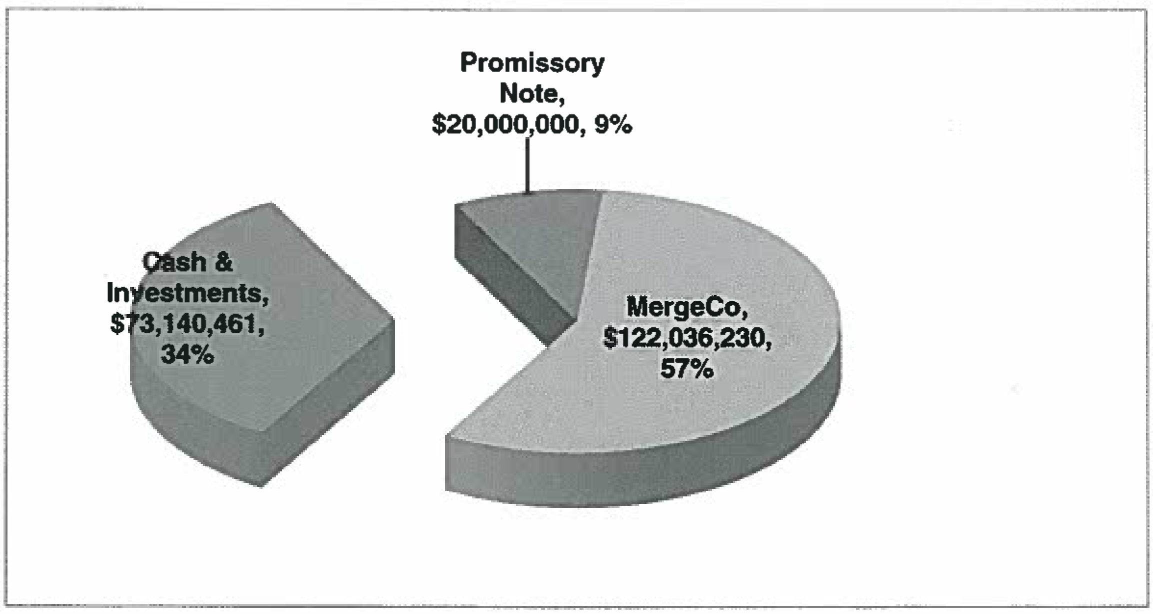
41. Staff had a significant concern with wording contained within the draft dividend policy for Merge Co. The proposed dividend policy had a condition which would allow the Board to reduce dividends below 60%. The condition stated that the Board can reduce dividends if they are *"an impediment in the maintenance and growth of approved businesses, or logical extensions of existing or related businesses, in line with a Board approved business plan"*. The cash flow from

this transaction provides a significant revenue stream to the City of Barrie which can be used to finance many pressures the City is faced with. As such, BHHI approved the transaction, conditional on the development of a dividend policy acceptable to the City of Barrie. . Negotiations have taken place on this matter, and a revised draft has been prepared that is acceptable to the CEO's of PowerStream, Enersource and Horizon, that has this condition removed. However, it is still being reviewed by tax experts. Therefore, staff are recommending that Council approve the transaction, subject to a final dividend policy acceptable to the CAO, General Manager of Community and Corporate Services and the Director of Legal Services.

42. Staff also has concerns regarding diversification of the City of Barrie's investments, if the transaction's required equity injection is funded by cash. The equity injection is estimated at up to $28.6 million including closing costs – to raise this amount of cash, the City would have to liquidate other investments. While the anticipated return on the investment of funds in MergeCo is much higher than returns earned on the City's existing investments, moving more of the City's investment portfolio into MergeCo raises concerns over diversification and liquidity.

43. As noted earlier in the report, as of December 31, 2014, the total investment in PowerStream, including the promissory note was $113.4 million or 53% of total City investments of $215.2 million. If an additional $28.6 million is moved to the investment in PowerStream/MergeCo, the total invested rises to $142 million, or 66% of total City investments. This significantly reduces the diversification of the City's investments.

44. The City's other investments are very liquid. They can be accessed easily and quickly, to meet cash requirements, avoiding the need to borrow short term funds. The investment in MergeCo is illiquid, and cannot be sold. Moving additional cash into PowerStream/MergeCo will result in a significant proportion of the City's investment portfolio being illiquid. The chart below shows the allocation of the City's investments post-merger based on December 31, 2014 values if cash is used to finance the transaction.



45. Therefore, Staff representatives recommend financing the equity injection by the following, in order of priority:

i) Through the sale of 10% of the BHHI shares in PowerStream, excluding the Solar assets. This option provides new private sector equity, without triggering tax consequences, reducing the investment required from the City of Barrie. It alleviates the concerns regarding diversity and liquidity regarding the City of Barrie's investment portfolio. Returns will be reduced in the long term from those identified in the Business case, as ownership in MergeCo is reduced from 9.4% to 8.4%. However, Navigant's analysis showed this option had the most positive impact on NPV ten year cash flows. Additional reasons for favouring a sale of 10% include:

- Receive higher dividend cash flow over status quo with minimal equity investment
- Allows the investment in the promissory note to remain, with a return of 4.41%, significantly above the return the City receives on its other investments
- Locks in the current market value of the investment, which is higher than historical market values
- Minimizes risk on liquidity and preservation of capital with no tax consequence
- City's cash reserves are maintained for to meet working capital needs and possible 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 the Provincial mandate for consolidation of LDC's
- Allows the merger to move forward which will ultimately benefit utility users

The estimated value of a 10% sale of PowerStream to BHHI and the City of Barrie is $18.4 million. The amount of remaining injection of equity will depend on an actual and acceptable offer to purchase.

ii) The next recommended source of financing any remaining balance of the equity injection is available cash in BHHI, estimated at $3 million, at December 31, 2015. If a sale does not materialize this would become the first source of financing.

iii) Any remaining balance would be financed by the partial conversion of the BHHI promissory notes. In the event a sale of 10% of PowerStream is not realized, the remaining balance of the equity injection after utilizing the available cash in BHHI would be financed through the conversion of the promissory note and a cash injection from the City of Barrie. While this this would reduce or eliminate the interest income from the promissory notes, this is factored into the Navigant analysis. While it converts the notes to a less liquid form of investment, these funds are already invested in PowerStream. As well, while the note is somewhat liquid it is not as liquid as other City investments – to access the cash in the note, the provisions for calling the note must be followed.

iv) A cash injection from the City of Barrie would be required to fund any remaining balance.

Appendix E provides a summary of anticipated dividends under the various financing scenarios and Appendix F presents a summary of the discounted cash flows anticipated over the life of the investment.

ENVIRONMENTAL MATTERS

46. There are no environmental matters related to the recommendation.

ALTERNATIVES

47. The following alternative is available for consideration by General Committee:

Alternative #1 Council could choose to not support the Merger between PowerStream, Enersource and Horizon and the purchase of Hydro One Brampton.

This alternative is not recommended as the Merger transaction increases the City's returns on its investment over and above the status quo. Approval of the transaction is a unanimous shareholder item for PowerStream shareholders. If the City of Barrie does not approve the transaction, the merger will not proceed, even if the Cities of Vaughan and Markham are in favour of the merger.

LINKAGE TO COUNCIL STRATEGIC PLAN

48. The recommendations included in this Staff Report support the following goals identified in the 2014-2018 Strategic Plan:

- Responsible Spending

49. Responsible spending includes the prudent investment of City funds, to generate a return on investment which can be used as a source of financing for City services and infrastructure.

Appendix A
Resolution from the Board of Barrie Hydro Holdings
Passed September 14th, 2015

RESOLVED THAT the Board of Directors of Barrie Hydro Holdings Inc. ("BHHI") approve and recommend to its Shareholder, the City of Barrie, the merger of PowerStream, Horizon Holdings Inc. and a new Enersource holding corporation, as well as the merger of PowerStream Inc., Enersource Hydro Mississauga Inc. ("Enersource") and Horizon Utilities Corporation ("Horizon"), substantially in accordance with the Merger Participation Agreement, as presented to the Board of Directors of BHHI, subject to any non-material modifications or amendments as approved by the President & CEO of BHHI, and authorize BHHI to enter into and deliver the Merger Participation Agreement and Unanimous Shareholders Agreement, in a form satisfactory to the President & CEO of BHHI, and to perform, observe and comply with its obligations under such Agreement;

AND IT IS FURTHER RESOLVED THAT BHHI approve and recommend to its Shareholder, the purchase of Hydro One Brampton Networks Inc. ("Brampton"), substantially in accordance with the Share Purchase Agreement as presented to the BHHI Board of Directors, as between Her Majesty the Queen in Right of Ontario as Represented by the Minister of Energy (the "Province"), and Brampton Distribution Holdco Inc., as Vendor and PowerStream Inc., Enersource and Horizon as Purchaser, subject to any non-material modifications or amendments as approved by the President & CEO and in the accordance with the Financing Plan endorsed by the Board of PowerStream, as agreed between PowerStream Management and the Shareholder Representatives;

AND IT IS FURTHER RESOLVED THAT the above approvals and recommendations are conditional upon the completion of both the Merger Participation Agreement and the Share Purchase Agreement in accordance with the conditions to closing set out in such agreements and a dividend policy with provisions acceptable to the City of Barrie.

AND IT IS FURTHER RESOLVED THAT BHHI's share of the equity required to finance the purchase of Brampton be provided by, firstly, the proceeds from a potential sale of up to 10% of the outstanding shares in BHHI, secondly, by way of equity injection from available cash in BHHI, thirdly, by way of a partial or full conversion of existing shareholder notes up to twenty million, and lastly, if required, by cash equity injection provided by the City of Barrie;

AND IT IS FURTHER RESOLVED THAT the Chairman and President and CEO of BHHI are hereby authorized and directed to sign the Merger Participation Agreement, Unanimous Shareholders Agreement and Share Purchase Agreement in accordance with the following resolutions, and in doing so approve and execute any amendments to the Merger Participation Agreement, Unanimous Shareholders Agreement or Share Purchase Agreement subsequent to the date of these resolutions;

AND IT IS FURTHER RESOLVED THAT the Chairman and President and CEO of BHHI are hereby authorized and directed to sign and/or dispatch and deliver all other documents, notices, articles, certificates to be signed and/or dispatched or delivered under or in connection with the Merger Participation Agreement, the Unanimous Shareholders Agreement or Share Purchase Agreement or to take any action deemed necessary in respect of any of the foregoing.

AND IT IS FURTHER RESOLVED THAT the Resolution of any material matters remaining to be negotiated, including final, Liquidity Rights, Dividend Policy and Solar Term Sheet, be delegated to PowerStream's members of the Board Advisory Committee, based upon the recommendation(s) of the President & CEO of PowerStream.

APPENDIX "B"

Historical Dividends Received by Barrie Hydro Holdings Inc. (in $millions)

Year	Dividends Paid to BHHI to-date
2008	25.7 (Note 1)
2009	14.0 (Note 2)
2010	2.2
2011	2.8
2012	3.3
2013	3.1
2014	4.7
2015	4.5
Total	**60.2**

Note 1: Includes $25.7 million in Special Dividends upon amalgamation with PowerStream.
Note 2: Includes $11.7 million in Special Dividends related to amalgamation.

APPENDIX "C"

Uses of Dividends Received from PowerStream - Including Special Dividends (in $millions)

Amount	Uses of Dividends to-date
4.6	Barrie Molson Centre capital project
3.1	Barrie Community Sports Complex capital project
3.6	Priority Capital Projects for 2009
14.9	Tax Capital Reserve
16.3	Royal Victoria Hospital Expansion
12.3	PowerStream Solar Business
4.1	PowerStream Core Business
2.5	PowerStream Suite Metering Business
61.4	**Total**

APPENDIX "D"

Navigant Analysis of Equity Injection Funding Options

$M	Status Quo	100% Cash	Convertible Note	10% Sale
Equity (Cash) Investment Required in 2016	$3	$26	$6	$5
Average Increase in Annual Cash Flow (10-Years)	--	$2.4	$1.6	$1.7
Net Present Value of Total 10-Year Cash Flow[2]	$38	$35	$47	$49
Increase / (Decrease)	--	($3)	$9	$11
Average Increase in Annual Cash Flow (25-Years)	--	$1.3	$0.5	$0.4

APPENDIX "E"

Undiscounted Forecasted Cash Flows in $millions
(adapted from information provided by Navigant Consulting)

Scenario	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	10 yr Total
Status Quo (No Merger)											
Dividends	2.9	3.0	3.3	3.6	3.9	4.8	5.1	5.4	5.6	6.0	43.6
Interest on shareholder loans	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	0.8	10.7
Cash flows from Solar Business	2.1	2.2	2.1	1.9	1.7	1.4	1.2	1.2	0.9	0.7	15.4
Forecasted Cash Inflows	**6.1**	**6.3**	**6.5**	**6.6**	**6.7**	**7.3**	**7.4**	**7.7**	**7.6**	**7.5**	**69.7**
Merger (Cash Purchase with Base Assumptions)											
Dividends	3.8	5.3	6.3	7.3	7.5	7.6	7.7	7.7	8.3	9.0	70.5
Interest on shareholder loans	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	8.0
Cash flows from Solar Business	2.1	2.1	2.0	1.8	1.5	1.3	1.1	1.1	0.8	0.7	14.5
Forecasted Cash Inflows	**6.7**	**8.2**	**9.1**	**9.9**	**9.8**	**9.7**	**9.6**	**9.6**	**9.9**	**10.5**	**93.0**
Difference from Status Quo	**0.6**	**1.9**	**2.6**	**3.3**	**3.1**	**2.4**	**2.2**	**1.9**	**2.3**	**3.0**	**23.3**
Merger (Conversion of Promissory Note)											
Dividends	3.8	5.3	6.3	7.3	7.5	7.6	7.7	7.7	8.3	9.0	70.5
Interest on shareholder loans	-	-	-	-	-	-	-	-	-	-	-
Cash flows from Solar Business	2.1	2.1	2.0	1.8	1.5	1.3	1.1	1.1	0.8	0.7	14.5
Forecasted Cash Inflows	**5.9**	**7.4**	**8.3**	**9.1**	**9.0**	**8.9**	**8.8**	**8.8**	**9.1**	**9.7**	**85.0**
Difference from Status Quo	**(0.2)**	**1.1**	**1.8**	**2.5**	**2.3**	**1.6**	**1.4**	**1.1**	**1.5**	**2.2**	**15.3**
Merger (Sale of 10% and $4.59M from Conversion of Promissory Note)											
Dividends	3.5	4.8	5.7	6.5	6.7	6.8	7.0	6.9	7.5	8.1	63.5
Interest on shareholder loans	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	7.0
Cash flows from Solar Business	2.1	2.1	2.0	1.8	1.5	1.3	1.1	1.1	0.8	0.7	14.5
Forecasted Cash Inflows	**6.3**	**7.6**	**8.4**	**9.0**	**8.9**	**8.8**	**8.8**	**8.7**	**9.0**	**9.5**	**85.0**
Difference from Status Quo	**0.2**	**1.3**	**1.9**	**2.4**	**2.2**	**1.5**	**1.4**	**1.0**	**1.4**	**2.0**	**15.3**

APPENDIX "F"
Net Present Value of Total Estimated Cash Flows in $millions
(adapted from information provided by Navigant Consulting)

		Present Value of Dividends (@5%)				Present Value of Interest Payments (@5%)				
Scenario	Net Investment Required	Years 1 to 10	Years 11 to 25	NPV of Equity (25+ yrs)	Sub-total	Years 1 to 10	Years 11 to 25	NPV of Principal	Sub-total	Total Shaded Areas)
Status Quo (No Merger)	(3,075)	32,539	64,522	108,751	205,811	8,427	4,898	6,201	19,526	**222,263**
Merger (Cash Purchase with Base Assumptions)	(28,600)	53,002	67,839	116,790	237,630	6,224	4,898	6,201	17,323	**226,353**
Merger (Conversion of Shareholder Loans)	(8,600)	53,002	67,839	116,790	237,630	-	-	-	-	**229,030**
Merger (Sale of 10%) Note 1	(3,000)	47,702	61,055	105,111	213,867	4,795	3,774	4,778	13,347	**224,215**

Note 1: Includes promissory note conversion of $4.59 million.
Note 2: Excludes cash flows relating to Solar dividends and returns of capital. Net present value of estimated Solar Dividends for years 1 to 10 discounted at 5% is $12.3M for Status Quo and $11.7M under all of the Merger scenarios.

Appendix "G"

Memorandum from Gowlings LLP

gowlings montréal · ottawa · toronto · hamilton · waterloo region · calgary · vancouver · beijing · moscow · london

Paul H. Harricks
Direct 416-369-7296
paul.harricks@gowlings.com

Memorandum

To: Mayor and Members of Council for the City of Barrie

Date: September 24, 2015

Re: Project Aura Interim Report

File Number: T1003698

A. Introduction

I have been retained by the shareholders of PowerStream Holdings Inc. ("**PHI**") to provide independent legal advice on:

1. The legal risks and considerations related to the merger of PHI, Enersource Holdings Inc. and Horizon Holdings Inc. (the "**Merger**");

2. The corporate structure and governance arrangements of the new corporation resulting from the Merger ("**MergeCo**"); and

3. The legal risks and considerations related to MergeCo's purchase of Hydro One Brampton Networks Inc. ("**HOBNI**").

In connection with my engagement I have provided ongoing legal advice to the three PHI shareholders, including Barrie Hydro Holdings Inc. ("**BHHI**").and their respective municipal shareholders (in the case of PHI, the City of Barrie). I have met on several occasions with the board of directors of each PHI shareholder, including PHI, and have been involved in providing instructions to PHI and its legal advisors on issues that were of concern to the PHI shareholders.

B. Scope of Review

In the course of my engagement I have reviewed successive drafts of each of the following:

1. The Merger Participation Agreement ("**MPA**") pursuant to which the Merger will be completed;

2. The Unanimous Shareholders Agreement ("**Shareholders Agreement**") which, as of the effective date of the Merger, will govern the relationship between the shareholders of MergeCo and its subsidiaries;

3. The Share Purchase Agreement pursuant to which MergeCo will acquire all of the issued and outstanding shares of HOBNI;

gowlings

4. The proposed Dividend Policy for MergeCo (the "Dividend Policy"); and

5. The Term Sheet for the operation and management by MergeCo and its subsidiaries of the current solar power business of PHI which will, pursuant to the Shareholders Agreement, be owned by a subsidiary of MergeCo but operated for the exclusive benefit of the PHI shareholders (the "Solar Term Sheet").

Each of the foregoing documents is, as of the date of this report, still under negotiation between the relevant parties although, as I have been advised by PHI and its advisors, almost all of the major commercial issues have been settled as between PHI, Enersource Holdings Inc. and Horizon Holdings Inc. Consequently, I will be preparing and providing to the PHI shareholders a subsequent report once all of the foregoing documents have been negotiated and settled to the satisfaction of the negotiating parties.

C. Summary of Conclusions

Consistent with the mandate that I was given by the PHI shareholders, and based upon my review of the current versions of the foregoing documents that have been provided to me, my conclusions are as follows:

1. All of the Documents are in a form that are typical for transactions of Project Aura.

2. The legal risks to BHHI and the City of Barrie associated with the transactions are within the range of what is typical in transactions of the nature of Project Aura.

3. The Documents are drafted in a way that adequately protects the interests of BHHI and the City of Barrie.

4. While the Dividend Policy is still under discussion if it is adopted by all the parties and substantially the form being proposed, and while the payment of dividends can never be guaranteed, it will provide considerable assurances to Shareholders of MergeCo will receive the level of cash flows (as a percentage of net income) that they are expecting. In this regard, we understand that the resolution approving the Transaction passed by the Board of Directors of BHHI provides that its approval is conditional on the Dividend Policy being in a form acceptable to the City of Barrie council.

5. Similarly, if the Solar Management Term Sheet is finalized in the form currently being proposed, it will provide the PHI shareholders, including BHHI with satisfactory legal protections. **[In this regard we similarly understand that the PHI board resolution includes a condition to the effect that the definitive management agreement will be executed and substantially a form contemplated by the Solar Management Term Sheet.]**

Innovate Barrie All Staff Forum

POWERSTREAM MERGER

CITY OF BARRIE GENERAL COMMITTEE MEETING
SEPTEMBER 28TH, 2015

The City of BARRIE

Industry Consolidation

- April 2014, Advisory Council created by the Province to provide recommendations to unlock the full value of provincial assets
- November 2014, the Council recommended that the Province should retain Hydro One Transmission but reduce its ownership in Hydro One Brampton and the rest of their distribution business.
- Hydro One Brampton was identified as a catalyst for consolidation, through possible merger with one or more GTA-distribution companies.
- On December 12th, 2014 the Council issued a Request For Information for ideas related to their initial recommendations.

Industry Consolidation

- In January, 2015 PowerStream received unanimous support to enter into a letter of intent for merger with Enersource and Hydro One Brampton, and to respond to the RFI. Horizon Utilities also expressed a desire to pursue a merger.

- On April 16, 2015: the Province announced that it intended 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.*."

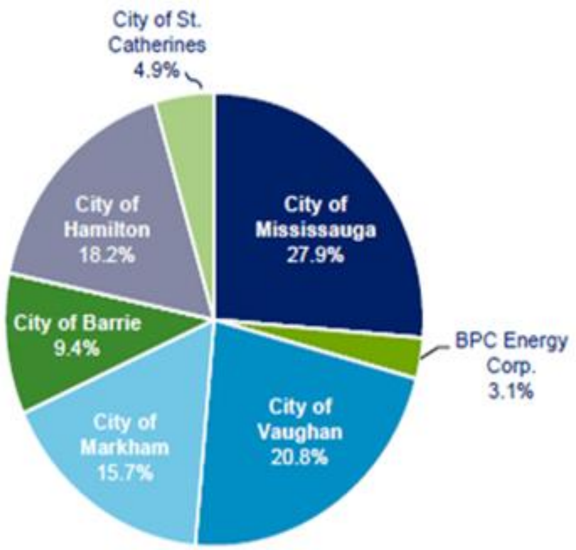
Key Aspects of the Business Case

Issue	Result
Relative Value	PowerStream @ 46%
Local Presence & Facilities	Maintain existing facilities
Solar Remains with PowerStream Shareholders	Maintain solar cash flows through special shares
Governance	6 of 13 Board Members to be appointed by PS shareholders
Executive	Significant presence in Executive for current PS Staff
Liquidity Rights	Improved rights to raise capital for growth, or to sell existing investment

Business Case – Relative Ownership

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



Business Case

- Brampton Hydro to be purchased for $607 million. PowerStream's share of the purchase is $186.3 million; requires equity injection of $124.7 million from PowerStream shareholders.
- The Solar assets of the PowerStream shareholders will continue to be held by only the PowerStream shareholders.
- Estimated Operating synergy savings of $355 million, and Capital synergies of $168 million, over the next ten years.

The City of BARRIE

Business Case

- Dividend payments to the PowerStream shareholders forecast to exceed the status quo by a NPV of $121.7 million over 2016 to 2039, increase of 45% over the status quo. Average annual increase in dividends over the period is $12.8 million per year.
- Customers will benefit on average $40 per year for all customers and $25 per year for residential customers, on the distribution portion of their electricity bill

Due Diligence

- PowerStream shareholders retained industry experts, Navigant and BDR North America Inc., to provide independent analysis, advice and recommendations
- Navigant's evaluation considered the additional value and risk of the Merger, including
  - cash flow and future market value compared to status quo;
  - is the price of Hydro One Brampton fair with a return on equity
  - the PowerStream shareholders relative value of MergeCo
  - the impact of various financing options for the required equity injections on cash flows and returns.

Business Case Value to City of Barrie

- Navigant's findings show the transaction creates value for the City of Barrie
  - City of Barrie will hold 9.4% of MergeCo.
  - The City of Barrie's share of the equity injection, through BHHI, is approximately $28.6 million. Estimated to grow to $43 million over 25 years, for annual return on investment of 7.7%
  - The City of Barrie's share of increased dividends has a NPV of $25 million. The average annual increase is forecast at $2.7 million.

The City of BARRIE

Business Case Value to City of Barrie, Con't

- Over 25 years, customers will benefit on average $40 per year for all customers and $25 per year for residential customers, on the distribution portion of their electricity bill;
- Forecast operating and capital expenditure synergies are reasonable and achievable.
- Rate of return on investment will exceed the "status quo"

The City of BARRIE

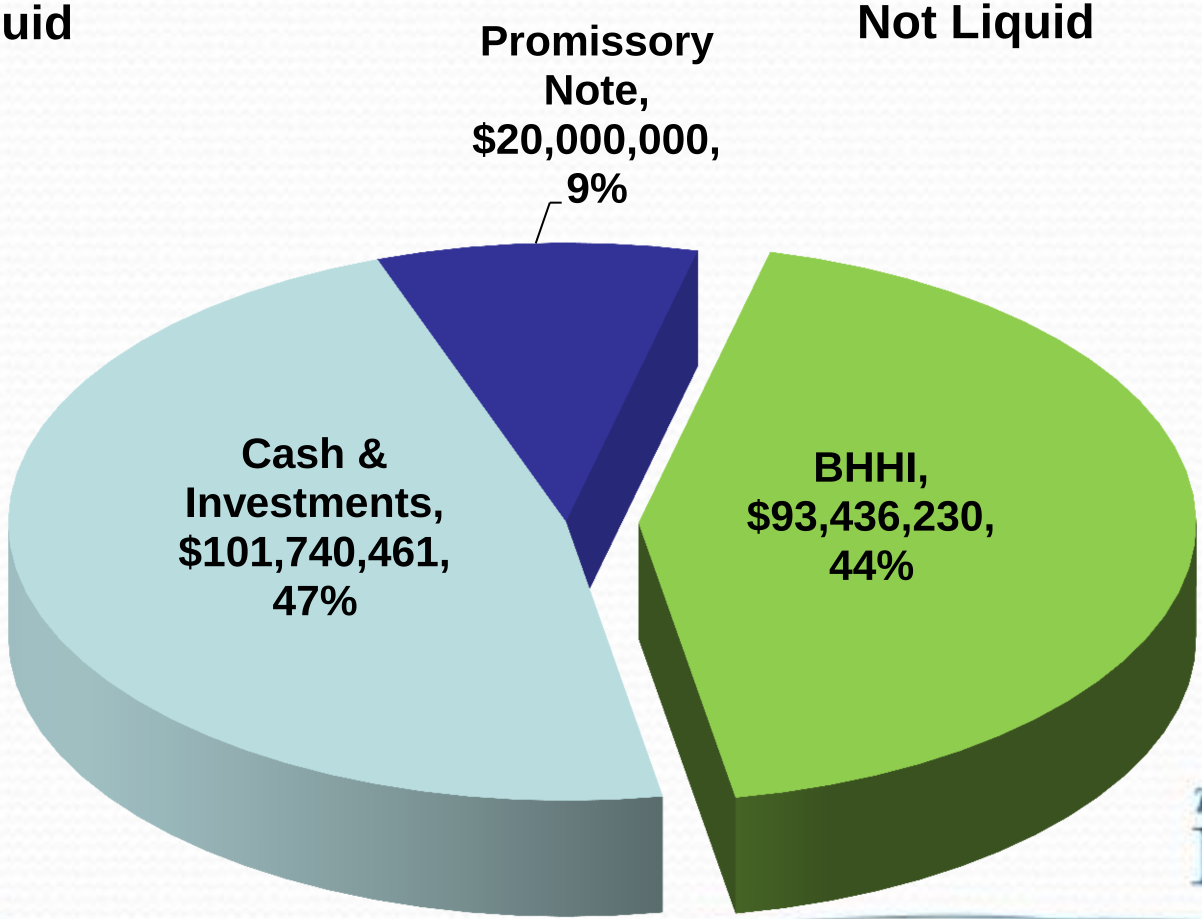
Recommended Financing Options

- Staff recommend the transaction and considered the following in recommending a method of financing:
  - Municipal Act & City of Barrie Investment Policy
    - Preservation of principal
    - Liquidity
    - Diversification
    - Return on investment

The City of BARRIE

City of Barrie Investments
December 31, 2014

Liquid **Not Liquid**



City of Barrie Returns – Status Quo

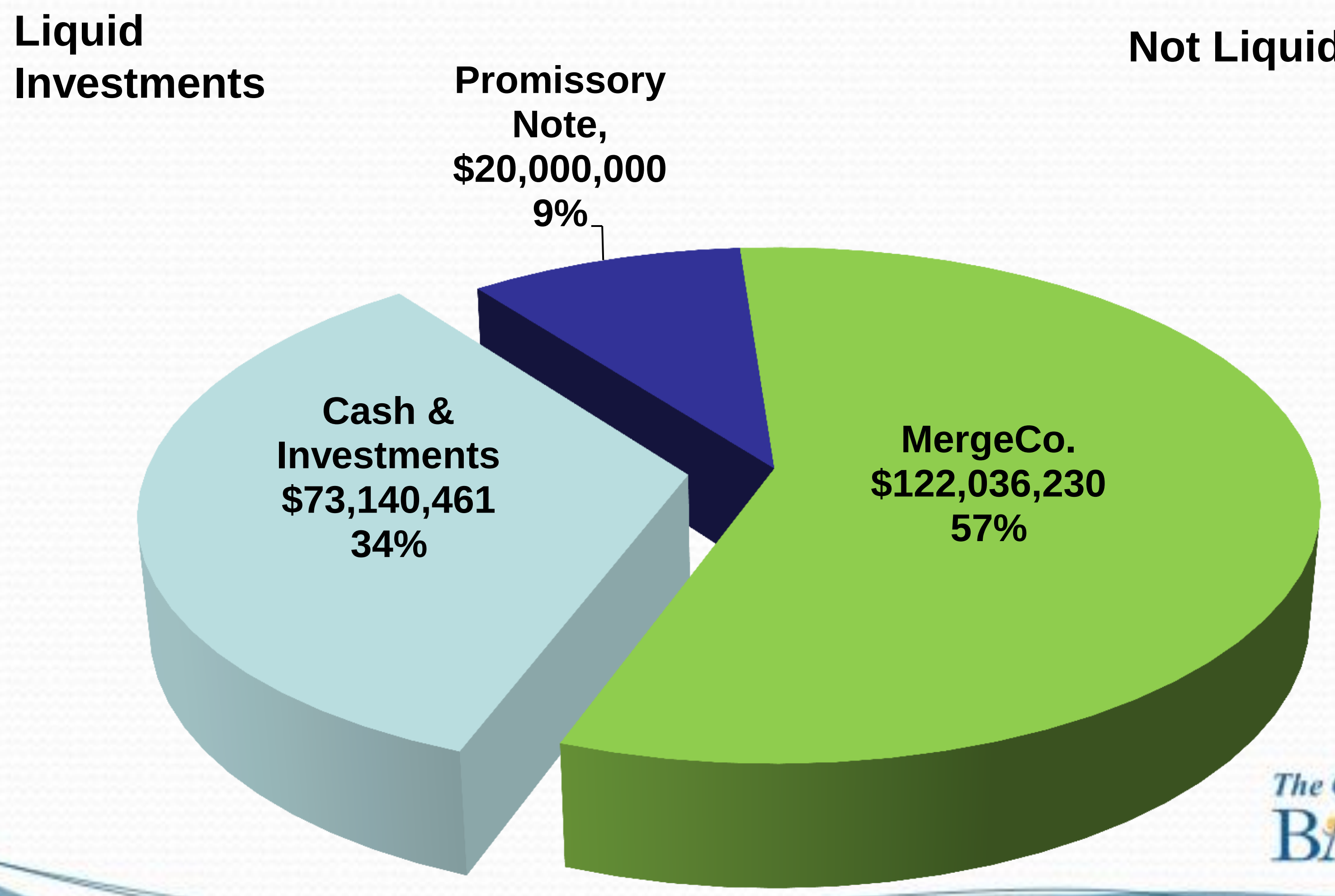
- Operating Budget includes interest Income on Promissory Note of $1.1 M
- Dividends received have averaged $3.0M per year however have been reinvested as equity injections
  - No dividends have been used in operating budget
  - Dividends forecast to average $4.4 million per year 2016-2025
- Currently 53% of City's investment are in BHHI

The City of BARRIE

City of Barrie Forecast Returns - Merger

- Merger – based on a cash purchase
  - Core Dividends average $7.5 M per year, increase of $2.7M average per year to status quo
  - Interest on Note declines to $0.8 M per year, reduction of $0.3 M per year
  - Solar dividends reduced by approximately $0.12 M per year
  - **Average annual increase $2.3 million compared to status quo**
  - Cash purchase has impacts on diversification and liquidity of overall investment portfolio
    - 66% of City’s investments would be in MergeCo

City of Barrie Investments Post Merger
Cash Purchase



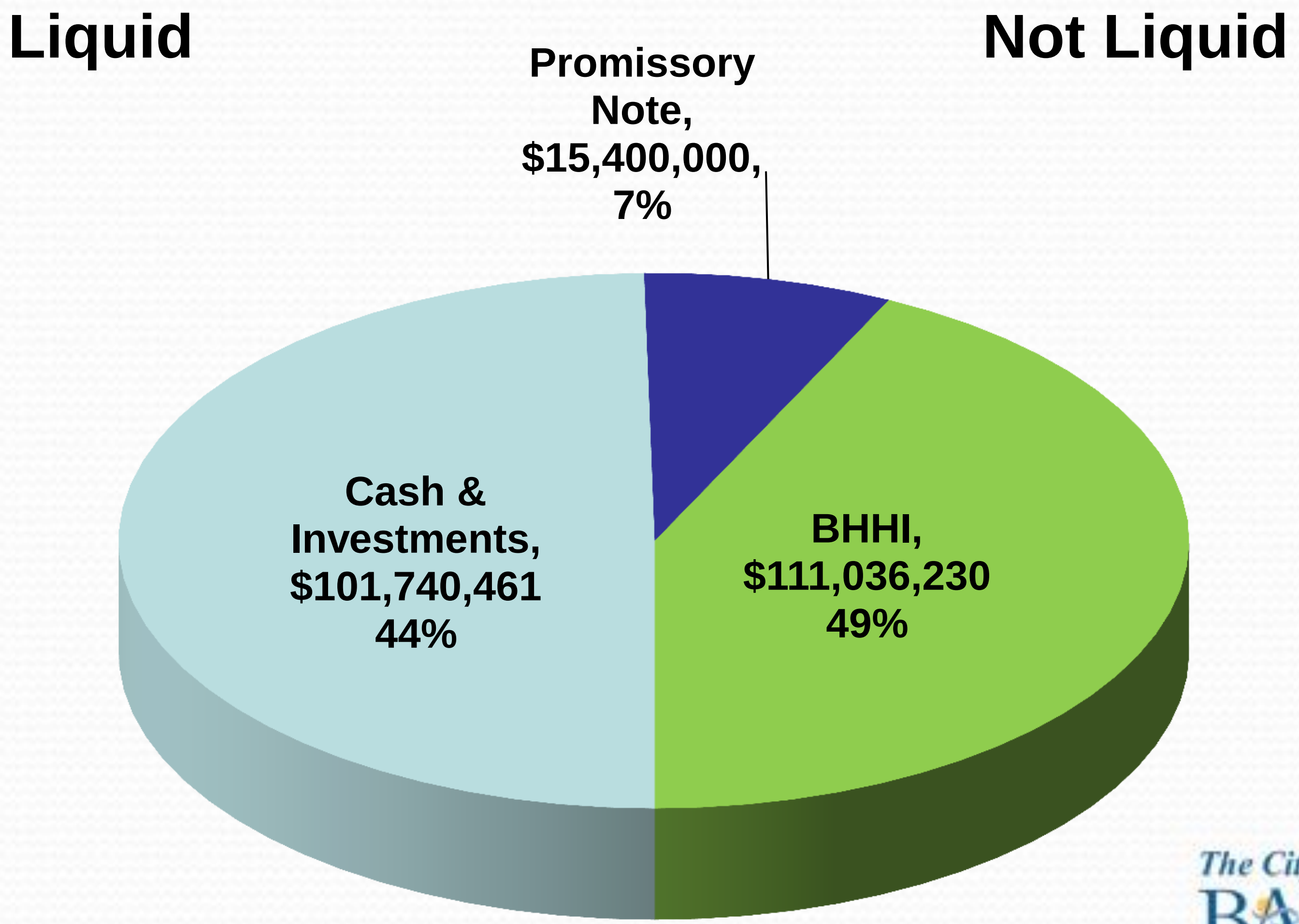
The City of BARRIE

Recommended Financing

- **Finance by 10% Sale ($18.6M); cash in BHHI, (est. at $3 million) , partial note conversion of $4.6M**
  - Core Dividends Average $6.3M per year over next ten years, an increase of approximately $1.9 M/year over status quo
  - Solar dividends reduced by approximately $0.12 M per year
  - Interest on Note would be reduced by $0.4M per year compared to status quo
  - **Average annual increase $1.5 million compared to status quo**
  - Diversity and liquidity maintained at status quo

The City of BARRIE

City of Barrie Investments Post Merger With 10% Sale



Reasons for 10% Sale

- Receive higher dividend income over status quo with minimal cash investment
- Allows the promissory note to remain, with a return of 4.41%
- Locks in the current market value of the investment
- Minimizes risk on liquidity and preservation of capital with no tax consequence
- City’s cash reserves are maintained
- May attract a strategic private partner that could influence tax rule change and increase internal competition on future divesture
- 10% sale aligns with the Provincial mandate for consolidation of LDC’s by bringing in private investors

The City of BARRIE

Recommended Financing If No Sale

- **Finance by note conversion of $20M, cash in BHHI, (est. at $3 million) , and cash from City**
  - Core Dividends Average $7.0 M per year over next ten years, an increase of approximately $2.7 M/year over status quo
  - Solar dividends reduced by approximately $0.12 M per year
  - Interest on Note reduced to zero per year, reduction of $1.1 M compared to status quo
  - **Average annual increase $1.5 million compared to status quo**
  - Diversity and liquidity maintained at status quo

The City of BARRIE

Process To Approve Merger

- Approval of transaction by Enersource, Horizon and PowerStream Boards – Sept/early October
- Approval by Municipalities – Barrie, Markham, Vaughan, Hamilton, St. Catharines, Mississauga – Sept/early October
- OEB Approval
- Estimated Closing Date – March 31, 2016

Questions?

Backgrounder issued by PowerStream – September 10, 2015 to City of Markham

Proposed Merger of PowerStream with three other Electric Utilities

A proposal has been developed to bring together PowerStream, the electric utility which serves residential and business customers in Markham, with three other of Ontario's most successful local electricity distribution companies: Horizon Utilities Corporation, Enersource Corporation and Hydro One Brampton.

The purpose of this new partnership would be to use the utilities' collective resources, which already serve almost a million customers in municipalities located in York Region, Simcoe County, Peel Region, Niagara Region as well as the City of Hamilton, to continue to deliver competitive distribution rates, more efficient services and innovative energy-related technologies.

The new company being considered would only proceed if the various shareholder groups, including the City of Markham, agree that there are benefits for the customers and the communities it will serve.

The plan being considered requires the negotiation of agreements that must be approved by all shareholders and will be subject to regulatory approvals, including the Ontario Energy Board (OEB).

Municipal shareholders of the utilities are expected to vote on the merger in the coming weeks. The OEB will subsequently review the deal.

The proposed new entity would be owned by the municipalities of Markham, Vaughan, Barrie, Mississauga, Hamilton and St. Catharines, as well as OMERS, the pension fund for Ontario's municipal employees. The deal being negotiated also envisions the purchase of the provincially-owned Hydro One Brampton.

PowerStream is a product of several successful mergers and acquisitions that have resulted in efficiency improvements and customer distribution rates that are among the lowest in Ontario. The utility was created in 2004, following the merger of Markham Hydro, Richmond Hill Hydro and Hydro Vaughan. In 2005, it purchased the assets of Aurora Hydro and then merged with Barrie Hydro in 2009. The merger being considered at this time is consistent with the company's growth strategy that benefits customers as a result of savings achieved through economies of scale.

DECISION SUPPORT WITH RESPECT TO THE PROPOSED MERGER BETWEEN POWERSTREAM, ENERSOURCE and HORIZON AND THE ACQUISITION OF HYDRO ONE BRAMPTON

Submitted to
The Corporation of the
City of Markham
October 3, 2015

BDR NorthAmerica Inc.
34 King Street East, Suite 600
Toronto, Ontario

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SUMMARY OF KEY FINDINGS

Retainer and Scope of Work

This is the report of BDR NorthAmerica Inc. ("BDR") to the Corporation of the City of Markham ("Markham") with respect to a proposed Transaction that, if approved, will result in the merger of PowerStream, Enersource and Horizon (the "Companies") to form a Mergeco, and the acquisition from the Province of Hydro One Brampton Networks Inc. ("HOBNI"). Markham, through its holding company Markham Enterprises Corporation ("MEC") is one of three municipalities with an existing ownership interest in PowerStream. The PowerStream Shareholders retained Navigant Consulting ("Navigant") to provide decision support as to whether the Transaction is in the best interest of the Shareholders, and also retained BDR NorthAmerica Inc. ("BDR") as a source of additional independent advice.

Based on its review of documentation, BDR has prepared this report. It is intended to support an informed decision by MEC and the City of Markham as to whether to enter into the Transaction. This report sets out the results of analysis made by BDR on the basis of the documentation provided.

It is noted that BDR had no mandate in its assignment to perform independent financial modeling, data collection, assessment of synergies or other due diligence. Its report is therefore based on a review and consideration of documentation prepared by others.

Issues include:

- Will the Transaction increase shareholder value? Given the alternative ways possible to quantify value, what approach is most consistent with the needs of MEC and the City?
- How will the value be impacted by the tax provisions that may be triggered on sale?
- What are the risks associated with the Transaction? How are these risks as compared with the risks already inherent in MEC's existing investment in PowerStream?
- What benefits are created for electricity customers by the Transaction?

Relative Ownership Proportions

If the Transaction proceeds, the PowerStream Shareholders together will own 46% of Mergeco if they do not divest any part of their equity investment. Based on the existing ownership of PowerStream, Markham through MEC will own 15.7% of the common shares of Mergeco. This amount was set by negotiation, based on the results of quantitative analysis, and is important because it means that the values being compared in deciding whether to approve the Transaction are the relative values of the present ownership share of 34.2% in PowerStream, and 15.7% of Mergeco.

BDR reviewed the analysis carried out first by advisors to PowerStream and then by Navigant, and also compared the relative rate bases of the three Companies to provide a benchmark of reasonableness.

Relative rate base, which is generally a high level indicator of relative value for regulated electricity distributors, shows that on the basis of 2015 and 2016 forecast, PowerStream's rate base is between 45% and 46% of the total of the three merger participants. No analysis available for review indicates reasons why long term relative value is expected to be significantly different.

Navigant reported, and BDR confirmed through a high level review of the Navigant model, that most of the alternative approaches from DCF modeling gave results within a tight range around the proposed PowerStream ownership share of 46% (excluding Solar).

Navigant concluded that 46% is within a reasonable range of relative values for PowerStream, when the Solar shares are excluded. BDR, based on its own review, within the limitations stated, concurs with Navigant.

Valuation of Hydro One Brampton

The purpose of the review was to determine whether a price of $607 million is reasonable to purchase Hydro One Brampton from the Province.

BDR had no mandate to undertake an independent analysis. In drawing a conclusion, BDR has drawn on its own experience in conducting similar valuation analysis, and on its review of the methods and data as documented by Navigant.

BDR concludes that the valuation approaches used by Navigant are reasonable, and that the conclusion drawn by Navigant based on the results is reasonable: i.e. that the purchase price of $607 million for HOBNI is within a reasonable range.

BDR also notes that in valuing HOBNI through a DCF approach, Navigant has not factored in two variables which a purchaser other than Mergeco might consider in formulating a bid for HOBNI. These are the benefits of low-cost capital to fund the purchase (which would probably be the case for a very large utility or fund), and the strategic value of a business platform in Ontario. These factors might mean that other prospective purchasers might well value HOBNI at an enterprise value of $607 million, or higher.

While PowerStream, Horizon and Enersource do not themselves require a new platform in the Ontario market, they may consider ownership of the service territory in Brampton by other competitors as negative to their own future strategic position in the marketplace.

Based on the synergies available from the merger, Mergeco can afford the acquisition without a negative effect on shareholder value, according to the modeling carried out by Navigant, as long as the forecast level of synergies can be achieved.

No potential for negotiation on the price appears to be available.

Assuming a continued environment for high values in utility investments, and the precedent established by this Transaction, the PowerStream Shareholders can reasonably expect the same multiples to be available to them as sellers, in the medium term, i.e. during the payback period for the investment in Mergeco.

Synergies

The ability of the Transaction to increase value for Shareholders and to control rate increases for customers is based the premise that the costs of providing service through Mergeco will be lower than the total cost of providing service to the customers separately through PowerStream, Horizon, Enersource and Hydro One Brampton. The Companies' management teams, working together, have created plans to reduce duplication in various areas of the operation. Significant levels of synergy savings are necessary to create the net cash flow increases that will repay the initial incremental investment in Mergeco. Only synergies realized in the first 10 years after the merger flow to the benefit of Shareholders; thereafter, under the regulatory approach mandated by the OEB, the savings are applied to reduce (or perhaps more accurately to reduce increases in) bills to customers.

Navigant concluded that the estimate of synergies made by the Companies, and included in valuation modeling, is reasonable, and that while there is certainly risk that the synergies may be lower, there is also potential for them to be higher, thereby increasing the value of the Transaction.

BDR accepts the reasonableness of the Navigant review, and notes that of the scenarios modeled, even the least favourable results in an increase in value, relative to the range of incremental investment ($38 million to $47 million) that can be assumed to be invested by Markham in Mergeco.

Effects of Tax on the Value that Can be Realized from Sale

BDR reviewed public documents as to the applicability of Transfer Tax and Departure Tax, performed high level analysis, reviewed analysis carried out by Navigant, and consulted with Navigant to refine its understanding of the intentions of the Companies with regard to the issue of taxes on sale. BDR has concluded that:

- If all of the municipal shareholders intend to sell their interest in the near term (3-5 years), they will incur a significant loss of value as compared with the hold option;
- If a sale is intended in a 3-5 year time frame, it should be done within the tax holiday timeframe (i.e. by the end of 2018); and
- There does not appear to be any gain in after tax value resulting from the Transaction, if the Shareholders exit their positions in the short to medium term.

A second and related concern is about the allocation of tax responsibilities and offsetting benefits, if different shareholders are selling at different times. The issue results from the fact that Departure Tax, in the full amount related to the company, is triggered at the time that more than 10% of the ownership moves into non-tax exempt hands. The effect of this provision on the selling shareholder and the other shareholders at the time of sale and beyond are being considered with a view to negotiating an equitable arrangement.

BDR concludes that the issue of tax liability is a very significant factor, reducing the desirability of selling to realize value, even with expectation of high premiums. The highest value is obtained, whether from the existing investment in PowerStream or from Mergeco, by continuing to hold and receive annual cash flows over the long term.

A priority for MEC if the Transaction is approved, is to gain understanding of the effects of tax responsibility sharing provisions as they are drafted, from the standpoint both of being the triggering seller, and of not selling when the Departure Tax is triggered. This will inform MEC's strategic decisions with regard to its investment in the next several years.

Time is an important factor in this decision since lower Transfer Tax rates apply in the years 2016-2018.

Solar Portfolio (Class S Shares)

BDR has done no independent analysis but is aware of on-going discussions between the Companies as to restructured arrangements and the expected cash flows to the Class S shareholders.

BDR accepts as reasonable the conclusion of Navigant that the Transaction may well result in reduced cash flows to MEC from the solar shares.

Value Created by the Transaction

Value was compared on a total cash flow basis, and on an incremental cash flow basis.

Total Cash Flow Basis

Assuming that the investment to be made by MEC at the time of closing is the currently estimated amount of $43 million, and that in the absence of the Transaction, there would have been an investment of $5 million, so that the net additional amount is $38 million, Mergeco results in an increase in value (over and above the investment), of about $6 million, or 1.55%. It is possible that when recalculated at the time of closing, the actual investment will be different, either higher or lower. Any additional investment will reduce value, while a reduction in the required investment will increase value correspondingly.

On the basis of these figures, it is reasonable to say that there is positive value to the transaction, but that the amount is not "compelling". If the amount of required investment were to increase by, for example, $3 million, an amount that is within a reasonable range of possibility, the value increase would be reduced to $3 million. Furthermore, risks such as the ability to realize synergies affect the results. An improvement in the realization of operating synergies of 25% above forecast could add about $6 million to the net value of Mergeco; but if synergies are 25% below forecast, all of the value gain would be eliminated.

Incremental Approach

In the incremental approach, the computation is of the internal rate of return that is considered to be generated if the new capital is considered the investment, and the change in annual cash flows is assumed to be the return from that investment. In this case, the results are sensitive to the approach used to estimate value beyond the period that is forecast in detail.

On this basis, Navigant shows that, assuming the investment is never sold and continues to generate income at the forecast levels, MEC would earn a return ranging between 6% and 9%. This rate of return is higher than a long term low risk interest-bearing investment (3-4%), but of course, carries a variety of business risks that are common to the electricity sector, as well as risks from the transaction in Mergeco.

The question then becomes, is this range of rates acceptable, given the risks. It is lower than the OEB-allowed return on equity for electricity LDCs, which is currently 9.3%. However, the willingness of investors to purchase Ontario LDCs at premium prices, and the fact that other utility stocks in the market trade at premiums to book value, indicate that the market considers rates of return somewhat below 9.3% (perhaps in the 6% to 8% range) as commensurate with the risk. And, as any given new acquisition taken as an alternative to the Transaction would likely take place at a premium, the ability of MEC to make an investment at the same risk, with a better return, is expected to be limited.

Given the uncertainties of the future, and the fact that after 10 years the value-creating power of synergies will be redirected to customers, an alternative approach is to look only at cash flows to 2026.

The gradual recovery of a $38 million net investment (the difference between $43 million expected to be required on closing by Mergeco and a $5 million that will otherwise be made in PowerStream), will take place over 10 years through increased dividends on common shares, net of reductions in interest on the Shareholder note and in dividends on the solar shares. Once rebasing has taken place, the incremental cash flow to the Shareholders is reduced. Additional value after that point is considered to accrue, but more slowly.

Again, from this standpoint, the Transaction is neither strongly positive, nor strongly negative. The investment is forecast to be recovered in 10 years, but additional value is realized only in the very long term. If the investment on closing is higher than a net of $38 million, the payback period would be significantly longer.

Platform for Future Growth

A larger entity has a number of scale and other competitive advantages for growth, but also potentially may sacrifice the benefits of focus, unity, and existing position of trust and leadership with stakeholders. In a large measure, the outcome will depend on the ability of decision-makers in the new organization to build on strengths in a timely manner.

Benefits to Customers

The ability to realize benefits to customers is dependent on the synergies created by the merger. If cost reductions can be achieved, rates can be reduced, or at least, the upward pressure on rates can be mitigated.

It was not within BDR’s scope of work to review these plans and estimates, but Navigant has done so, and has concluded that the forecast is reasonable. Markham decision-makers can, in BDR’s opinion, give credibility to this independent review, and to the fact that PowerStream management has a successful record of managing the integration of LDC operations before.

On this basis, as an average over the long term, a typical residential customer of PowerStream with a monthly electricity bill of about $113 would benefit from synergy savings by, on average over time, about two dollars per month.

The implementation of the synergies represents probably the most significant risk faced in the transaction. The amount of benefits to customers depends entirely on realization of synergies. However, customers are less “at risk” than the shareholders in the sense that there is no time limit to customers in participating in synergy benefits. Customers will benefit from synergies even if the time needed to implement them is longer than forecast.

Markham decision-makers will need to explicitly consider the degree to which they want to take customer benefits into account in deciding whether to approve the Transaction.

1 INTRODUCTION AND SCOPE OF THIS REPORT

This is the report of BDR NorthAmerica Inc. (“BDR”) to the Corporation of the City of Markham (“Markham”) to support informed decision-making as to a transaction (the “Transaction”) consisting of:

- The merger of PowerStream with Horizon Utilities and Enersource to form a new company (‘Mergeco”) providing electricity distribution and related services primarily in the areas now licensed to and served by PowerStream, Horizon and Enersource, and
- The acquisition of the shares of Hydro One Brampton (“HOBNI”) from the Province of Ontario. The consideration for the acquisition is to be $607 million (as adjusted for working capital).

PowerStream is owned directly by three holding companies, which in turn are wholly owned by the Cities of Barrie, Markham and Vaughan respectively. The term “PowerStream Shareholders” in this report refers to the holding companies or the Cities directly, as appropriate. Markham’s interest in PowerStream is held through a holding company called Markham Enterprises Corporation (“MEC”).

In the spring of 2015, PowerStream, Horizon and Enersource (collectively, “the Companies” or the “merger participants”) each retained legal and financial advisors with respect to the Transaction. It was determined among them that Deloitte Canada (“Deloitte”) would develop financial models of the Companies and of HOBNI, and of Mergeco, for use by the Companies in negotiating terms among themselves for the merger, and with the Province of Ontario in respect of the acquisition. Deloitte did produce such models and analysis, and shared them with others including with advisors retained separately by the PowerStream Shareholders.

PowerStream staff also prepared certain analysis and a Business Case (the “PS Business Case”), which was also made available to the PowerStream Shareholders and their advisors.

The PowerStream Shareholders decided to retain a name-brand consulting firm to provide a comprehensive report as decision support in the Shareholders’ determination (jointly and severally) as to whether the merger and HOBNI purchase option is in the Shareholder’s best interests, again jointly and individually.

In addition, the PowerStream Shareholders decided to continue with the retention of BDR as a source of independent advice to the PowerStream Shareholders.

In April 2015, with BDR's support, the Shareholders issued an RFP and subsequently selected Navigant Consulting Inc. ("Navigant") as the primary Consultant.

The PowerStream Shareholders requested Navigant to provide confirmation of the models and analysis carried out by Deloitte. To satisfy this request, Navigant developed its own model. Navigant utilized which had been provided through joint consultation among the Companies, but developed an independent analysis in accordance with its own professional judgment. The Navigant models were also provided to BDR.

Navigant received access to some detail of the data supporting the modeling, and specifically, to detail supporting the Companies' conclusions with respect to the operating and capital cost synergies achievable as a result of the Transaction. BDR did not receive the same level of access, but did receive information as conclusions of Navigant, based on Navigant's review.

Over the course of the negotiation and review period, which lasted from April, 2015 through September, 2015, Navigant reported back at intervals to MEC in meetings, and issued a Final Report in September, 2015.

In mid-August, 2015, BDR was asked to assist by identifying the key areas of focus for their review. BDR prepared an Excel form due diligence checklist. The checklist was based on BDR's experience as an advisor to energy and utility sector parties in mergers, acquisitions and divestitures, and included nearly 200 items and issues.

Subsequent to issuing the checklist, BDR received copies of the PS Business Case and a various reports prepared for the Shareholders by Navigant. BDR also had opportunity to review current versions of the main legal documents and to receive material from the Shareholders' legal advisor (Gowlings) on some of the key issues.

Based on its review of documentation, BDR has prepared this report. It is intended to support MEC in making an informed choice as to whether to enter into the Transaction. Greatest emphasis was placed by BDR on the financial and regulatory aspects of the businesses.

The Transaction is being proposed by the Companies to their shareholders as a source of three types of potential community benefits:

- An increase in shareholder value, net of any required additional investment, based on the scope of business now carried out by the Companies and HOBNI and the service territories now served by them. Since the Shareholders are municipalities, any net increases in value would benefit the communities through either improved services, or improved control of property tax increases, or both.

- Further increases in shareholder value, based on increased capacity of Mergeco (as compared with PowerStream separately) to take advantage of opportunities for further mergers and acquisitions in the regulated LDC sector and/or in the unregulated energy sector, to the degree that such opportunities are shown to have a positive business case.
- Relative reductions in electricity rates to customers in the communities, as compared with the rates forecast to be in effect if the Transaction does not take place.

Each of these types of potential benefit is addressed in this report, to the degree that information was made available to BDR.

It is noted that BDR had no mandate in its assignment to perform independent financial modeling, data collection, assessment of synergies or other due diligence. Its review is therefore based on a review and consideration of documentation prepared by others.

2 DECISION FACTOR #1 – FINANCIAL VALUE TO THE SHAREHOLDER

2.1 *Measuring Shareholder Value*

2.1.1 *Components of Shareholder Value*

Shareholder value, or Fair Market Value ("FMV") when associated with a business or income-producing asset, is based on the expected future cash flows that the business or asset will produce for its owners during the term of ownership. Potential buyers of a business asset focus on how much the asset will earn for them in deciding how much they are willing to pay for it; conversely, potential sellers focus on the earnings they will forego by selling, when deciding what price they are willing to accept. The cash flows that are included in determining the value, and therefore the ultimate price at which a transaction can be consummated, include cash flows from the on-going operation of the business asset (revenues less any expenses and requirements for further investment over time), plus the amount that might return to the owner if and when the asset is eventually sold.

If the owner intends to operate the asset to the end of its life, or at least for an indefinite (but long) period, instead of an eventual sale price, the value includes the present value of expected future cash flows, to the end of the asset life or in perpetuity if the asset does not have a known finite life (or, as in the case of a utility, if there is continuous reinvestment in order to sustain the assets). This final sale or perpetual income value is called a Terminal Value by professionals in the area of valuation.

Even though the Terminal Value may be far in the future in terms of being created by annual operating income, the owner can[1] monetize the Terminal Value by selling the asset. A buyer who shares the seller's opinion about the future ability of the asset to produce income will be willing to pay somewhere near the Terminal Value to purchase the asset.

While FMV is by definition the price at which a willing buyer and a willing seller will close the deal, the value of a business asset can be different for different owners. The same asset may produce better cash flows in the hands of one owner than another, if one owner can, for example, reduce the costs of operation or increase revenues in a way that is not available to the other.

In summary, the components of shareholder value for an asset or business with a long life is the combination of

- some number of years' revenues, less expenses and additional capital expenditures; and
- a Terminal Value, which consists of the estimated future earnings in the time <u>after</u> the number of years for which annual cash flows have been estimated; or the estimated amount at which the asset can be sold at that time.

To make comparable the values of cash flows occurring at different times, valuators discount the future cash flows to compute their value at the present time. The discounted annual cash flows and terminal values can then be added together to compute total value. This is called a Discounted Cash Flow ("DCF") approach to valuation, and is a standard and well-accepted approach to valuation of businesses and income-producing business assets.

The approaches used in comparing the value that would be produced from the merger and acquisition Transaction with the value expected to be produced without the Transaction was compared by Navigant and other advisors retained by the Companies using a combination of:

- the DCF approach, and
- other approaches that seek to estimate what a purchaser might be willing to pay, based on what purchasers have paid for similar assets or businesses in the recent past.

2.1.2 *Alternative Approaches to DCF Valuation*

DCF valuation can be applied to different cash streams to compute value, depending on which measure is most relevant to the business decision at hand.

[1] Subject to tax that might be attracted by the sale.

Valuations from the standpoint of the entire business entity use **"enterprise unlevered free cash flows".** This approach starts with revenues and subtracts cash operating expenses, capital expenditures, and net changes in cash working capital. Unlike the computation of an income statement, depreciation is not subtracted, because it is not a cash expense. As well, interest is not subtracted in this method, so that the method ignores the financial structure of the company. Tax expense is computed as if there were no deduction for interest expense.

The terminal value component of the enterprise approach can be computed in several ways. The most common are:

- to assume a regular pattern of growth in the EBITDA (earnings before interest, depreciation and taxes) will continue forever, and compute its continuing value by dividing by the discount rate less a growth factor; or
- to apply a factor to the asset base as an estimate of what a purchaser might pay for the future cash flows.

The enterprise free cash flow method is suitable for comparing the values created by cash flows in a company, or the total value of a company, without considering how much of the company is funded by debt.

Alternatively, the analysis might take the viewpoint only of the equity investor, who regards debt as a cost assumed to increase the value of the equity. In this "**Free Cash Flows to Equity"** approach, the equity investor is assumed to be mainly interested in income net of interest, but is indifferent as to whether that income is paid out as a dividend or reinvested for growth in the company. The cash flows analyzed are therefore the revenue, less cash expenses, less interest, less actual taxes, less capital expenditures, plus net borrowings, plus or minus the net changes in cash balances. No assumption is made about the portion that will be paid out as dividends – it is counted as a cash flow when the cash is earned by the company, whether it is paid out or held in retained earnings.

For this method, the Terminal Value component considers interest in using the perpetual growth method, and subtracts debt from the asset base if using the asset base method.

The Free Cash Flows to Equity method is appropriate when the equity investor is relatively indifferent as to dividend policy or prefers a "growth" (i.e. no dividend) investment, and when the equity investor is not also a lender, because this method does not consider any effects of the investment on debt holders.

The final method used in the analysis is called the **"Dividend Growth"** method. This method considers cash flow as it arrives in the hands of the equity investor as a dividend.

Income held for reinvestment as retained earnings in the company is not a cash flow in this method.

For this method, the Terminal Value is assumed to be a growing dividend, received in perpetuity. The value of the perpetuity is computed by dividing the dividend amount by the discount rate less the growth rate.

This method is applicable when dividend policy is important to the investor (i.e. the ability to receive a payment from the investment without selling any shares). It also allows several streams of dividends from different share classes, or an income stream from interest, to be added together, if all of the streams are relevant to the price or investment decision.

These methods are each used for different purposes in the analysis of the Transaction.

To compare two different investments, or two different choices (such as to accept the Transaction or continue with PowerStream on a "status quo" basis), it is possible to include all of the cash flows for comparison, thereby comparing the aggregate value of two options. It is also possible to take an "incremental" approach, subtracting one set of cash flows from the other, so that the focus is on the total difference and, if relevant, and the timing of differences between the two options. Essentially, without looking at totals, this approach answers the question "How much <u>more</u> money needs to be invested, and how much <u>more</u> income will be received as a result?"

The incremental approach has also been used in analyzing the Transaction.

2.2 *Relative Ownership Proportion*

2.2.1 Why Proportion is Important

A key output of the detailed financial modeling exercise conducted for the Transaction is to determine the fair proportion that each of the merger participants (PowerStream, Horizon and Enersource) should own of Mergeco, and by extension, the proportion that each of the shareholders of those entities (including the City of Markham, through MEC) should own. The ownership proportion, determined on the basis of the value contributed by each shareholder (i.e. its ownership share in one of the merging Companies, plus cash if any) will determine the proportion of common shares, and therefore of dividends from the common shares of Mergeco that each shareholder is ultimately eligible to receive if the Transaction proceeds.

A similar exercise was carried out years ago, when the Markham and Vaughan LDCs were merged to create PowerStream, and later when Barrie Hydro was merged with

PowerStream. The ownership proportions of each of the PowerStream Shareholders today reflect the analysis done at that time to determine relative values of the merging LDCs within a range, with the final figures determined by agreement.

2.2.2 Standard of Fairness

In order to be fair to all the shareholders of Mergeco, their contribution of investment in Mergeco needed to be valued. For this reason, several methodologies were used to estimate the FMV of each of the Companies. The ownership share would then be determined by dividing the FMV of each Company by the total value of the three Companies.

Valuation of a going concern business is carried out by experts in valuation, and in a specialized industry like electricity distribution, the valuator needs to understand the industry and the regulatory regime, as well as the principles of valuation. Nonetheless, the information on which a valuation is based consists of forecasts, sampled statistics, and estimates. If several methodologies are used, which is often the case, the result is a range of values.

In the case of the Transaction, the task of performing the relative valuation of PowerStream, Horizon and Enersource was first conducted by Deloitte, resulting in a value range. The final relative values were then negotiated among the Companies.

In order to be fair, the final ownership proportion should have a basis in the relative values determined by the qualified valuator(s), and be set so that each merger participant shares equitably in the benefits of the Transaction.

Following completion of the valuation analysis, the ownership proportions for the common shares were fixed through negotiation at 46% for PowerStream, 31% for Enersource, and 23% for Horizon.

Assuming that none of the PowerStream Shareholders divests any of its ownership interest, this will result in MEC, which today owns 34.2% of PowerStream, owning 15.7% (46% x 34.2%) of the Mergeco common shares.

The original ownership interest for PowerStream was indicated to be about 49%, on the basis that all of the merger participants would receive an interest in the PowerStream solar portfolio. However, it was subsequently negotiated that the PowerStream Shareholders would retain full ownership of the benefits of the solar portfolio. On this basis, the ownership proportions for the common shares were established excluding the PowerStream solar portfolio and its cash flow stream from the computations. This resulted in a proposal that the ownership share of the

PowerStream shareholders would be 46%, in addition to which they would own 100% of the "Class S" solar shares.

The Class S shares are discussed in Section 2.5 of this report.

2.2.3 Measures of Relative Value

2.2.3.1 Rate Base Multiple

A simple approach to determining the relative values of regulated Ontario electricity distributors is to look at the rate base of each. "Rate base" is the regulatory term for a combination of net plant and working capital which constitute the assets funded by shareholders and lenders, and placed in the service of electricity customers. The Ontario Energy Board ("OEB") determines the amount that shareholders are allowed to earn from electricity rates, by applying a predetermined allowed equity rate of return to 40% of the rate base. The OEB-allowed net income of distribution utilities is therefore directly related to their rate bases, although individual distributors may earn slightly more or slightly less than the allowed amount in a particular year, depending on how actual spending compares with the levels approved by the OEB.

Table 1 computes the portion that the rate bases of each of the Companies represents of the total, using the forecast rate base values that were used by Navigant in its financial model of the transaction. The resulting proportions are very close to the negotiated ownership proportions for the transaction. This simple approach ignores different levels of future growth, and other differences that would contribute to relative value in the long term, and it also excludes the value of unregulated businesses (other than the PowerStream solar portfolio) that will be part of the merger.

However, this measure provides a high level indicator that the recommended proportions are within a band of reasonableness. If more detailed methodologies had provided a significantly different result (which they did not), it would be appropriate to require explanations of those differences.

Table 1: Relative Rate Base Values of Merger Participant LDCs

Relative Rate Base ($ millions)			
	2015	**2016**	**Avg**
PowerStream	990,434	1,013,921	
Enersource	698,478	755,718	
Horizon	479,779	497,783	
Total Rate Base	2,168,691	2,267,423	
Indicated Relative Values			
PowerStream	45.7%	44.7%	45.2%
Enersource	32.2%	33.3%	32.8%
Horizon	22.1%	22.0%	22.0%
Total	100.0%	100.0%	100.0%

Deloitte refined this approach slightly, and produced very similar results.

2.2.3.2 Deloitte Market Methodology

Deloitte, in preparing its material on relative values, applied an approach that takes the view of a potential purchaser of PowerStream, Horizon or Enersource, and uses a cash flow analysis to estimate the premium that such a purchaser might be willing to pay, assuming that the investment provided both financial and operating synergies, and that the purchaser would require pay-back on its investment over a ten-year period.

The analysis showed almost no difference among the Companies in the premium to rate base that the theoretical purchaser should be willing to pay, under the model's assumptions.

While this method is not one that is often encountered in valuation analyses, it can be viewed in the context of regulated LDCs as confirming that relative rate base is a good high level indicator of relative value for the Companies, within a band of reasonableness.

2.2.3.3 Discounted Cash Flow Modeling

The most common, and also the most detailed, methodology for determining value is DCF modeling. DCF modeling was carried out by Deloitte and by Navigant. Navigant's modeling confirmed the relative value ranges that were computed by Deloitte.

In DCF modeling, annual cash flows are forecast and modeled for some period of time. To the annual cash flow (enterprise free cash flows, free cash flows to equity, or dividends, depending on the methodology chosen (see Section 2.1.2)), the model adds a Terminal Value representing cash flows beyond the modeled period of time. In order to model cash flows, a forecast of revenues, operating, maintenance and administrative ("OM&A") expenses, depreciation expense, taxes, financial expenses, capital expenditures, new borrowings, and payment of dividends is required. The level of detail included in a DCF model provides opportunity for differences in the relationship of levels of revenues and costs to the rate base, and changes in these variables over time, to be taken into account in establishing value. This is in contrast with the rate base approach, which provides a "snapshot" of value at a point in time and assumes a consistent relationship between the rate base and cash flows, both amongst the Companies and over time.

DCF analysis is a very well established tool for valuators, and incorporates certain fairly standard methodologies. However, the methodology also requires the valuator to make certain choices on the basis of knowledge of the industry and expertise as a valuator. In considering the results of a DCF valuation, it is very important to understand:

- The modeling inputs to create annual cash flow calculations are always a forecast, and therefore subject to judgment. The longer the forecast modeling period, the less certainty can exist as to the reasonableness of the forecast. The forecast will necessarily assume decisions of management as to the way the business is operated, and business, legal and economic factors. In modeling an LDC, assumptions about the way that revenue is established in the regulatory regime (i.e. by the OEB) are important, as well as factors such as growth in customers and loads, and changes in the price of inputs such as labour and materials.
- The valuator has at least three key methodology choices to make in the valuation: what cash flow approach to use, what method to use in estimating Terminal Value, and what discount rate or range of rates to apply. In modeling LDCs, it is not unusual for Terminal Value (beyond a modeled time period, which in this case was 25 years) to represent about half of the total value, and therefore the method selected is very important to the overall result. Selection of a discount rate is also very important, because selection of the rate is primarily a matter of expert judgment (there is no "correct" rate). Use of a lower discount rate will increase the resulting total value, whereas use of a higher discount rate will reduce it.

In modeling the Companies for relative valuation purposes (i.e. for ownership share), getting the "right" absolute value is less important than getting a reasonable relationship among the values of the Companies. This provided Deloitte and Navigant with the opportunity to make the simplifying assumption that the Companies are all essentially the same kind of business, and will therefore be affected by financial, economic, technological and regulatory variables in essentially the same way. Most important is to take a consistent approach in modeling each Company. For the relative modeling, therefore, while using the individual financial and operating information of each Company, Navigant applied the same alternatives in choice of cash flow, Terminal Value approach, and discount rate to each one to obtain the results.

2.2.4 The Relative Value DCF Model

2.2.4.1 Model Description

Navigant's model creates 25 years of forecast financial statements (i.e. for 2015 to 2039). Each of the Companies, and HOBNI, are modeled separately. The separate statements for each of the Companies are used to establish the relative valuation. The separate statements for HOBNI are used to consider the reasonableness of the purchase price of $607 million (see Section 2.4). All of these are then used as the basis a forecast for Mergeco. The model includes separate analysis of PS Solar.

Each Company model applies assumptions and computes revenues based on the application of the Ontario regulatory regime.

The Mergeco model (which is not relevant for purposes of the relative values of PowerStream, Enersource and Horizon), aggregates rate base and revenues from the four LDCs (i.e. including HOBNI), and applies assumptions as to regulatory treatment and synergies achieved. As will be discussed in Section 2.4, the assumption of synergies in operating and capital cost, while holding revenue unaffected (i.e. not rebased) for 10 years, provides the cash flows that enable the premium paid on HOBNI to be recovered by the shareholders and creates the relative savings for customers on their bills.

2.2.4.2 Data for the Model

Data for the model includes financial projections, economic variables such as inflation, and assumptions as to growth in number of customers in each Company. The data is all forecast, developed by staff teams in the Companies and accepted among them for inclusion in modeling.

2.2.4.3 Discount Rate and Terminal Value

The model enables testing of the relative values using different discount rate assumptions and three Terminal Value approaches. The discount rates in the model are, in BDR's opinion, a reasonable range of alternatives, based on BDR's knowledge of the industry and capital markets. The Terminal Value approaches used are not the only ones available, but are ones commonly used by valuators in the sector.

Navigant reported, and BDR confirmed, that most of the alternative approaches gave results within a tight range around the proposed PowerStream ownership share of 46% (excluding Solar).

2.2.5 Findings on Ownership Proportion

It is proposed that for purposes of the formation of Mergeco, the PowerStream Shareholders together receive a 46% interest in the common shares, in exchange for their interest in PowerStream and cash.

Relative rate base, which is generally a high level indicator of relative value for regulated electricity distributors, shows that on the basis of 2015 and 2016 forecast, PowerStream's ratebase is between 45% and 46% of the total of the three merger participants. No analysis available for review indicates reasons why long term relative value is expected to be significantly different.

Navigant reported, and BDR confirmed through a high level review of the Navigant model, that most of the alternative approaches from DCF modeling gave results within a tight range around the proposed PowerStream ownership share of 46% (excluding Solar). One Terminal Value method resulted in slightly higher relative value for PowerStream.

Navigant concluded that 46% is within a reasonable range of relative values for PowerStream, when the Solar shares are excluded. BDR, based on its own review, within the limitations expressed in Section 1, concurs with Navigant.

2.3 *Valuation of Hydro One Brampton*

2.3.1 Absolute vs. Relative Valuation

As explained in Section 2.2, DCF modeling was used to prepare valuations of the merger participants and HOBNI. In each case, the DCF summary value was computed by applying a discount rate to a stream of annual cash flows, plus a Terminal Value intended as an estimate of on-going cash flows, beyond the 25 years actually modeled. Also as explained, the choice of discount rate and Terminal Value approach can have the effect of changing significantly the value produced by the calculation.

For purposes of the ownership proportions, the absolute value of each Company, as determined by the DCF method, is less important than the relative value. On that basis, different assumptions within reasonable limits can be accepted without serious concern, as long as they have a similar effect on the valuation of each Company. For example, a reduction in discount rate will increase the resulting value for all of the Companies, but may have little or no impact on relative value, if the change is applied consistently to the valuation of each one and the timing of cash flows is relatively consistent among the Companies.

However, in the case of HOBNI, the objective of the valuation is to test how the DCF valuation compares with a specific proposal as to purchase price, namely $607 million. The assumptions used therefore require a much higher degree of review as to reasonableness.

To make a test of reasonableness of the ratio between purchase price and the rate base (book value of plant and working capital), Navigant also looked in the marketplace for indications of the premiums that investors have been willing to pay for companies in the same sector. This is generally termed a “market” or “comparable transactions” approach, and serves as an additional confirmation of the reasonableness of a purchase price, just as the sale prices of similar homes in an area provide a benchmark price in real estate transactions.

2.3.2 Comparable Transactions and Stock Market Analysis

The challenge in this type of analysis is finding a sufficient sample of data that is both relatively recent and composed of companies with a similar business and degree of risk.

In order to obtain sufficient data, Navigant looked at:

- Transactions where the whole, or a significant interest, in one company was purchased by another, and data are available as to the price and cash flow or asset base; and
- Prices in the capital market, where investors of all types are making decisions as to the value of equity in a company, in a liquid and current environment.

Limitations on the data include, in the case of transactions, the time duration (about 5 years), different circumstances, different parts of the world, and the inclusion in the sample of companies of businesses other than distribution “wires”. In the case of stock market comparisons, Navigant made effort to secure a sample of companies that excluded merchant generation businesses and were relatively small in terms of number of customers. However, this sample includes US companies, and typically regulated rates of return in the US are somewhat higher than those in Canada.

BDR concludes that these samples would tend to include transactions with premiums at the high end; nonetheless, the premium is not out of line as compared with fairly recent Ontario sector transactions, including the purchase by PowerStream of 50% of COLLUS. BDR also concludes that the approach and sample used were reasonable given the structure of the industry, number of transactions taking place, and availability of data.

This analysis by Navigant indicates that the purchase price for HOBNI is at the high end, but within the range indicated by the market.

2.3.3 DCF Analysis

In considering the results of its analysis, Navigant reported that in order to obtain a valuation of $607 million, it was necessary to apply assumptions that were not conservative, but which, in Navigant's opinion, are not outside the range that a purchaser might apply in valuing the company.

Of three terminal value methods tested by Navigant, $607 million is within the range produced by two methods, when a reasonable range of discount rates is also tested.

2.3.4 Findings as to Valuation of Hydro One Brampton

BDR had no mandate to undertake an independent analysis, and did not do so. In drawing a conclusion, BDR has drawn on its own experience in conducting similar valuation analysis, and reviewing the methods and data as documented by Navigant.

BDR concludes that the valuation approaches used by Navigant are reasonable, and that the conclusion drawn by Navigant based on the results is reasonable: i.e. that the purchase price of $607 million for HOBNI is within a reasonable range.

BDR also notes that in valuing HOBNI through a DCF approach, Navigant has not factored in two variables which a purchaser other than Mergeco might consider in formulating a bid for HOBNI. These are the benefits of low-cost capital to fund the purchase (which would probably be the case for a very large utility or fund), and the strategic value of a business platform in Ontario. These factors mean that other prospective purchasers might well value HOBNI at an enterprise value of $607 million, or higher.

2.4 *The Mergeco Business Case*

2.4.1 Modeling the Mergeco Business Case

2.4.1.1 Scope of Mergeco's Business

All of the comparative valuations and financial modeling carried out and described in Section 2 are based on the existing scope of business of the component Companies, i.e.:

- That the service territory of Mergeco will be the combined existing service territories of PowerStream, Enersource, Horizon and HOBNI, including any customer growth in those territories, but not assuming the addition of service territory through subsequent merger and/or acquisition; and
- Only solar installations "grand-fathered" in 2015 will be part of PowerStream Solar portfolio (i.e. the Class S shares); and
- That the other affiliate businesses included in the Transaction will not experience any significant change in nature, scope or volume of business.

However, PowerStream has a Board-approved strategic mandate for growth, and it is assumed that growth opportunities forecast to meet appropriate profitability and risk criteria, would also be sought by Mergeco. The relative values of Markham's 34.2% ownership in PowerStream and a 15.7% ownership in Mergeco, as compared in the available analysis, thus do not consider in any way the changes (positive or negative) that may affect the Shareholders' potential to participate in business growth opportunities as a result of the Transaction.

2.4.1.2 The Mergeco Model and Assumptions

The Mergeco model was built by Navigant based on the individual models of the Companies and HOBNI. However, certain changes were made to address the ways in which Mergeco would be different from the simple sum of the individual component companies. Of most import is that the expected operating and capital synergies were computed and subtracted from the Mergeco sum, to enable the assumption that the synergies provide value to the Shareholders over the first 10 years. Also interest on Shareholder loans was reduced, based on terms proposed as part of the Transaction.

The model calculates Terminal Values by the same methods incorporated and applied to the Companies individually. Cash flows are discounted to compute total value.

2.4.1.3 Synergies – Importance and Risks

The base case of synergies was developed by teams of management of the Companies, and reviewed for reasonableness by Navigant. Navigant concluded that the estimate of synergies is reasonable in aggregate, and potentially underestimated in some specific areas. In making its assessment, Navigant noted

- Ability to achieve synergies is a risk factor in terms of the ability of the Shareholders to gain value from the Transaction; and
- PowerStream has a track record of effective integration of merged and acquired LDCs and the achievement of synergies.

Navigant has rated the under-realization of synergies as medium probability and high impact, as compared with other risks specific to Mergeco. In order to test the impact of different levels of achievement of synergies, Navigant conducted sensitivity modeling. In the base case (synergies as forecast), the value of the Transaction to MEC is $72 million as the average of a range of $61 million to $84 million. If only 75% of operating synergies are realized, the range of values is reduced to between $51 million and $74 million. If Mergeco management is able to achieve a 25% increase in operating synergies as compared with the forecast, the value of the Transaction is increased to a range of $71 million to $95 million.[2]

BDR accepts the reasonableness of the Navigant review, and notes that of the scenarios modeled, even the least favourable results in an increase in value, relative to the $43 million[3] that can be assumed to be invested.

In considering the risks associated with the achievement of the synergies, BDR notes:

- Synergy risk affects the potential benefits of the Transaction both to the Shareholders and to customers.
- Allocation of synergy benefits between customers and shareholders depends on the type of synergies (capital or operating) and the timing when they are realized (before or after rebasing. Rebasing will reassign all future synergy benefits to customers; in order to benefit Shareholders, the savings must be achieved in the 10-year period prior to rebasing.)
- These estimates do not include any changes, positive or negative, that might result from further mergers and acquisition that occur after the Transaction.
- The Status Quo (no Transaction) case may overstate costs, by not considering potential savings that might be achieved over time through means other than the Transaction.
- Integrating four of the largest municipal LDCs in Ontario is a complex and challenging task that should not be underestimated.

[2] All values result for the use of a 5% discount rate. The range results from inclusion of different Terminal Value estimation methodologies in the computation.
[3] Plus or minus certain adjustments.

- PowerStream cannot achieve success alone. The effort, dedication, flexibility and cooperation of the entire management and work force will be required to achieve the forecast results.

2.4.2 Hold or Sell?

2.4.2.1 Holding in Perpetuity

The value of a business can be realized by its owners in one of two ways: either by selling the business and receiving its value as cash (or other considerations); or by retaining ownership, in which case the cash flows from operating the business continue into the long term. Unless the business or business asset has a known limited life (such as the solar assets, which are estimated to be productive for 20-25 years and whose revenue source is a 20-year contract), it is assumed that unless sold, the cash flows from the business will continue forever. The value of the business continuing forever is incorporated into the valuation through the Terminal Value.

Many factors can affect the decision of an owner to retain or sell an income-producing asset, but assuming that the amount of cash flows is at least as important to the owner as timing (i.e. there is no urgent need for the proceeds of sale); the decision can be made on the basis of the relative net present value of these two options.

In deciding whether or not to approve the Transaction, consideration needs to be given both to the potential value to the Shareholder if the investment in Mergeco is retained in the very long term, and to the proceeds if it is sold. If MEC wishes to keep sale open as a potential future strategy for its electricity sector investments, the effect of the Transaction on that choice needs to be well understood.

All of the valuations and analysis discussed in Section 2.6 assume that all of the Mergeco Shareholders who are municipalities choose to hold the investment in perpetuity. The effects of a choice to sell all or part of the equity interest by one or all shareholders is discussed in this section.

2.4.2.2 What is Liquidity?

One of the factors in the desirability of an investment is its liquidity, i.e. the ability of the investor to realize the value of the investment through sale. Any factor that stands in the way of being able to sell at the time desired by the seller, or to obtain the full value, reduces the liquidity of the investment. Factors in the liquidity equation are:

- Availability of potential buyers;
- Contractual obligations enabling or limiting ability to sell; and

- Effect of tax provisions on the value of proceeds of sale, in comparison to the value of the "hold" option.

It has been suggested that MEC's investment in Mergeco will be more liquid than its present investment in PowerStream. If true this is a significant strength of the Transaction.

BDR believes that potential buyers exist for MEC's interest in PowerStream or in Mergeco at a favourable multiple, and therefore this factor is equal in terms of liquidity.

If the Transaction takes place, certain limitations on sale will be in place in the medium term, but thereafter any shareholder will be free to sell its interest without requiring consent of the others. This is an improvement in liquidity over the present arrangement, where consent is required if any Shareholder wants to sell.

With regard to tax consequences, the tax provisions are a disincentive to sale at any time and under any conditions, but worse if done outside the current tax "holiday" (See Section 2.4.2.3). As well, the proportion of the company being sold is an important factor, because once 10% is owned by non-tax exempt owners, the Company will exit the PILs regime, triggering one-time Departure Tax in addition to the Transfer Tax that will apply to every sale. Thus, timing is an important factor as to how much tax will apply to reduce the proceeds of a particular sale.

2.4.2.3 Tax Regime

Applicable taxes on disposal by a municipality of their interest in the LDC can include two elements: Transfer Tax, and Departure Tax.

(a) Transfer Tax is applicable on the pre-tax sale price of the interest being transferred, regardless of the cost base, and generally applies at the rate of 33%. Transfer Tax is applicable at the time of the sale regardless of whether the LDC remains in the PILs regime, exits the PILs regime as a result of this sale, or has already exited the PILs regime. The seller can claim as a credit against Transfer Tax a share of PILs already paid. This includes both the PILs paid annually based on income, and Departure Tax if triggered by the sale. If an LDC had two municipal shareholders and one sold in 2020 and one in 2022, the first seller would pay Transfer Tax on the proceeds of its sale in 2020, and the other shareholder would pay Transfer tax in 2022 on the proceeds of its own sale. In each case, the tax would be determined on the basis of the price that the selling shareholder was receiving, and could therefore be different for each of the two shareholders.

(b) Departure Tax is triggered one time only, at the time of the first sale that puts the LDC over the 10% limit for non-tax exempt (i.e. non-municipal) ownership. It is computed following the computation model that the Income Tax Act provides for sale of assets that have been depreciated for tax purposes over time. If the sale price is higher than the Adjusted Cost Base (usually the original cost of the assets), the amount of tax depreciation ("CCA") already claimed must be considered income and is taxed at the regular rate for income taxes. The difference between the sale price and the Adjusted Cost Base is considered a capital gain, and attracts tax at the capital gains rate, which is less than the rate for regular income taxes.

The Ontario provincial Budget, issued in the spring, 2015, provided a temporary "tax holiday" to encourage consolidation in the sector. For the years 2016 to 2018, the Transfer Tax rate has been reduced from 33% to 22%, and the rate for the capital gains portion of Departure tax is reduced to zero.

2.4.2.4 Effects of Tax on Proceeds of Sale

Navigant modeled the effects of tax upon the proceeds of sale of Mergeco or PowerStream (status quo), assuming various points in time for the sale. In all cases, the assumption was that all municipal shareholders divest their full interest at that same time.

BDR reviewed documents explaining the application and computation of the taxes and the confirmed that the computations made by Navigant were consistent with BDR's understanding of the way that the taxes would apply.

The computations show that if the municipal shareholders intend to sell their interest in the near term (3-5 years):

- ***They will incur a significant loss of value as compared with the hold option;***
- ***If a sale is intended, it should be done within the tax holiday timeframe (i.e. by the end of 2018); and***
- ***In this situation, there does not appear to be any gain in after tax value resulting from the Transaction.***

2.4.2.5 Whether to Sell if Others are Not Selling

Since the proposed shareholders agreement ("USA") would permit on the Shareholder, with two-thirds consent, to sell its interest, BDR has also considered the effect on value and cash flows if MEC were to sell its interest, triggering Departure Tax, with all other Shareholders retaining their interest at that time. Also important to consider is the effect if another shareholder triggered the Departure Tax, before such time as MEC wished to sell.

Such scenarios are much more complex to develop, because as well as the tax provisions themselves, the effect would be determined by any agreement of the shareholders as to how tax responsibility would be shared.

Two alternative points of view can be taken on the issue:

- one is that it is "fair" for the non-sellers to be protected from tax impacts triggered by the seller;
- the other is that since the sale transaction creates value for the non-sellers (the Departure Tax, being paid at the time, does not have to be paid by the non-sellers later, and the resulting re-valuation of the assets creates a future tax deduction available to the non-sellers), the benefits and costs should be shared by all.

In the Mergeco negotiations, this latter point of view has been taken, and consideration has been given to alternative mechanisms to share the impact when it occurs, and to alternative structures intended to help in addressing tax effects.

Following preliminary analysis and discussion with Navigant, BDR has concluded that:

- ***If there is no final arrangement under which the non-selling shareholders assist in mitigating the tax effects on the seller, being the first to sell out of either PowerStream (Status Quo) or Mergeco will very significantly reduce the after-tax proceeds of sale to MEC;***
- ***Since the ownership proportion of MEC is higher in PowerStream Status Quo than it will be in Mergeco, the effect is worse in Mergeco;***
- ***A mitigation approach in which MEC, as the first seller, was compensated by others for the present value of future tax deductions, would be sufficient to eliminate most of the "penalty" of being the first seller; and***
- ***MEC should be aware that if it is not the first seller, under a mitigation arrangement as a non-seller, MEC could be faced with a requirement, directly or indirectly, to contribute to funding tax payments at a time when MEC itself will not be receiving any sale proceeds.***

2.4.2.6 Findings and Conclusions Related to Tax Provisions

BDR concludes that tax liability is a very significant factor, reducing the desirability of selling to realize value, even with expectation of high premiums. The highest value is obtained, whether from the existing investment or from Mergeco, by continuing to hold and receive annual cash flows over the long term.

A priority for MEC if the Transaction is approved, is to gain understanding of the effects of tax responsibility sharing provisions as they are drafted, from the standpoint both of being the triggering seller, and of not selling when the Departure Tax is triggered. This will inform MEC's strategic decisions with regard to its investment in the next several years.

Time is an important factor in this decision since lower Transfer Tax rates apply in the years 2016-2018.

2.5 *PowerStream Solar*

2.5.1 Separation of Solar from the Mergeco Analysis

PowerStream's solar portfolio is owned and operated by PowerStream, and allocated a share of PowerStream's cost to provide financing and operating resources to the business. The three PowerStream Shareholders own the business through a separate class of shares.

Unlike the LDC business, in which capital must continually be reinvested, the solar portfolio consists of a series of projects, each of which has a relatively finite asset life and expectation of revenue stream. The cash flows from the solar shares were therefore structured from the outset, by negotiation between the Shareholders and PowerStream, so that as well as the net operating proceeds, the Shareholders would gradually receive, over the lifetimes of these projects, their invested capital repaid in full. This dividend structure has a high value for the PowerStream Shareholders, because they have a defined mechanism to extract their capital investment for either re-investment or use in municipal projects, without a sale transaction to incur costs and potentially attract taxes.

In the initial negotiations for the merger, it was planned that the PowerStream solar portfolio would be included in the overall Mergeco business, in which each shareholder would receive common shares. After careful consideration and a review by Navigant of the value implied in the proposed treatment, the agreements were re-negotiated, so that the PowerStream Shareholder would own all of a separate class of Solar shares (the "Class S shares"), in exchange for a slightly reduced proportion of the common shares. It was intended that the unique value of the existing solar shares of PowerStream would be duplicated through the Class S shares.

Under the current PowerStream structure, therefore, Shareholders receive two streams of dividends: one from the common shares, and one from the solar shares. Since the solar business and other businesses (mainly the LDC, but also PESI) share certain services and resources, the allocation of costs for these services and resources affects whether a dollar of net cash flows is attributed to the solar shares or to the common shares. However, as long as ownership of each type of shares is in the same proportion among shareholders, decisions as to the appropriate allocation of costs do not have the potential to benefit one shareholder at the expense of another.

On the formation of Mergeco, however, the situation will be otherwise. Enersource and Horizon will own relatively more of the common shares as a result of the separation of the solar business and Class S shares, but will own no Class S shares. The allocation of costs to the solar business therefore has an differential effect on the value of the investment to each shareholder.

2.6 *Findings as to the Mergeco Business Case*

2.6.1 Selection of a Basis for Evaluation

It has been previously discussed in this report, that DCF is the approach being used to value Mergeco, and thus to determine whether the Transaction and the required investment of new capital into Mergeco will produce "value". If the present value of all the cash flows, taking into account the new capital injection, is higher than the present value of cash flows in Status Quo (no Transaction) then it can be concluded that the Transaction creates value.

The question would then be, is the value created sufficient to warrant the additional risks that MEC will assume as an investor in Mergeco. While the information in support of this decision comes from analysis, what is "sufficient" in the face of risk and uncertainty is more than a matter of simple numbers. It must take into account the ability of the investor to tolerate the risks, the availability of alternative investments, the time frame in which investment decisions are made, and the compatibility of this particular investment with the investor's non-financial objectives.

In evaluating an investment, the investor has a choice of treating the benefit as received when it is received by the company, or of considering the benefit only when it is received by the shareholder as a dividend. The former method is more appropriate when the investor is more concerned about total value than about timing, and is relatively content for incomes to be held by the company as retained earnings and re-invested in operations to create future value. The latter method is more appropriate when the investor depends on the paid-out dividends from the investment; in this case, the earnings of the investment are "cash" only when they are paid directly to the investor.

In view of the dependence of MEC and the City on the ability to receive income from their investments, whether as dividends or as interest, this discussion focuses on the approach where value is compared by discounting the flow of dividends on the common shares and the solar shares, and the interest on the shareholder loan, in order to compare value.

2.6.2 Comparison of Overall Cash Flows

Navigant prepared a summary which computes cash flows under several scenarios, including assumptions about the level of synergies that will be achieved, and the manner in which MEC chooses to fund the investment. This discussion focuses on a simple comparison of two cases, one in which Mergeco is formed and achieves the synergies as forecast, and one in which the Transaction is rejected, and PowerStream continues in business as today.

The results of this comparison are affected by the assumption of the amount that MEC will actually need to invest, and to the method by which Terminal Value is computed.

Assuming that the investment to be made by MEC at the time of closing is the currently estimated amount of $43 million, and that in the absence of the Transaction, there would have been an investment of $5 million, so that the net additional amount is $38 million, Mergeco results in an increase in value (over and above the investment), of about $6 million. It is possible that when recalculated at the time of closing, the actual investment will be different, either higher or lower. Any additional investment will reduce value, while a reduction in the required investment will increase net value correspondingly.

On the basis of these figures, it is reasonable to say that there is positive value to the transaction, but that the amount is not "compelling". If the amount of required investment were to increase by, for example, $3 million, an amount that is within a reasonable range of possibility, the value increase would be reduced to $3 million. Furthermore, risks such as the ability to realize synergies affect the results. An improvement in the realization of operating synergies of 25% above forecast could add about $6 million to the net value of Mergeco; but if synergies are 25% below forecast, the value would be reduced.

2.6.3 Comparison of Net or "Incremental" Cash Flows

Navigant included in its report an analysis that uses annual cash flow figures, combined with a terminal value methodology, to look at the value of the Transaction in a different way.

In this approach, the computation is of the internal rate of return that is considered to be generated if the new capital is considered the investment, and the change in annual cash flows is assumed to be the return from that investment. In this case, the results are sensitive to the Terminal Value approach.

On this basis, Navigant shows that, assuming the investment is never sold and continues to generate income at the forecast levels, MEC would earn a return ranging between 6% and 9%. This rate of return is higher than a long term low risk interest-bearing investment (3-4%), but of course, carries a variety of business risks that are common to the electricity sector, as well as risks from the transaction in Mergeco.

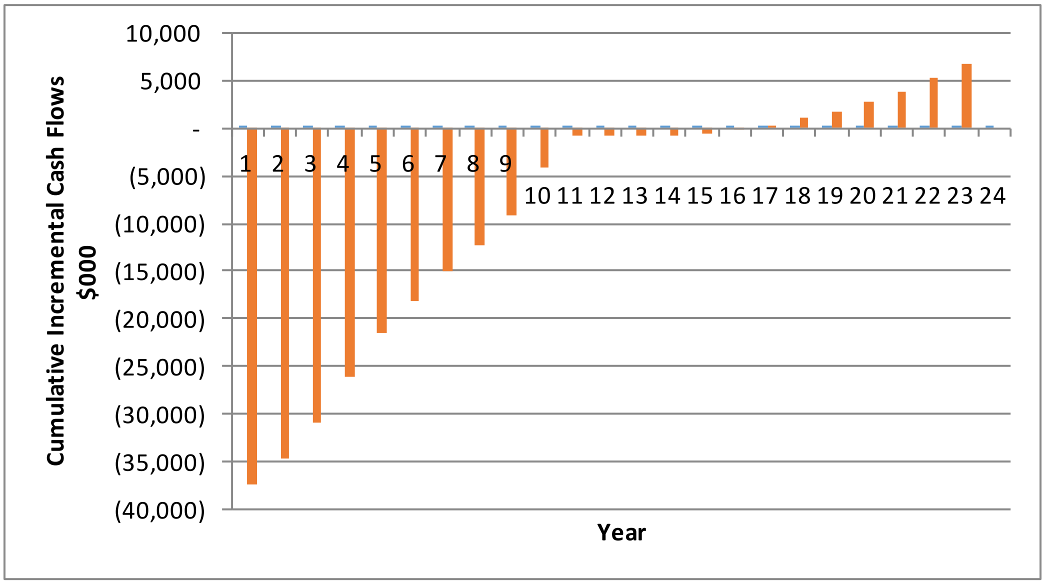
The question then becomes, is this range of rates acceptable, given the risks. It is lower than the OEB-allowed return on equity for electricity LDCs, which is currently 9.3%. However, the willingness of investors to purchase Ontario LDCs at premium prices, and the fact that other utility stocks in the market trade a premiums to book value, indicate that the market considers rates of return somewhat below 9.3% (perhaps in the 6% to 8% range) as commensurate with the risk. And, as any given new acquisition taken as an alternative to the Transaction would likely take place at a premium, the ability of MEC to make an investment at the same risk, with a better return, is expected to be limited.

2.6.4 Immediate Cash Flows

Given the uncertainties of the future, and the fact that after 10 years the value-creating power of synergies will be redirected to customers, an alternative approach is to look only at cash flows to 2026.

The following graph shows the gradual recovery of a $38 million net investment (the difference between $43 million expected to be required on closing by Mergeco and a $5 million that will otherwise be made in PowerStream), over 10 years through increased net cash flows from dividends and interest. Once rebasing has taken place, the incremental cash flows to the Shareholders is reduced. Additional value after that point is forecast to occur, but slowly.

Again, from this standpoint, the Transaction is neither strongly positive, nor strongly negative. The investment is forecast to be recovered in 10 years, but additional value is realized only in the very long term. If the investment on closing is higher a net of $38 million, the payback period would be significantly longer.



3 Decision Factor #2 -- Mergeco as a Platform for Future Business Growth

All of the comparative valuations and financial modeling carried out and described in Section 2 is based on the existing scope of business of the component Companies, i.e.:

- That the service territory of Mergeco will be the combined existing service territories of PowerStream, Enersource, Horizon and HOBNI, including any customer growth in those territories, but not assuming the addition of service territory through merger and/or acquisition; and
- Only solar installations contemplated today will be part of PowerStream Solar (i.e. the Class S shares); and
- That the other affiliate businesses included in the Transaction will not experience any significant change in nature, scope or volume of business.

However, PowerStream has become the company it is today through growth—i.e. through mergers and acquisitions in the regulated business, and through development of unregulated business opportunities that are within the acceptable risk profile of the Shareholders. Today, PowerStream continues to have an approved mission for continued growth, which is stated as:

"to build on our core electricity distribution to become Ontario's premier integrated energy services provider".

The underlying assumption is that growth through carefully selected strategic investments in the regulated and unregulated energy sector will improve profitability and continue to build shareholder value over time. In the case of the City of Markham as a shareholder, the ability of the investments to generate a growing stream of dependable cash flows is part of the decision equation. BDR, in preparing this report, has therefore assumed that an effective platform for the right growth strategies is desirable from the standpoint of the City. PowerStream management and its advisors and Navigant have taken the view that Mergeco will provide a better platform for future growth than the existing PowerStream, particularly because of its larger scale.

In this portion of the analysis, BDR addresses, on a high level and conceptual basis, some of the factors affecting whether Mergeco may or may not be a better platform for growth. The Table below indicates the pro's and con's of the Mergeco vision compared to a more status quo vision of PowerStream, with specific reference to the ability to grow (i.e. to enter into further mergers and acquisitions in the regulated business, and/or to expand unregulated opportunities). Note that developments in the industry may increase or limit profitable opportunities for growth in the sector that apply equally to PowerStream status quo, and to Mergeco. No analysis of any specific business opportunity or portfolio of opportunities has been considered in this review. The comparison reflects BDR's decades of experience the sector, and with mergers and acquisitions generally, and the knowledge that BDR has acquired as to the strong competitive position that PowerStream currently occupies in the Ontario LDC sector.

Ways that the Transaction Will, or May, Enhance Growth Opportunity	Ways that the Transaction May Create Barriers to Growth Opportunity
1. This transformational transaction will result in a very significantly larger customer base, revenue base and service territory. 2. The service territory will include some of the most desirable areas of the Province: urban, relatively affluent, growing. 3. Prevents the merger participants and HOBNI from being acquired by a business interest adverse to PowerStream. 4. *May* show Mergeco in the marketplace as a successful merger partner and acquirer. 5. *May* improve business case of future mergers and acquisitions – other adjacent territories, with potentially more financial synergies. 6. *May* improve ability to market unregulated services within service territory and beyond.	1. Transaction *may* decrease desirability as a partner to other LDCs who may prefer to merge or sell only a partial interest (i.e. may prefer a merger partner similar in size). 2. Internal issues of successfully integrating four companies *may* result in a loss of focus on future growth, and/ or ability to manage future growth. 3. Required commitment of new investment for the Transaction *may* reduce willingness or ability of existing shareholder to fund new opportunities, for an extended period. 4. Concentrates investment in regulated (LDC) sector, limiting diversification at least in the short run. 5. *May* reduce the potential flow of synergy savings to shareholders from future

Ways that the Transaction Will, or May, Enhance Growth Opportunity	Ways that the Transaction May Create Barriers to Growth Opportunity
7. *May* increase the base of shareholders who *may* be able to fund further growth initiatives. 8. *May* improve ability to attract private sources of capital. 9. *May* increase desirability of the company as partner in new initiatives within and beyond Ontario. 10. *May* receive (have) endorsement of Provincial Government in support of various initiatives (including possible reform of the tax regime).	transactions, thus reducing their value. 6. Wider base of ownership *may* create difficulties in maintaining consensus on vision and strategy 7. *May* change the criteria for desirable growth opportunities in unforeseen ways 8. *May r*educe willingness of existing shareholders to welcome new capital investors because of the resulting dilution of interest, or of tax concerns 9. PowerStream may already be a highly desirable partner for new initiatives, at least equal to Mergeco. 10. *May* change the perception of the company with stakeholders (customers, OEB, employees or communities) in unforeseen ways

In summary, a larger entity has a number of scale and other competitive advantages for growth, but also potentially sacrifices the benefits of focus, unity, and existing position of trust and leadership with stakeholders. In a large measure, the outcome will depend on the ability of decision-makers in the new organization to build on strengths in a timely manner.

4 DECISION FACTOR #3 -- BENEFITS TO CUSTOMERS

4.1 *How and When Customer Benefits are Created by the Transaction*

Over the years, the Ontario Government has supported a policy of voluntary consolidation among LDCs, in the belief that the formation of larger operating units will reduce duplication and therefore the overall costs of providing service. It makes sense generally that the sharing of resources would reduce the average costs per customer served. While formal mergers and acquisitions are only one of several possible approaches to creating efficiencies of scope and scale[4], the merger and acquisition approach has, since 1998, reduced the number of LDCs in Ontario from more than 300 to about 70 today. PowerStream itself was formed by a series of mergers and acquisitions,

[4] Other possibilities include sharing of facilities and services with other LDCs without formal merger; sharing with other municipal services such as the water utility; and contracting out.

and its management can point to both cost efficiencies and uninterrupted quality service to customers.

BDR has been advised that the managements of the Companies have worked together over many months to identify specific synergy opportunities in all aspects of their operations, and to develop plans for implementation, supported by estimates of both the resulting savings and the investment required. It was not within BDR's scope of work to review these plans and estimates, but Navigant has done so, and has concluded that the forecast is reasonable.

The OEB sets rates for LDCs to recover the costs incurred and the approved rate of return (net income for the shareholders). Under routine circumstances, an LDC's cost structure is reviewed by the OEB at five-year intervals, and if cost increases are supported as necessary by the LDC, the OEB approves them for recovery through rates from customers. If cost reductions can be achieved, rates can be reduced, or at least, the upward pressure on rates can be mitigated.

It is the OEB's policy that LDCs that merge or acquire can defer rebasing for up to 10 years. This postpones the time when rates have to be adjusted to pass operating cost savings through to customers, and provides an opportunity for shareholders to recover the amounts they have invested in the transaction (i.e. any premium paid for an acquired LDC as well as the costs of carrying out the transaction and integrating the operations of the new merged company).

It is planned that Mergeco will defer its rate rebasing until 2026, during which time synergy savings from operations will raise shareholder dividends and contribute to recovery of the new investment in Mergeco.

During this time, Navigant believes, and BDR concurs, that customers will in fact receive some benefits. This is because LDCs have the opportunity, between rebasings, to apply to recover the costs of growing levels of capital expenditures. If synergies reduce the need for capital expenditures in Mergeco, this creates a benefit for customers right away. As well, assuming that PowerStream would, without the merger, apply for a rate increase after only five years, customers would receive the benefit of that increase having been deferred.

Once Mergeco rebases its rates, all of the benefits achieved through the consolidation of the four LDCs will be shared among the customers of the LDCs. The shareholders will continue to earn the OEB-allowed rate of return on their investment.

The result is that some level of savings is expected to flow to customers in the years 2016 through 2025. However most of the benefits will be realized by customers in the years after 2026.

4.2 *Magnitude of Benefits*

PowerStream management has estimated that on average over 25 years, synergy savings produced by the Transaction will total over $1 billion, averaging between $40 and $50 per customer per year. Navigant concurs with this estimate, but has conservatively adopted the lower figure of $40 in its report and models. On this basis, over 25 years, PowerStream management and Navigant believe that customers in the City of Markham will save a total of $130M as a result of the transaction. These savings are being forecast to average approximately $3.3M per year in the first 10 years, and $7M per year thereafter.

BDR anticipates that the value of any synergy savings would be shared by customers in proportion to the distribution component of their electricity bills, so that a residential customer would have a smaller absolute saving than a large business, but a similar amount of savings on a percentage basis.

Using 2014 statistics for PowerStream, BDR developed the following table of average bill sizes and savings, based on the estimated average saving of $40 per year. It is important in considering the computations, that $40 is an average over time. The amounts in early years will be somewhat lower, and the amounts in later years, somewhat higher. As well, over time changes can occur in the electricity rates that affect the way the savings are shared within the service territory of Mergeco ("harmonization"), and among the different classes of customers. PowerStream management in its report did not commit to any strategy on rates at the end of 10 years, so no assumptions can reasonably be made at this time about those issues.

2014 Statistics	Customers	Revenue	Class % of Distribution Revenue	Allocation of Savings by Distribution Revenue	Average Annual Distribution Bill/ Customer	Annual Savings per Customer	Annual Bill (Assumes Distribution is 20%)	Savings as % of Distribution Bill	Savings as % of Total Bill
Residential	316,765	86,155,968	54.6%	7,779,059	$ 271.99	$ 24.56	$ 1,359.94	9.0%	1.8%
General Service < 50 kW	31,865	24,609,120	15.6%	2,221,968	$ 772.29	$ 69.73	$ 3,861.47	9.0%	1.8%
General Service > 50kW to 4999 kW	4,789	46,332,480	29.4%	4,183,379	$ 9,674.77	$ 873.54	$ 48,373.86	9.0%	1.8%
Large User	2	304,608	0.2%	27,503	$152,304.00	$ 13,751.59	$761,520.00	9.0%	1.8%
Unmetered Scattered Load	2,890	448,896	0.3%	40,531	$ 155.33	$ 14.02	$ 776.64	9.0%	1.8%
Total Customers	356,311	157,851,072	100.00%	14,252,440					
Total Savings Avg $40/cust	14,252,440	-							

On this basis, a typical residential customer of PowerStream with a monthly electricity bill of about $113 would benefit from synergy savings by, on average, about two dollars per month.

4.3 *Timing and Amount of Total Benefits*

Navigant reviewed the forecast synergies and believed on the basis of their team's experience in the sector that the estimates are reasonable and in some areas conservative. Markham decision-makers can, in BDR's opinion, give credibility to this independent review, and to the fact that PowerStream management has a successful record of managing the integration of LDC operations before. In the period following the formation of PowerStream, it faced the task of bringing together the merger participants Markham Hydro and Hydro Vaughan, along with Richmond Hill Hydro, which Markham and Vaughan had acquired jointly.

Nonetheless, the implementation of the synergies represents probably the most significant risk faced in the transaction, and discussed further in Section 2. Customers will receive no benefits unless savings are realized. However, customers are less "at risk" than the shareholders in the sense that there is no time limit to customers in participating in synergy benefits. Customers will benefit from synergies even if the time needed to implement them is longer than forecast.

4.4 *Findings as to Customer Benefits*

BDR has no significant issue with the analysis of the quantum and timing of customer benefits as documented by PowerStream and by Navigant.

BDR notes that Navigant, in presenting its conclusions on this issue, combines customer savings with shareholder cash flows as a cost/benefit analysis of the Transaction. In BDR's experience, municipal councils give consideration to community benefits of various kinds in weighing the future of their electricity sector investments.

Markham decision-makers will need to explicitly consider the degree to which they want to take customer benefits into account in deciding whether to approve the Transaction.

NAVIGANT

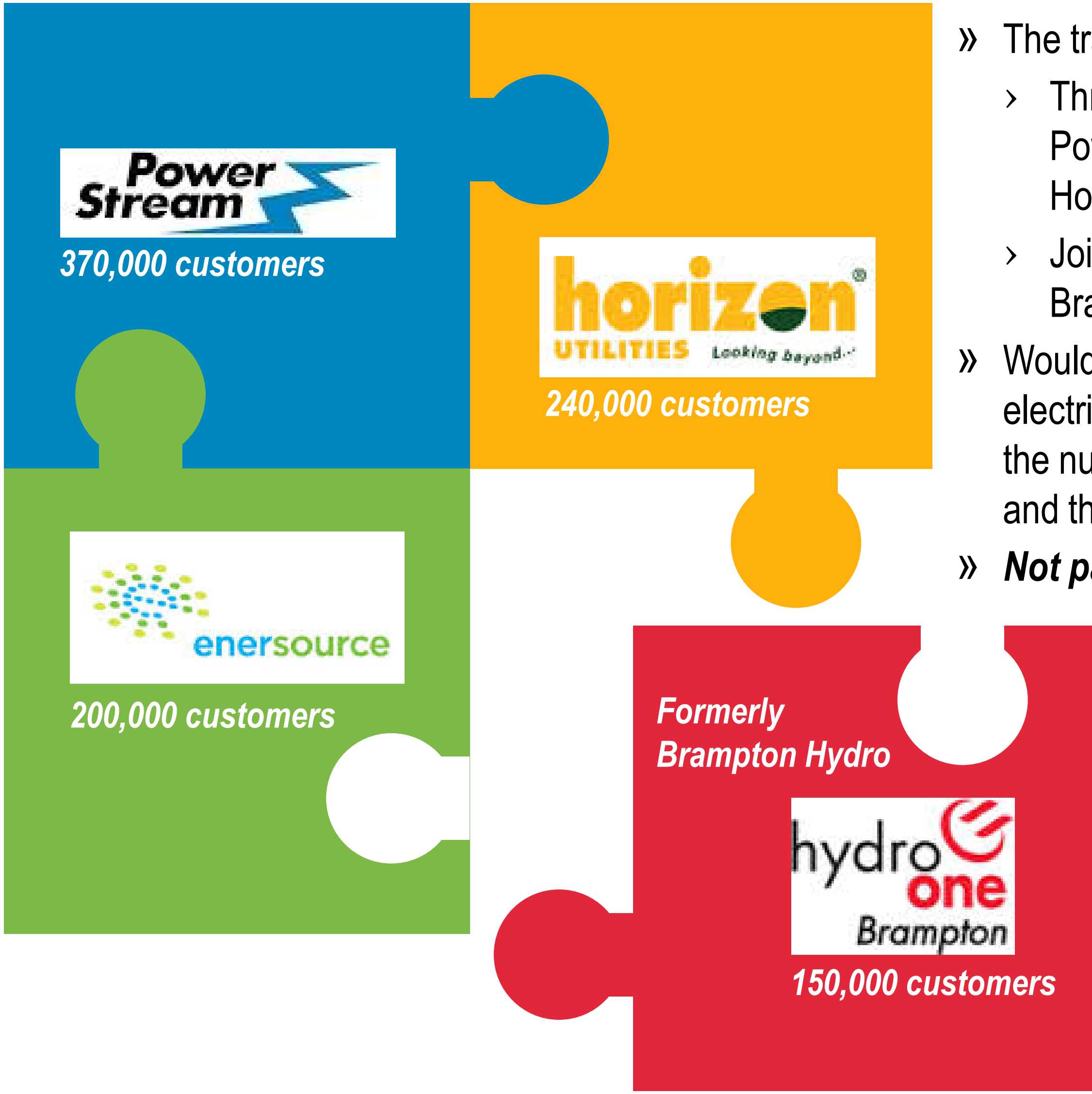
ENERGY

PowerStream Merger and Acquisition: Decision Support

Prepared for the City of Markham

October 7, 2015

Proposed Transaction



- The transaction has two components
  - Three-way merger between PowerStream, Enersource, and Horizon
  - Joint acquisition of Hydro One Brampton (formerly Brampton Hydro)
- Would create the second largest regulated electricity distribution utility in Ontario by the number customers, nearly one million, and the third largest by asset value
- ***Not part of the Hydro One privatisation***

Navigant was retained to provide decision support to PowerStream's shareholders

Navigant's analysis addresses five critical questions

1. ***Value and risks:*** What is the value of the transaction to PowerStream shareholders and what are the associated risks?
2. ***Cash flow:*** What are the expected cash flows to PowerStream shareholders under the status quo and the proposed transaction?
3. ***Liquidity:*** What flexibility is there for PowerStream shareholders (jointly and individually) to divest their holdings and what is the associated impact of such divestment under the status quo and the proposed transaction?
4. ***Acquisition price:*** Is the purchase price for Hydro One Brampton consistent with market value?
5. **Relative value:** Are PowerStream shareholders receiving an appropriate share of the equity in the new company?

Navigant is a global provider of specialised professional services

Navigant is a specialised global expert services firm that helps clients create and protect value in the face of critical business risks and opportunities. Our experts have deep industry knowledge in energy, healthcare, construction, and financial services. Navigant has over 5,000 professionals located in more than 50 cities around the world, serving clients in more than 70 countries.

Client Profile

- Nearly 300 financial services companies including many of the largest banks in the U.S.
- Over 80% of AMLAW 100 firms
- 50 of the largest electricity and natural gas utilities globally
- Over 300 hospitals, health systems & academic medical centers, and global life sciences companies
- Federal, state and local government departments and agencies

Geographic Profile

Talent Profile

- 5,000+ employees as of Dec. 31, 2014
  - 1,700 expert / consulting professionals
  - 2,700 business process management services professionals
- Credentials include CFAs, CPAs/CAs, economists, engineers, physicians, PhDs, and attorneys
- Niche areas of expertise combined in unique ways
- Broad networks of experts and affiliates
- Collaborative and nimble resource management

Navigant offers a full range of advisory services specifically targeted to the power and utilities and oil and gas industries

Navigant's Energy practice has over 400 consultants around the world and a breadth of capabilities to solve the most complex energy sector issues. Our consultants have substantial hands-on industry experience with unmatched expertise across the entire energy value chain. Our experts combine their business strategy knowledge with exceptional operational experience to deliver solutions that are technically and financially viable.

Market Intelligence

1. Research
2. Benchmarking
3. Modelling

Strategy, Technology, and Organization

4. Business strategy, planning and implementation
5. Technology, strategy assessment, and advisory
6. Due diligence and M&A support
7. Innovation and R&D management
8. Technology and appliance standards, codes and testing
9. Reverse engineering and test facilities

Markets, Customers

10. Energy efficiency market research and characterisation
11. Energy efficiency evaluation, measurement, and verification
12. Energy efficiency program design

Operations & Asset Management

13. Energy markets advisory
14. Utility contracting support
15. Energy project development support
16. Integrated resources planning 2.0
17. Electric transmission planning and operations
18. Electric distribution planning and operations
19. End user energy strategy

Financial, Risk and Regulatory

20. Retail regulatory support
21. Energy subject matter expert litigation support

Key aspects of the business case are reasonable

- Navigant ***reviewed, analysed, and tested*** the business case assumptions, and revised as appropriate

- Hydro One Brampton purchase price
  - Price for Hydro One Brampton ***in within, but at the high end of, the valuation range***

- Relative valuation of PowerStream, Enersource, and Horizon
  - Relative valuation of PowerStream is ***reasonable***
  - PowerStream Solar is ***likely undervalued***
    - As a result, management successfully negotiated that the PowerStream Solar assets be carved out and earmarked for only the existing PowerStream shareholders
    - Small negative impact to the expected PowerStream Solar cash flows

- Synergies
  - Synergies were ***reviewed and determined to be reasonable*** and achievable
    - Roughly half of the functional area synergies are likely conservative (i.e. synergies may be greater)
    - There are risks associated with the synergies, but PowerStream has a track record of delivering

Economics

Markham Investment

$38 to 43 million

Return on Investment

7.7%

4.1%		6.1%	8.7%		10.6%

Shareholder Value

+$10 million

-$5M		+$2M	+$20M		+$33M

Additional Upside

Strategic value, platform for growth, influence, financing, timing of capital, etc.

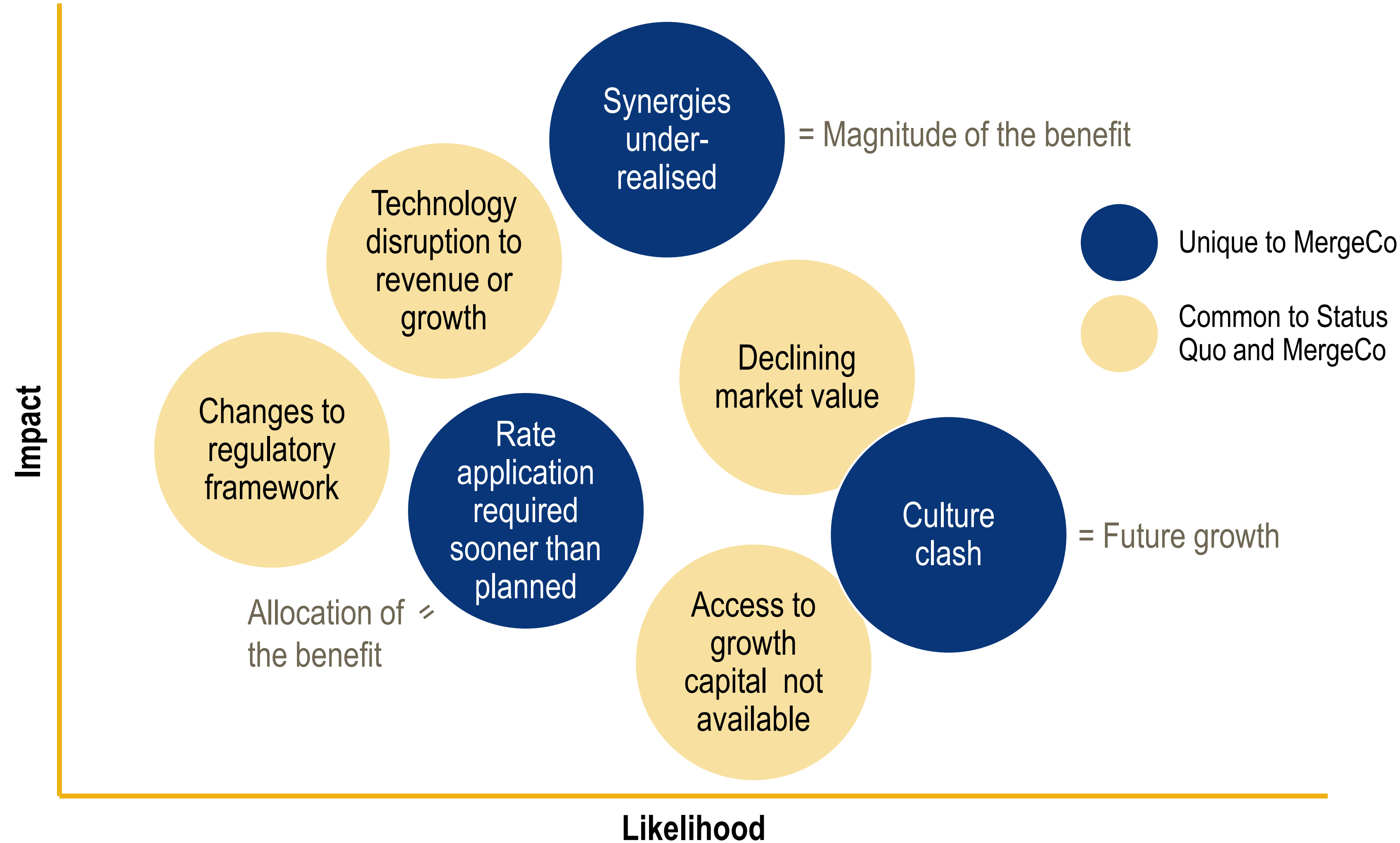
Customer Benefit

$64 million

$24 to $30 per year for an average Markham household

NAVIGANT

Navigant identified seven major risks, three are unique to the transaction



NAVIGANT

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Proposed Merger of PowerStream, Enersource, and Horizon, and Acquisition of Brampton Hydro

Staff Update
Special General Committee
October 7, 2015
7:00 PM

Agenda

1. Decision Support
2. Vision
3. PowerStream vs. MergeCo
4. Relative Valuation
5. Brampton Hydro Acquisition
6. Investment Summary
7. Funding Options
8. Synergies
9. Risks to the Investment
10. Customer Benefits
11. Guiding Principles for Decision Making
12. Timeline
13. Status of Approvals
14. Next Steps

1. Decision Support

Due Diligence

- PowerStream Shareholders; Markham Enterprises Corporation, (MEC), Barrie Hydro Holdings Inc., and Vaughan Holdings Inc, retained independent consultants to provide strategic financial and legal advice:
  - Navigant Consulting Ltd.
  - BDR North America Inc.
  - Gowlings LLP

2. Vision

PowerStream and MergeCo

- Strategic vision to grow via mergers, acquisitions and new businesses

3. PowerStream vs. MergeCo

	PowerStream	MergeCo
Size	2nd Largest Municipally Owned LDC in Ontario	Largest Municipally Owned LDC in Ontario
Customers	370,000	1,000,000
Rate Base	$1B	$2.5B
Ownership	Barrie (20.5%), Vaughan (45.3%), Markham (34.2%)	Enersource (31%), Hamilton (18.2%), St. Catharines (4.9%), Barrie (9.4%), Vaughan (20.8%), Markham (15.7%)
Board Composition	13 members, no restrictions on independent members (majority non-independents)	13 members, 7 required to be independent
Markham Seats	4 seats - 3 non-independent ,1 independent	2 seats - maximum 1 non-independent (7.69% ownership/per seat)
Governance	100% Shareholder approval for major projects	Fewer unanimous approval matters, 2/3 Shareholder approval for most decisions, increased Board only approvals

4. Relative Valuation

- Deloitte was engaged to perform a relative valuation of each Local Distribution Company (LDC) for purposes of allocating MergeCo shareholdings to the respective Shareholders:

LDC	Relative Holding
Enersource	31.0%
Hamilton	18.2%
St. Catharines	4.9%
Barrie	9.4%
Vaughan	20.8%
Markham	15.7%

46%

Navigant's review indicates that 46% for PowerStream, plus 100% of PowerStream Solar is reasonable and that the shareholders are receiving appropriate value; BDR concurs

5. Brampton Hydro Acquisition

Holding Company	Equity Contribution
Enersource	$65.0M
Hamilton	($6M)
St. Catharines	($2M)
Barrie	$26M
Vaughan	$57M
Markham	$43M

Navigant estimates that the $607M purchase price for Brampton Hydro is within, but at the high end of market value. BDR also concludes the valuation is within a reasonable range.

6. Investment Summary

- Markham investment of $38M-$43M
- Rate of return estimated to be between 4.1% and 10.6%
- Shareholder value increase of $2M - $33M, assuming a 5% discount rate
- Transaction adds value

7. Funding Options

- Staff are examining options to address the $38M-43M investment, including the potential to reduce investment requirements:
  1. Equity Injection (through City and MEC)
  2. Borrowing (through MEC)
  3. Conversion of City Promissory Note
  4. Sale of 10% of MEC's shares of PowerStream
- Different funding options change the relative cash flows, investment risk, and total contribution to the transaction.

8. Synergies

Synergies are key to the achievement of the projected investment rate of return and customer benefits.

- PowerStream estimated synergies in first 10 years:
  - operating savings of $311M
  - capital savings of $114M
- Navigant concurs with the estimated synergies

9. Risks to the Investment

Achievement of Synergies

- Navigant concludes:
  - Synergies were *reviewed and determined to be reasonable and achievable*
  - Roughly half of the functional area synergies are likely conservative (i.e. synergies achieved may be greater)
  - Three major risk factors (i.e. information technology integration, collective bargaining agreements, and process change / standardization) may reduce overall synergies
  - PowerStream has a track record of delivering on synergy targets
- BDR accepts the reasonableness of the Navigant conclusions

9. Risks to the Investment (cont'd)

Timing of Rate Rebasing

- Under the current regulatory regime, a Shareholder retains the benefit of operating synergies following a merger for up to 10 years
- Where a rate application is required before 10 years, the allocation of the benefit between shareholders and customers will be affected
- Navigant has roughly estimated that rebasing one year earlier would reduce the value of the Transaction to the PowerStream Shareholders collectively by approximately $2M and would reduce the internal rate of return by approximately 0.2%.
  - For Markham, this represents a risk of less than $700k per year, if rebasing occurs one year earlier.

Navigant's view is that the management of the new company has a number of levers at its disposal to mitigate the early rebasing risk.

9. Risks to the Investment (cont'd)

Culture Clash

Navigant indicates:

"Each of the four companies has a unique corporate culture.

To the extent the new company is not effectively able to integrate the four cultures, and retain PowerStream's strong innovative culture, the ability of the company to grow could be hindered."

10. Customer Benefits

- Achieving synergies drives customer benefits
- Full synergy benefits will flow to the customer after ten years or earlier if there is rebasing through the Ontario Energy Board
- The customer savings on the distribution portion (20%) of their electricity bill are meaningful:
  - Total NPV of Markham customer savings over first 25 years is $64M:
    - Average of $40/year for all customers
    - $24-$30/year for average residential customers
- Impact to Markham owned buildings - approximately $60,000 per year
- Markham would need to find approximately $2.8-$3.6M in annual savings to generate similar savings to an average residential property taxpayer.

11. Guiding Principles for Decision Making

1. Ensure benefit to Markham taxpayers
2. Alignment with Markham's Investment Policy
3. Ensure benefit to PowerStream customers

11. Guiding Principles for Decision Making (cont'd)

1. **Ensure benefit to Markham taxpayers:**

   – Maintain or improve cash flow to City's Life Cycle Reserve to ensure proper repair and replacement of City's facilities and infrastructure over the next 25+ years

   – Reduce upward pressure on future tax rate increases

11. Guiding Principles for Decision Making (cont'd)

2. Alignment with Markham's Investment Policy

- Preservation of principal
- Return on Investment - preference for increased cash flows over long term compared to increase in enterprise value
- Liquidity - retain ability to sell investment

Overall goal is to minimize the risk profile of the investment

11. Guiding Principles for Decision Making (cont'd)

3. **Ensure benefit to PowerStream's customers:**

    – Mitigate distribution rate increases
    – Improved service and reliability
    – Leadership in Conservation Demand Management

Overall goal is ensure financial and non-financial benefit for customers.

12. Timeline

- Proposed transaction announced – April 16, 2015
- Markham Staff report to General Committee "PowerStream Merger Update" – May 26, 2015
- Province's original targeted transaction approval date – June 30, 2015
- City of Markham media release – August 25, 2015
- Merger Update Notice in local media – September 3, 2015
- PowerStream Board Approval for Merger and Acquisition – Sept 11, 2015
- Merger Update Notice in local media – October 1st and 8th, 2015

13. Status of Approvals

Approvals

- Board approval from Enersource, Horizon and PowerStream Boards – completed
- Shareholder (HoldCo's and Municipalities) approval:
  - Barrie, Vaughan and Mississauga – Approved
  - Markham, Hamilton and St. Catharines – Approval Pending
- Ontario Energy Board – Merger, Acquisition, Amalgamations and Divestitures (MAADS) application and approval

Targeted Closing Date – March 31, 2016

14. Next Steps

- Staff are pursuing amendments to the terms of the transaction and to the legal agreements to reduce risk to Markham
- Staff will report back to MEC, General Committee and Council with recommendations

Proposed Merger of PowerStream, Enersource, and Horizon, and Acquisition of Brampton Hydro

Staff Recommendations Report
Special General Committee
November 11, 2015
7:00 PM

Agenda

1. Decision Support
2. PowerStream vs. MergeCo
3. Relative Valuation
4. Brampton Hydro Acquisition
5. Synergies
6. Risks to the Investment
7. Amendments to the Transaction
8. Guiding Principles for Decision Making
9. Investment Summary
10. Customer Benefits
11. Recommendations

1. Decision Support

Due Diligence

- PowerStream Shareholders: Markham Enterprises Corporation, (MEC), Barrie Hydro Holdings Inc., and Vaughan Holdings Inc, retained independent consultants to provide strategic financial and legal advice:
  - Navigant Consulting Ltd.
  - BDR North America Inc.
  - Gowlings LLP

2. PowerStream vs. MergeCo - Summary

	PowerStream	MergeCo
Size	2nd Largest Municipally Owned LDC in Ontario	Largest Municipally Owned LDC in Ontario
Customers	370,000	1,000,000
Rate Base	$1B	$2.5B
Ownership	Barrie (20.5%), Vaughan (45.3%), Markham (34.2%)	Enersource (31%), Hamilton (18.2%), St. Catharines (4.9%), Barrie (9.4%), Vaughan (20.8%), Markham (15.7%)
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Governance	100% Shareholder approval for major projects	Fewer unanimous approval matters, 2/3 Shareholder approval for most decisions, increased Board only approvals

Conclusion – Markham will transition from owner to investor

2. PowerStream vs MergeCo - Vision

PowerStream

- Strategic vision to grow via mergers, acquisitions and new business
- Control and influence
  - Pace and speed of investment
  - Nature of business

MergeCo

- Strategic vision to grow via mergers, acquisitions and new business
- Less control and influence
  - Board approved < $75M*
  - 2/3 shareholder > $75M*

  * After 75% of synergies achieved

Vision may not align with the City, e.g. funding capability. Less control and influence over projects and acquisitions selected by MergeCo.

3. Relative Valuation

- Deloitte was engaged to perform a relative valuation of each Local Distribution Company (LDC) for purposes of allocating MergeCo shareholdings to the respective Shareholders:

LDC	Relative Holding
Enersource	31.0%
Hamilton	18.2%
St. Catharines	4.9%
Barrie	9.4%
Vaughan	20.8%
Markham	15.7%

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Navigant's review indicates that 46% for PowerStream, plus 100% of PowerStream Solar is reasonable and that the shareholders are receiving appropriate value; BDR concurs

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Holding Company	Equity Contribution
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Vaughan	$57M
Markham	$43M

Navigant estimates that the $607M purchase price for Brampton Hydro is within, but at the high end of market value. BDR also concludes the valuation is within a reasonable range.

5. Synergies

Synergies are key to the achievement of the projected investment rate of return and customer benefits.

- Estimated synergies in first 10 years:
  - operating savings of $310M
  - capital savings of $110M - $170M

6. Risks to the Investment

Achievement of Synergies

- Navigant concludes:
  - Synergies were *reviewed and determined to be reasonable and achievable*
  - Roughly half of the functional area synergies are likely conservative (i.e. synergies achieved may be greater)
  - Three major risk factors (i.e. information technology integration, collective bargaining agreements, and process change / standardization) may reduce overall synergies
  - PowerStream has a track record of delivering on synergy targets
- BDR accepts the reasonableness of the Navigant conclusions

6. Risks to the Investment (cont'd)

Timing of Rate Rebasing

- Under the current regulatory regime, a Shareholder retains the benefit of operating synergies following a merger for up to 10 years
- Where a rate application is required before 10 years, the allocation of the benefit between shareholders and customers will be affected
- Navigant has roughly estimated that rebasing one year earlier would reduce the value of the Transaction to the PowerStream Shareholders collectively by approximately $2M and would reduce the internal rate of return by approximately 0.2%.
  - For Markham, this represents a risk of less than $700k per year, if rebasing occurs one year earlier.

Navigant's view is that the management of the new company has a number of levers at its disposal to mitigate the early rebasing risk.

6. Risks to the Investment (cont'd)

Culture Clash

Navigant indicates:

"Each of the four companies has a unique corporate culture.

To the extent the new company is not effectively able to integrate the four cultures, and retain PowerStream's strong innovative culture, the ability of the company to grow could be hindered."

7. Amendments to the Transaction

Completed

- Unanimous shareholder consent for LDC mergers and acquisitions until 75% of synergies achieved
- Founding shareholders maintain original board seats for six years
- Limited Partnership Comfort Letter Received from the Province
- Promissory note extension available until 2056 at OEB deemed rate

Pending

- Staff are seeking a municipal backstop to fund MEC's portion of the transaction – further follow up underway
- Tax mitigation language has been improved with respect to mitigation of departure tax liability for first and subsequent share sales

8. Guiding Principles for Decision Making

1. Ensure benefit to Markham taxpayers

2. Alignment with Markham's Investment Policy

3. Ensure benefit to PowerStream customers

8. Guiding Principles for Decision Making (cont'd)

1. Ensure benefit to Markham taxpayers:

- Maintain or improve cash flow to City's Life Cycle Reserve to ensure proper repair and replacement of City's facilities and infrastructure over the next 25+ years
- Reduce upward pressure on future tax rate increases

8. Guiding Principles for Decision Making (cont'd)

2. Alignment with Markham's Investment Policy

– Preservation of principal

– Return on Investment - preference for increased cash flows over long term compared to increase in enterprise value

– Liquidity - retain ability to sell investment

Overall goal is to minimize the risk profile of the investment

8. Guiding Principles for Decision Making (cont'd)

3. Ensure benefit to PowerStream's customers:

- Mitigate distribution rate increases
- Improved service and reliability
- Leadership in Conservation Demand Management

Overall goal is ensure financial and non-financial benefit for customers.

9. Investment Summary

Net Present Value	Option	Funding Source	Cash flows Years 1-10	Cash flows Years 11-24	Cash flows Years 25+	**Total**
1. Deloitte and PowerStream – Core Dividends Only	1 – Status Quo	N/A	$60M	$81M	$131M	**$272M**
	2 - Transaction	Equity	$54M ($6M)	$105M $24M	$169M $38M	**$328M** $56M
2. Navigant Adjustments – Core and Solar Dividend, Promissory Note Interest and Funding Source	1 – Status Quo	N/A	$78M	$128M	$164M	**$370M**
	2 - Transaction	10% Sale plus MEC equity	$92M $14M	$122M ($6M)	$164M $0	**$378M** $8M

9. Investment Summary - Cash Flows

Scenarios	Years 1-10	Change from SQ
Status Quo (SQ)	$78M	
Transaction - Equity Funded	$66M	($12M)
Transaction - Debt @ 4%	$87M	$9M
Transaction - Promissory Note Funded	$94M	$16M
Transaction- 10% Sale of MergeCo to 3rd Party - with Markham funding the remainder; approx $8M	$92M	$14M

9. Investment Summary - Cash Flows

Scenarios	Years 1-10	Change from SQ	Years 11-24	**Years 1-24**	Change from SQ
Status Quo (SQ)	$78M		$128M	$206M	
Transaction - Equity Funded	$66M	($12M)	$134M	$200M	($6M)
Transaction - Debt @ 4%	$87M	$9M	$117M	$204M	($2M)
Transaction - Promissory Note Funded	$94M	$16M	$122M	$215M	$9M
Transaction- 10% Sale of MergeCo to 3rd Party - with Markham funding the remainder; approx $8M	$92M	$14M	$122M	$214M	$8M

9. Investment Summary - Cash Flows

Scenarios	Years 1-10	Change from SQ	Years 11-24	**Years 1-24**	Change from SQ	Years 25+	**Total**	Change from SQ
Status Quo (SQ)	$78M		$128M	$206M		$164M	$370M	
Transaction - Equity Funded	$66M	($12M)	$134M	$200M	($6M)	$179M	$379M	$9M
Transaction - Debt @ 4%	$87M	$9M	$117M	$204M	($2M)	$179M	$383M	$13M
Transaction - Promissory Note Funded	$94M	$16M	$122M	$215M	$9M	$166M	$381M	$11M
Transaction- 10% Sale of MergeCo to 3rd Party - with Markham funding the remainder; approx $8M	$92M	$14M	$122M	$214M	$8M	$164M	$378M	$8M

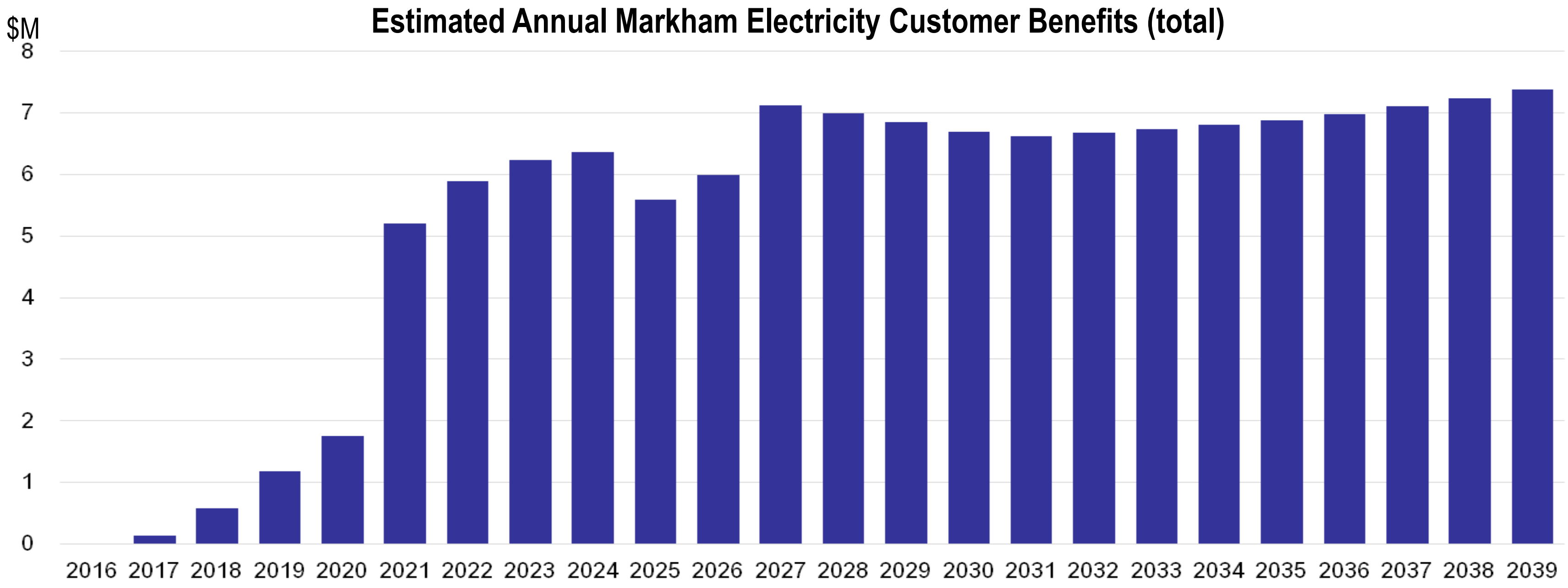
9. Investment Summary - Analysis

- Cash flows to Markham estimated to increase by $8-13M Net Present Value (NPV) depending on funding source
- Transaction as an investment does add value vs status quo
- Return on incremental investment is greater than 5% under all funding source options in the long term
- Transaction has risk (predominant risk is the successful achievement of synergies – timing and magnitude)
- Staff have negotiated amendments to reduce the Transaction risk
- Transaction incremental value is not compelling and is not recommended independent of customer benefits

10. Customer Benefits

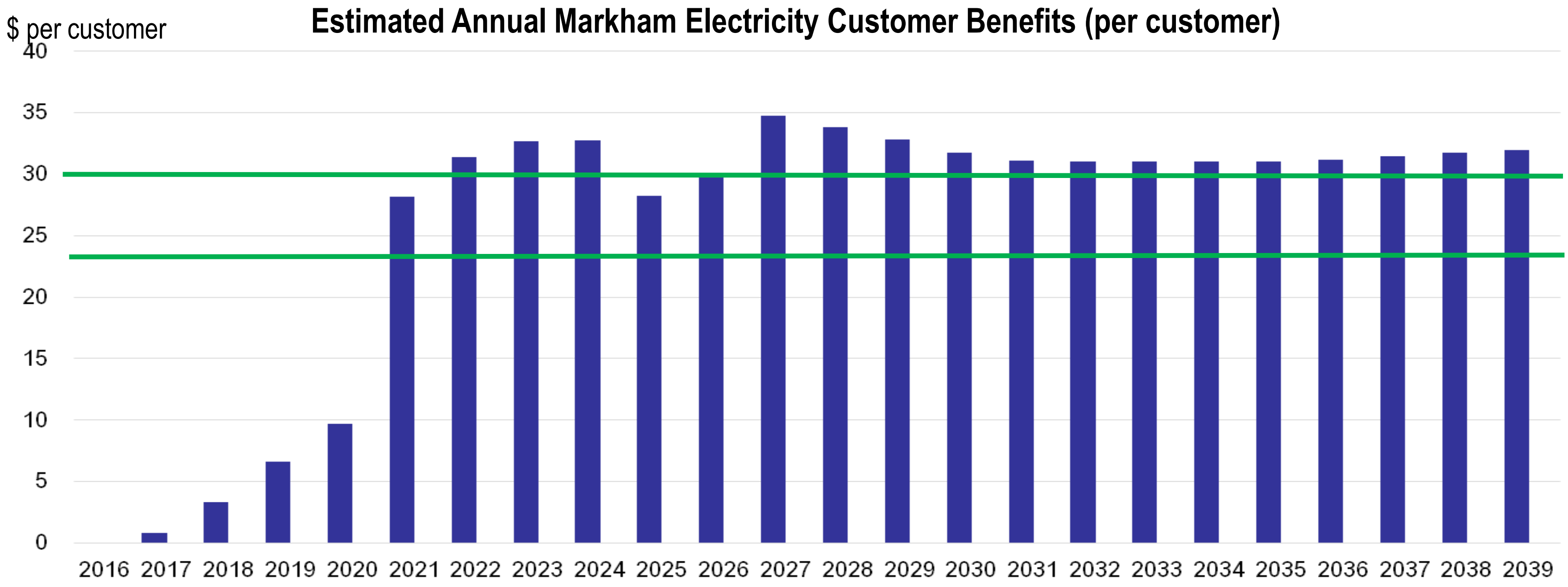
- Achieving synergies drives customer benefits
- Full synergy benefits will flow to the customer after ten years or earlier if there is rebasing through the Ontario Energy Board
- The customer savings on the distribution portion (20%) of their electricity bill are meaningful:
  - Total NPV of Markham customer savings over first 25 years is $64M:
    - Average of $40/year for all customers
    - $24-$30/year for average residential customers
- Impact to Markham owned buildings - approximately $60,000 per year
- Markham would need to find approximately $5.4M in annual savings to generate similar savings to the Markham taxpayers.

10. Customer Benefits – Markham Average Total of $5.4M per year



Source: Navigant Project Aura Valuation and Business Case Model (September 10, 2015)
Notes:
1) All values nominal
1) Customer benefits over the first 5 years are driven by avoided capital expenditures
2) Customer benefits after the first 5 years are driven by lower operating costs and avoided capital expenditures

10. Customer Benefits – Residential Average $24-30 per customer per yr



Source: Navigant Project Aura Valuation and Business Case Model (September 10, 2015)
Notes:
1) All values nominal
1) Customer benefits over the first 5 years are driven by avoided capital expenditures
2) Customer benefits after the first 5 years are driven by lower operating costs and avoided capital expenditures

10. Customer Benefits – All PowerStream

2014 Statistics	Customers	**Annual Savings per Customer**	Annual Bill (Assumes Distribution is 20%)	Savings as % of Distribution Bill	Savings as % of Total Bill
Residential	316,765	**$ 24.56**	$ 1,359.94	9.0%	1.8%
General Service < 50 kW	31,865	**$ 69.73**	$ 3,861.47	9.0%	1.8%
General Service > 50kW to 4999 kW	4,789	**$ 873.54**	$ 48,373.86	9.0%	1.8%
Large User	2	**$ 13,751.59**	$ 761,520.00	9.0%	1.8%
Unmetered Scattered Load	2,890	**$ 14.02**	$ 776.64	9.0%	1.8%

11. Recommendations

WHEREAS:

- PowerStream's Board of Directors has approved and recommended to its shareholders the merger with Horizon and Enersource and purchase of Brampton Hydro the "Transaction"
- Unanimous shareholder approval is required for the Transaction
- The Transaction will form a company currently called "MergeCo"
- MEC, VHI and BHHI jointly hired independent consulting and legal services from:
  - Navigant Consulting Ltd.
  - BDR NorthAmerica Inc.
  - Gowlings LLP

11. Recommendations

- On October 7, 2015 the City at General Committee received presentations from Navigant, PowerStream and City Staff
- The Transaction requires an equity contribution from Markham of $43-47.3M depending on closing costs and adjustments
- The City's promissory note of $67.9M with PowerStream will have an interest rate reduction from 5.58% to 4.54% as deemed by the Ontario Energy Board ("OEB")
- The dividends from MergeCo are expected to increase, but there is incremental uncertainty compared to PowerStream
- PowerStream's solar assets, dividend income and equity return have been segregated for its shareholders' benefit, but will result in a $1M NPV reduction

11. Recommendation

- Greater than 5% incremental investment return is expected
- Staff negotiated significant amendments to the Transaction to reduce risk, but it is still not financially compelling given the remaining risk
- The Transaction cannot be recommended by City staff solely on an investment basis
- The Transaction will deliver meaningful customer benefits
  - After year six an average savings of $40/yr for all customers and $24-30/yr for residential utility bills (5-9% of the distribution portion of the bill)
  - Offsetting future increases

11. Recommendations

NOW THEREFORE, be it resolved:

1. The City of Markham approves the Transaction as described in the Merger Participation Agreement, Unanimous Shareholder Agreement and Share Purchase Agreement.
2. Completion of the Transaction be conditional on:
   a. The terms being substantially as set out in the above mentioned agreements and the draft PowerStream Solar Business Services and Indemnity Agreement.

11. Recommendations

b. Amendments to the agreements satisfactory to the CAO as follows:
   i. Unanimous shareholder approval required for mergers and acquisitions until 75% of the targeted synergies achieved;
   ii. Extension of the promissory note to 2056 at OEB deemed interest rates;
   iii. Clarity on departure and transfer tax mitigation strategies for first and subsequent sales of shares in MergeCo;

c. Municipal financial backstop to be negotiated.

d. Maximum equity contribution of $47.3M.

e. Approval of MergeCo's strategic plan by MEC Directors.

11. Recommendations

3. Staff work to reduce the City's equity contribution, including but not limited to a 10% formal sale with the other shareholders of PowerStream with consideration for MergeCo's value.
4. If the 10% sale is unsuccessful staff will report back with alternate funding options, including no additional funding from Markham.
5. Mayor and Clerk be authorized to execute the necessary agreements once modified or amended to the CAO's satisfaction.

MARKHAM

Report to: General Committee Report Date: November 11, 2015

SUBJECT: PowerStream Merger
PREPARED BY: Mark Visser, Senior Manager of Financial Strategy & Investments
Catherine Conrad, City Solicitor
Graham Seaman, Director, Sustainability Office

RECOMMENDATION:

WHEREAS Markham Enterprises Corporation ("MEC") and The Corporation of the City of Markham (the "City"), Vaughan Holdings Inc. ("VHI"), The Corporation of The City of Vaughan, Barrie Hydro Holdings Inc. ("BHHI"), and The Corporation of the City of Barrie, PowerStream Holdings Inc. and PowerStream Inc. are parties to the Unanimous Shareholders' Agreement for PowerStream Holdings Inc., dated November 1, 2013 (the "PowerStream Shareholder Agreement");

AND WHEREAS MEC owns 34.185% of the shares of PowerStream Holdings Inc.;

AND WHEREAS MEC is a wholly owned holding company of the City, incorporated under the provisions of the *Electricity Act, 1998 (Ontario)*;

AND WHEREAS the Board of Directors of PowerStream has approved and has recommended to its shareholders the approval of a merger of the local hydro distribution companies of PowerStream Holdings Inc. ("PowerStream"), Horizon Holdings Inc. ("Horizon"), and Enersource Holdings Inc., a holding company to be established by Enersource Corporation ("Enersource");

AND WHEREAS the Board of Directors of PowerStream has approved and has recommended to its shareholders the purchase of Hydro One Brampton Networks Inc. ("Brampton"), conditional upon the completion of both the Merger Participation Agreement and the Share Purchase Agreement, in accordance with the terms set out in both agreements;

AND WHEREAS the PowerStream Shareholders' Agreement requires unanimous approval by its Shareholders for transactions including the merger and the acquisition of Brampton;

AND WHEREAS the merger of PowerStream, Horizon, Enersource and acquisition of Brampton will form a new organization currently referred to as "MergeCo";

AND WHEREAS MEC, together with VHI and BHHI, retained independent consulting and legal services as follows:

- Navigant Consulting Ltd., on the proposed Transaction ;
- BDR NorthAmerica Inc., on the proposed Transaction;

- Gowlings LLP, on the proposed governance structure and the draft agreements:
  - Merger Participation Agreement;
  - Unanimous Shareholders' Agreement; and
  - Share Purchase Agreement

AND WHEREAS the City, at its General Committee meeting on October 7, 2015, received presentations and reports from:

- Navigant Consulting Ltd.
- PowerStream
- City Staff

AND WHEREAS the merger and the acquisition (the "Transaction") require a significant equity contribution of $43-47.3M, depending on the amount of closing costs and adjustments;

AND WHEREAS the City holds a promissory note in the amount of $67.9M and the interest rate approved by the OEB for shareholder promissory notes will be reduced from 5.58% to approximately 4.54%;

AND WHEREAS the dividends forecasted for the core business, are expected to increase;

AND WHEREAS the MergeCo dividend policy carries incremental uncertainty as compared to the PowerStream dividend policy;

AND WHEREAS under the proposed terms of the merger, dividend income and equity return from PowerStream's solar assets are segregated for the benefit of the shareholders of PowerStream, as set out in the draft PowerStream Solar Business Services and Indemnity Agreement Indicative Term Sheet;

AND WHEREAS the Net Present Value of the solar dividends in MergeCo will be decreased by approximately $1M;

AND WHEREAS the financial modeling and the analysis indicate a return on the incremental investment greater than 5%;

AND WHEREAS, although staff have negotiated significant amendments to the Transaction to reduce associated risks , the investment is not financially compelling given the remaining risk and the investment criteria of both MEC and the City of Markham ;

AND WHEREAS the Transaction can not be recommended by City staff solely on an investment basis;

AND WHEREAS the Transaction will deliver meaningful benefits to PowerStream customers beginning in year six after the merger, estimated at an average of $40/year for all customers and $25-$30 on the average residential utility bill (representing approximately 5% to 9% of the distribution portion of the utility bill), in the form of reductions in the cost increases on the distribution portion of such bills;

NOW THEREFORE, be it resolved:

1. **THAT** subject to conditions set out in clauses 1 and 2 hereof, The Corporation of the City of Markham, in its capacity as a shareholder of MEC, approves:
    a. the merger of PowerStream, Horizon and Enersource, substantially in accordance with the draft Merger Participation Agreement dated October 9, 2015 and the Unanimous Shareholders' Agreement dated October 9, 2015;
    b. The purchase of Hydro One Brampton Networks Inc., substantially in accordance with the terms of the Share Purchase Agreement dated October 8, 2015, between Her Majesty the Queen in Right of Ontario as represented by the Minister of Energy (the "Province") and Brampton Distribution Holdco Inc. as the vendor, and Horizon, Enersource and PowerStream as purchaser.

2. **AND THAT** the completion of the merger and the purchase of Brampton be conditional on the following:
    a. The terms of the Transaction being substantially as set out in the Merger Participation Agreement dated October 9, 2015, the Share Purchase Agreement dated October 8, 2015, the Unanimous Shareholders' Agreement dated October 9, 2015 and the draft PowerStream Solar Business Services and Indemnity Agreement dated October 5, 2015.
    b. Amendments to the agreements in a form satisfactory to the Chief Administrative Officer as follows:
        i. Unanimous shareholder approval required for mergers and acquisitions until 75% of the targeted synergy savings have been achieved;
        ii. Extension of the term of the Shareholder promissory notes for 20 years from 2016 with right to extend for a further 20 years, at the interest rate approved by the Ontario Energy Board;
        iii. Improvements to section 8.3 of the Unanimous Shareholders' Agreement to achieve clarity on the tax mitigation strategies for first and subsequent sales of shares in MergeCo that trigger departure and transfer taxes;

c. That a financial back stop be negotiated with one or more of the municipal partners participating in this Transaction, on terms satisfactory to the Chief Administrative Officer;
d. That the equity investment required to complete the merger and acquisition be no greater than $47.3M;
e. Approval of the Strategic Plan by the Board of Directors of MEC.

3. **AND THAT** the City work with MEC staff and other shareholders, to reduce the equity contribution required for the Transaction to occur, including but not limited to a formal, municipally led sale of 10% of MEC's shareholding in PowerStream with consideration for MergeCo's value.

4. **AND THAT** in the event that the sale is not successful, staff shall report back with alternate funding options, including funding options that will not require funding from the City of Markham.

5. **AND THAT** the Mayor and Clerk be authorized and directed to execute the Merger Participation Agreement, the Unanimous Shareholders' Agreement and the PowerStream Solar Business Services and Indemnity Agreement based on the draft Indicative Term Sheet, subject to any modifications or amendments approved by the Chief Administrative Officer.

6. **AND THAT** the Mayor and Clerk be authorized and directed to execute and deliver all other documents, notices, articles, certificates to be signed and or delivered under or in connection with the Merger Participation Agreement, the Unanimous Shareholders' Agreement or Share Purchase Agreement or to take any action(s) required to give effect to the foregoing resolutions;

7. **AND THAT** staff be authorized to do and to take any action necessary to give effect to these resolutions, including the execution of any documents.

EXECUTIVE SUMMARY:

The proposed Transaction that the City of Markham is considering consists of the merger of PowerStream Holdings Inc. ("PowerStream") with Enersource Corporation ("Enersource") and Horizon Utilities Corporation ("Horizon") and the purchase of Hydro One Brampton Networks Inc. ("Hydro One Brampton") to create the second largest local distribution company ("LDC") and the largest municipally owned LDC in Ontario. The Transaction is a very complex decision with many financial and non-financial variables, risks and opportunities.

In April 2015, PowerStream, Horizon and Enersource announced they were working together to merge and then acquire Hydro One Brampton from the Province of Ontario for $607M (1.5x rate base multiple ($405M) or a $202M premium over rate base) (the "Transaction"). The Transaction to create "MergeCo" would establish the second largest electricity distribution company in Ontario with almost 1 million customers in York Region, Simcoe County, Peel Region, Hamilton and St. Catharines's, with $2.7 billion in assets and a $2.5 billion rate base.

Under MergeCo, the current PowerStream Shareholders would collectively own approximately 46% of MergeCo, Enersource 31%, and Horizon 23%.The City of Markham owns 34.185% of PowerStream via its holding company Markham Enterprises Corporation ("MEC"). Under the merger, the City's ownership of MergeCo will be approximately 15.7%.

The equity investment required from the three PowerStream Shareholders to complete the purchase of Hydro One Brampton is expected to be $125M, with Markham's share being approximately $43M to $47.3M, with closing costs and adjustments.

In order to assist in analyzing all the options available, the three Shareholders of PowerStream retained industry experts, Navigant Consultants Ltd. and BDR North America Inc., with Navigant spearheading the business case analysis and financial due diligence, and Gowlings LLP for legal advice. PowerStream has agreed to pay the consulting costs incurred.

The consultants mandate was to review the business case for the proposed Transaction, specifically they were asked to provide a valuation of PowerStream to ensure its Shareholders value is maximized; compare the future value and cash flows of an unmerged PowerStream with MergeCo; consider the proposed MergeCo dividend policy's cash flow and options for future equity calls whether to the Shareholders or a private source; partnership options and long term value; analyze and consider risks and industry trends and provide any other relevant information including impact on Markham electricity ratepayers.

The analysis of the different options looked at the preservation of principle/diversification, return on investment, liquidity/control and impact to Markham LDC rate payers.

Under all funding options considered, the analysis indicates a return on the incremental investment greater than 5%.

Investments in PowerStream account for half of the market value of the City's investments, with the core business (poles and wires) being the single biggest investment for the City (38%). To date, the PowerStream core business has been one of the City's top performing investments as it has seen a significant increase in value in recent years. If the MEC Board and Markham Council approve the Transaction, the MergeCo core business would account for approximately 45% of the City's investments. This could be reduced to 41% if MEC sold 10% of its shares in PowerStream (with MergeCo considered) to help fund the Hydro One Brampton purchase.

In order to achieve the goals of: 1) maintaining the current levels of portfolio diversification; 2) taking advantage of the current market multiple being paid for LDCs; and 3) retaining funds to invest in future MEC initiatives, staff's preferred funding option (if the MEC Board and Markham Council approve the Transaction) is to sell up to 10% of MEC's shares in PowerStream (with consideration for MergeCo) which is estimated to generate approximately $30M. It is also recommended that the remaining equity be funded from a combination of cash that is currently retained in MEC and potential borrowing through MEC. Staff does not recommend the conversion of any part of the promissory note as it provides a solid revenue stream into the City's Life Cycle Reserve.

Risks relating to MergeCo include:

- Reduction in and timing of dividends and cash flows;
- Failure to achieve targeted level of synergies;
- Potential for earlier rate application (rebasing) than planned;
- Impact of disruptive technology;
- Declining market value;
- Regulatory framework change; and
- Potential path to private equity for future growth investment.

Legal considerations for the proposed Transaction are significant. Due diligence conducted by the LDC's themselves spanned the whole business from corporate registration and equity, property, environmental and asset condition, labour and employment including post-retirement benefit obligations, intellectual property, litigation and insurance and claims. City staff have not verified the due diligence done by other parties to the Transaction.

There are three major agreements driven by the proposed Transaction to create MergeCo:

1. Unanimous Shareholders' Agreement which sets out the Shareholder structure, board member allocation, matters for Shareholder approval including unanimous and super majority (2/3) approvals, the structure of PowerStream Solar to protect Markham, Vaughan and Barrie's original investment and expected cash flows, dividend policy, liquidity provisions, Strategic Plan, capital calls and future reorganization to establish a limited partnership (if approved by the OEB and federal government) that will limit tax consequences for the sale of 10% or more of MergeCo to allow for private equity investment.
2. Merger Participation Agreement, among the six municipalities, their holding companies, BPC Energy Corporation (Borealis), and the three LDCs, sets out the process for and the obligations of each party in proceeding to a closing of the merger.
3. Share Purchase Agreement sets out the terms for the purchase of Hydro One Brampton Networks Inc. from the Province of Ontario at the price of $607M, plus adjustments for Working Capital and Net Fixed Assets Adjustment, as defined

therein. This agreement will not be signed unless and until all of the parties agree to and execute the Merger Participation Agreement.

Prior to Closing, expected to be in the second quarter of 2016, a Transition Board is to be established, with the mandate to select the Executive Team for MergeCo, determine compensation, and other matters. This Board has not yet been established.

PURPOSE:

To provide Markham Council with recommendations regarding the proposed merger of PowerStream Holdings Inc. ("PowerStream") with Enersource Corporation ("Enersource") and Horizon Utilities Corporation ("Horizon") and purchase of Hydro One Brampton Networks Inc. ("Hydro One Brampton").

BACKGROUND:

<u>Opportunity</u>

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 Transaction is comprised of a merger of the regulated and non-regulated business activities of PowerStream, Enersource, and Horizon and an acquisition of the regulated electricity distribution business of Hydro One Brampton Networks Inc. 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.

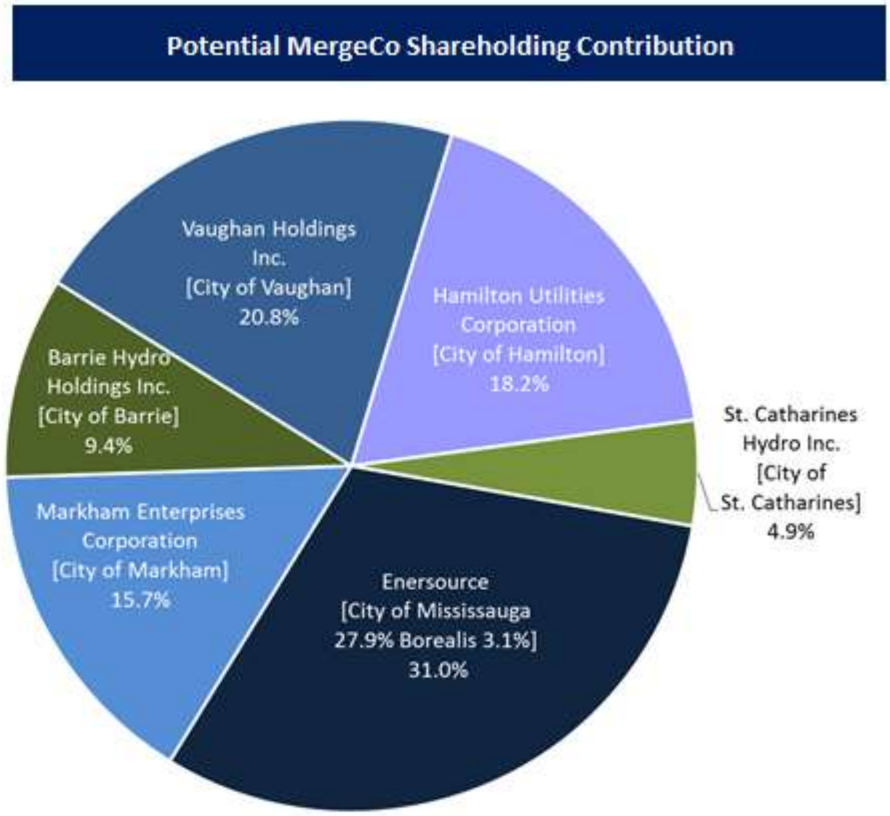
The Transaction will create the second largest LDC and the largest municipally owned LDC in Ontario with almost 1 million customers, $2.7 billion in assets, and $2.5 billion rate base.

The City of Markham owns 34.185% of PowerStream via its holding company, Markham Enterprises Corporation. The chart below illustrates the pre merger ownership shares:

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

Through negotiations, the relative value of PowerStream was determined to be 49.1% of MergeCo. During these negotiations, the PowerStream Shareholders elected to retain the cash flows from the PowerStream Solar business, as both PowerStream and Navigant concluded that the valuation of the Solar business was "outside (below) the range of reasonable results provided by Navigant's independent valuation model, even under the most conservative assumptions and scenarios". By segregating the PowerStream solar assets and revenues from the Transaction, the relative valuation of PowerStream decreases to approximately 46%. Navigant's review indicates that this is reasonable, and that the Shareholders are receiving appropriate value for the assets they are contributing.

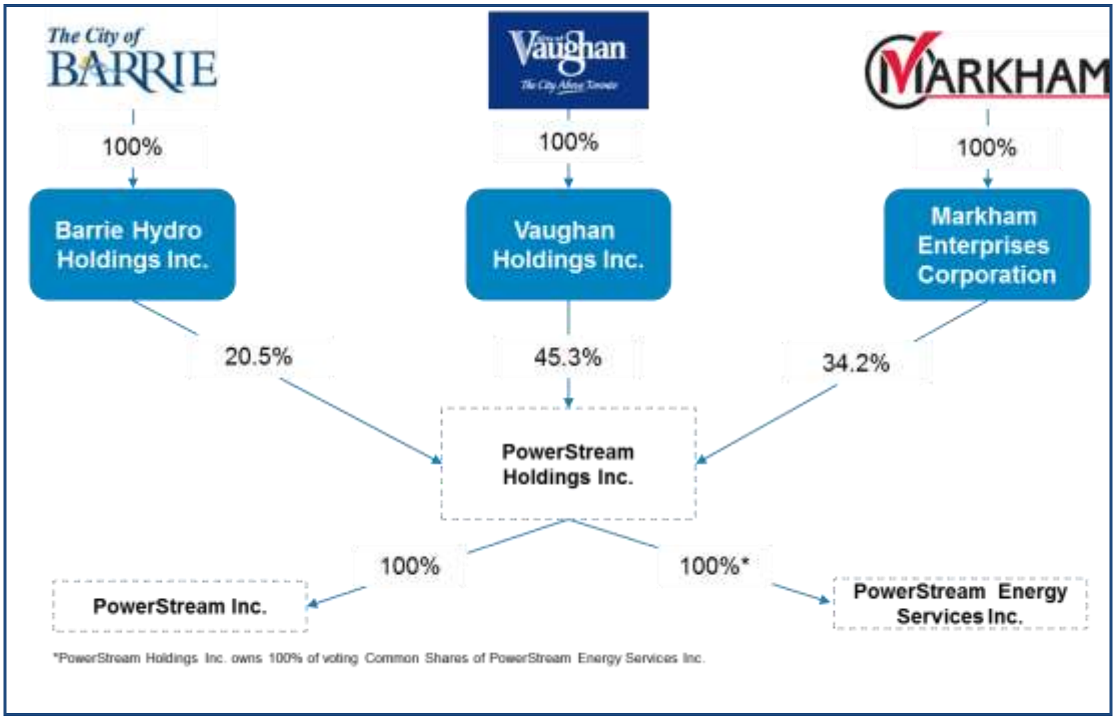
Under MergeCo, the former PowerStream Shareholders would own approximately 46%, Enersource 31%, and Horizon 23%. Under MergeCo, each Shareholder would now own the following proportion of the new company:



The equity investment required from the three PowerStream Shareholders is expected to be $125M, with Markham's share being approximately $43M (which could increase to $47.3M taking into account closing costs and adjustments). In 2013, Markham approved a $17.1M equity injection into PowerStream for core business to be provided between 2014 and 2016. If the Transaction is approved, Markham would not have to inject the final $5.1M in 2016. Therefore the total incremental equity injection for the Transaction would be between $37.9M to $42.2M ($43M to $47.3M less $5.1M).

Company Profiles

<u>PowerStream Inc.</u>
PowerStream Inc. (PowerStream) is the second largest municipally owned local distribution company (LDC) in Ontario, serving over 370,000 residential and commercial customers. PowerStream was formed in 2004, when Hydro Vaughan Distribution Inc., Markham Hydro Distribution Inc., and Richmond Hill Hydro amalgamated to form PowerStream Inc.
PowerStream is regulated by the OEB (Ontario Energy Board), and is jointly owned by the ccities of Barrie, Markham and Vaughan through their respective holding companies, Barrie Hydro Holdings Inc., MEC and Vaughan Holdings Inc." Markham, through MEC, owns 34.185% of PowerStream.



PowerStream Inc. operates the core distribution business, distributing electricity under a licence issued by the Ontario Energy Board. It also includes the PowerStream Solar and the Conservation Demand Management business units and a 50% ownership of the joint venture Collus PowerStream.

PowerStream Energy Services Inc. (PESI) was incorporated on July 25, 2013 to take advantage of opportunities in unregulated businesses, such as sub-metering. PESI began sub-metering operations in 2014, billing customers and securing contracts for new developments.

Enersource Corporation

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 Corporation

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 Networks Inc.
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.

Consultants

In order to assist in analyzing all the options available, the three Shareholders of PowerStream retained independent industry experts, Navigant Consulting Ltd. and BDR North America Inc., to spearhead the business case analysis and financial due diligence, and Gowlings LLP for legal advice. PowerStream has agreed to pay the consulting costs incurred.

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's 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 issues.

BDR has for many years managed and provided advice 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
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.

Gowlings has advised the City on all of the mergers and acquisition transactions undertaken by PowerStream, including the first merger of Markham Hydro Distribution Inc. with Vaughan's hydro company.

The consultants were hired to review the business case and provide analysis on legal and financial issues, including but not limited to the following matters:

1. An analysis regarding valuations and whether the PowerStream Shareholders are receiving an appropriate share of the merged company, taking into account items such as relative condition of assets, potential growth in customer bases, and involvement in unregulated businesses;
2. A analysis of the current and expected future value of PowerStream and the payouts to Shareholders (dividends and interest) compared to the expected value of the Shareholders interest in the merged company as well as the expected payouts to Shareholders;
3. A review of the proposed dividend policy and its impact on cash flows and the potential impacts either for future equity calls to Shareholders or the need to source private equity;
4. An analysis on how the Transaction(s) would impact the Shareholder's ability to divest their holdings (in whole or in part) taking into account tax implications and the political landscape;
5. Valuation of potential option of a new partner and the impact to cash flows (taking into account the premium and synergies) and long term value; and
6. An analysis of merger and acquisition benefits and risks, industry trends, and any other relevant information, including impact to ratepayers.

Decision Framework

When analyzing the different options, staff used the following criteria to determine the appropriateness of investment decisions and funding options:

Criteria	Ranking
Preservation of Principal	**1**
Diversification of investments	
Risk of loss of principal	
Return on Investment	**2**
Quantum of dividends and interest payments	
Risk of future unplanned equity injections	
Long term value/investment growth	
Liquidity/Control	**3**
Security of planned cash flow	
Future liquidity/ability to sell or extract value	
Impact to Markham LDC ratepayers	**4**

These criteria are, for the most part, aligned with the City's Investment Policy objectives.

The notable differences between the above Decision Criteria and the City's Investment objectives are that: 1) Return on investment is ranked higher than liquidity – this is because the City has sufficient liquid investments in the general portfolio to meet all operating and capital requirements for the foreseeable future, therefore this investment does not need to be as liquid, and 2) Impact to LDC ratepayers is not a consideration for other investments made by the City.

OPTIONS/DISCUSSION:

Numerous options have been analyzed over the past few months, the following three most viable options will be addressed in this report:

1) Do not merge (status quo)
2) Sell all, or portion, of PowerStream
3) The Transaction: 3-way merger (PowerStream, Enersource, Horizon) and purchase of Hydro One Brampton

The majority of the financial numbers in this document were provided by Navigant.

1) Status Quo

<u>Preservation of Principal/Diversification</u>

There is no additional investment to be considered under this option. MEC and the City did approve a $17.1M equity injection for PowerStream core business in 2013, of which $10.3M is still to be transferred to PowerStream in 2015 and 2016. While there are no immediate plans for any further equity injections past 2016, there does exist the possibility that PowerStream would make an equity call in the 2020-2025 time frame of approximately $10M to meet core business funding requirements. Forecasts indicate that this equity call would not be required under MergeCo.

<u>Return on Investment</u>
The City of Markham relies on the annual dividend and interest revenue earned from PowerStream; approximately $12 million in 2015 and expected to grow in future years. These cash flows are mostly the result of interest payments on a $67.9M promissory note (at an interest rate of 5.58%), dividends from PowerStream's core business, and dividends and equity repayment from PowerStream's solar business. The majority of these cash flows are transferred to the City's Life Cycle Replacement and Capital Reserve ("Life Cycle Reserve") to ensure the proper replacement of assets over the next 25 years.

It should be noted that, even under the status quo scenario, there are risks of receiving lower cash flows than forecasted (or PowerStream requesting additional equity injections) based on PowerStream being able to maintain its target debt/equity ratio each year.

Liquidity/Control

If MEC wanted to sell its investment in PowerStream, it would require the approval of both of the two PowerStream Shareholders. Any sale to the private sector for greater than 10% of the company would trigger significant departure and transfer taxes.

Under the Status Quo, MEC would maintain its 34.185% ownership of PowerStream and its influence with PowerStream management (through its 4 board members on the 13 member board).

Impact to Markham LDC Ratepayers

Under the status quo, there would be no merger synergies and therefore no potential distribution of cost reductions to LDC ratepayers in Markham. However, it is possible to achieve synergies in other ways, such as the consolidation of back office operations with other LDCs, although this would appear unlikely at this time. Maintaining the Status Quo does not preclude mergers with other LDC's in the future.

2) Sell All, or a Portion, of PowerStream

Under the existing Shareholder's Agreement, MEC would require the approval of both of the other two PowerStream Shareholders in order to sell any of their interest in the company. The following analysis assumes all existing Shareholders sell their shares in PowerStream.

Preservation of Principal/Diversification

By selling all, or a portion, of PowerStream, the Shareholders can capitalize on 1) historically high purchase multiples due to currently low interest rates (multiples tend to be highest when alternate investment opportunities are providing low yields) and 2) the upcoming 3 year tax holiday being offered by the Province which would significantly reduce the amount of taxes payable on a sale (of more than 10%) to the Private sector between January 1, 2016 and December 31, 2018. During the tax holiday, the Capital Gains Tax is eliminated, and the Transfer Tax is reduced from 33% to 22%. The Departure (Recapture) Tax remains at 26.5% during the tax holiday. The following table outlines the applicable taxes:

Tax		Current Rate	Tax Holiday Rate ('16-'18)
Recapture Tax	(Lesser of Sale Price or Book Value – Undepreciated Capital Cost) X Recapture Tax Rate	26.5%	26.5%
Capital Gain Tax	Sale price – (Book Value + Working Capital) X Capital Gains Tax Rate	9.5%	0%
Transfer Tax	Sale Price X Transfer Tax Rate – PILs (Payments in Lieu of Taxes already paid)	33%	22%

Even though the next three years provides a good window to consider selling the company, owning PowerStream provides for diversification of cash flows from MEC to Markham and acts as a hedge against low interest rates. By selling and reinvesting the proceeds in the bond market, Markham would be more negatively impacted in periods of low interest rates.

Return on Investment

If MEC sold all of its investment in PowerStream, it is expected the after-tax sale proceeds (and redemption of the promissory note) could net MEC and the City approximately $300-340M during the tax holiday, including redemption of the $67.9M promissory note. If these proceeds were to be invested in the bond market, the resultant annual interest earned would be approximately $9.0M to $10.2M/year (assuming a 3% rate of return), which is less than the $12M the City is receiving in 2015. Furthermore the bond interest amount would not grow each year as the PowerStream dividends would.

Therefore, selling PowerStream would result in lower cash flows to the City which would result in a shortfall in the City's Lifecycle Reserve, which would then require an alternate funding source (i.e. tax increase) to make it whole.

Liquidity/Control

If the Shareholders only sold a portion of PowerStream, they would have less control over the operations of the business.

Impact to Markham LDC Ratepayers

Unless PowerStream was sold to another LDC, there would be no merger synergies and therefore no rate reduction benefits to LDC ratepayers in Markham.

3) The Transaction: 3-Way Merger (PowerStream, Enersource, Horizon) and Purchase of Hydro One Brampton

The following analysis addresses the 3-way merger plus purchase of Hydro One Brampton ("the Transaction").

Hydro One Brampton has a Rate Base (or Book Value) of $405M and a purchase price of $607M (representing a 1.5X Rate Base multiple), which results in a $202M premium. Markham's portion of the purchase price would be approximately $43M (exclusive of closing costs and adjustments), calculated as follows.

Purchase price	$607 M	[A]
MergeCo debt financing	$202 M	[B]
Residual financing requirement	$405 M	[C] = [A] – [B]
PowerStream	$186	[C1] = 46% x [C]
Enersource	$126	[C2] = 31% x [C]
Horizon	$93	[C3] = 23% x [C]

Existing ‘debt capacity’	$223 M	[D]
PowerStream	$62	[D1]
Enersource	$61	[D2]
Horizon	$101	[D3]
Incremental equity investment	$182 M	[E] = [C] – [D]
PowerStream	**$125**	**[E1] = [C1] – [D1]**
Enersource	$65	[E2] = [C2] – [D2]
Horizon	($8)	[E3] = [C3] – [D3]
MEC Incremental Equity	**$43 M**	**[F] = [E1] x 34.185%**

Preservation of Principal/Diversification

PowerStream’s Vision is that “by 2020, (PowerStream) will build on (their) core electricity distribution business to become Ontario’s premier integrated energy services provider”. In essence, PowerStream’s vision is to grow the core business as well as increase the diversification of their portfolio. It is expected that the MergeCo vision will closely align with the current PowerStream vision. The Transaction will increase the Shareholders’ investment in their core LDC business (ie. “poles and wires”) but does not address diversification.

The intent of PowerStream’s diversification strategy is partially motivated as a defensive strategy against the potential for disruptive technology. However, by approving the Transaction, MEC and Markham could have limited funds remaining to participate in any of the future unregulated business investments. This may be rectified if the Province approves a Limited Partnership (LP) ownership structure that would allow for private investors to fund both core and unregulated investments without triggering the transfer and departure taxes. However the status of the LP structure proposal will not be known by the time the Transaction requires approval. As such, the decision to enter into the Transaction needs to be made as if the LP structure will not be approved and that Markham (and other Shareholders) may not be able to fund the diversification part of the strategy. In essence, the Transaction would further increase Markham’s exposure to the core LDC business and may leave limited funds to participate in other ventures.

In terms of preservation of principal, while the Rate Base is expected to keep growing, there is risk that the current multiples will decline in future years as interest rates creep back up. Furthermore, the Shareholders could incur significant transfer and departure taxes should they decide to sell more than 10% of MergeCo.

Even if the equity value increases over time, it will be extremely difficult to extract this additional value from the business.

Return on Investment

The return on investment is impacted by a number of factors, most importantly the purchase price of Brampton, PowerStream’s relative valuation, the forecasted synergies, and the impact to the promissory note interest.

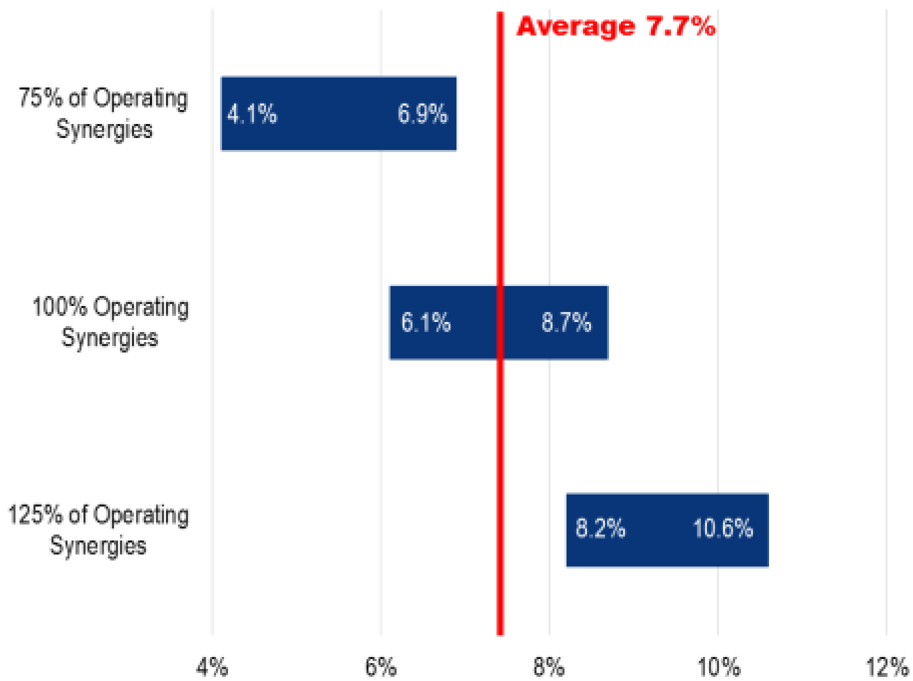
LDCs are allowed by the OEB to earn a return of 9.3% on their Rate Base. However, as Brampton's purchase price is 50% higher than its Rate Base, the actual rate of return that would be realized decreases. Navigant's opinion on the $607M price of Brampton is that it is "within, but at the high end of, market value".

An offset to the premium is that the Ontario Energy Board now allows LDCs to retain the benefits of synergies for up to 10 years. Navigant have analyzed these potential synergies and estimate them to be approximately $310M in net operating savings and $110-170M in capital savings over the first 10 years. Navigant have concluded that the forecasted synergies are "reasonable and achievable". There is, however, a risk that MergeCo would need to rebase prior to 10 years which would reduce the rate of return. The following chart shows the timing of the expected synergies:

The transition costs exceed the projected synergies for the first two years, which Navigant believe is a reasonable assumption. The timing of the synergies has an impact on expected returns to the Shareholders. The quicker MergeCo achieves the synergies, the greater the return. At a high level, if $1M of synergies does not materialize in a given year, Markham's dividend would likely be reduced by $75-150k. Conversely, if $1M of synergies materializes a year in advance, Markham's dividend could increase by $75-150k.

A downside to the Transaction is that the promissory notes that the PowerStream Shareholders hold will have their interest rates adjusted downward from 5.58% to approximately 4.54%, in order to align with the allowable rate of return that LDCs can recover from rates, as mandated by the OEB. This would result in a decrease in interest income to the City of approximately $0.7M per year. This is largely offset by an increase in equity return (i.e. dividends and retained earnings), since regardless of the outcome of this transition, the OEB only allows cost recovery for up to the deemed interest rate.

Taking all these issues into account, it is estimated that the $43M investment is expected to result in an approximate 7.7% return on investment. Navigant have forecasted this range could change to between 4.1% and 10.6% depending on the successful achievement of synergies.



While these calculations are important to note, the more significant financial numbers for Markham and MEC are the actual cash flows they will receive, as they are used to maintain the City's Life Cycle Reserve to ensure there is adequate funding for the repair and replacement of City assets over the next 25 years.

Looking at the cash flows, the simple (undiscounted) payback period is approximately 10 years assuming no closing costs/adjustments.

These payback timeframes can be reduced by funding the Transaction through conversion of promissory notes or a sale of up to 10% MEC's shares of PowerStream (with consideration for MergeCo).

The return on investment is not as favourable to Markham as it may be for some of the other Shareholders for 3 main reasons: 1) the decrease in the promissory note interest rate only impacts the PowerStream Shareholders as St. Catharines, Hamilton and Mississauga do not have any promissory notes; 2) the dividends to MEC related to the PowerStream solar business are expected to decrease by $1M - $2M because of this Transaction, since MergeCo will be allocating higher interest charges (than would exist for the business under the Status Quo) and altering the dividend policy to delay cash flows to Shareholders, which impacts Markham, Vaughan and Barrie; 3) The PowerStream Shareholders are putting in $125M of equity, while the other Shareholders are putting in a combined $57M (Horizon Shareholders do not have to inject any equity into the deal). The relatively higher equity injection results in a less favourable return on investment.

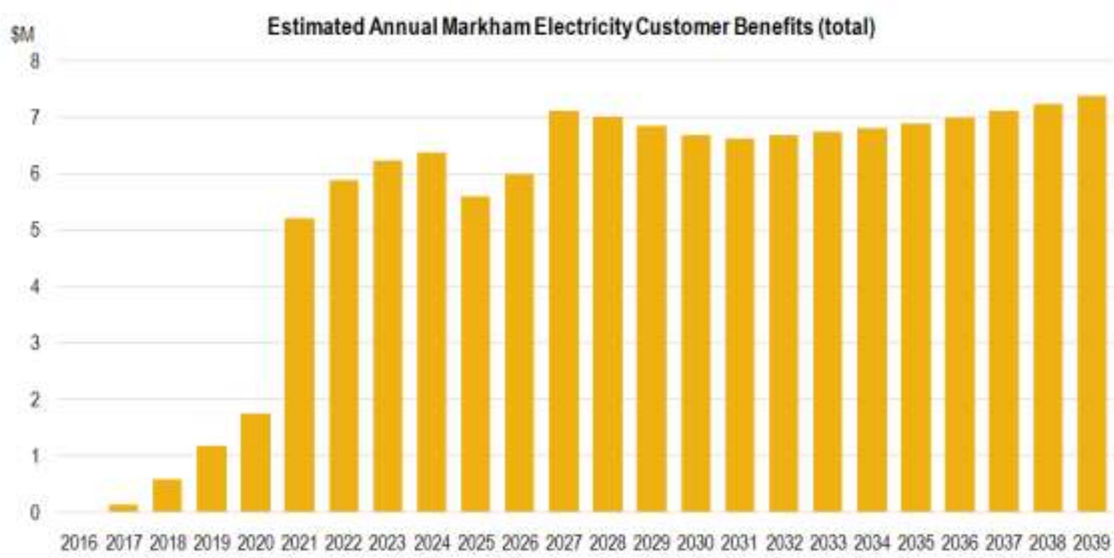
Liquidity/Control

If the Transaction occurs, MEC will have less control over the management of the business as more issues will only require Board, not Shareholder approval. MEC will only have two representatives on the 13 person Board. This may be reduced to one representative if MEC's share percentage drops below 15.38%.

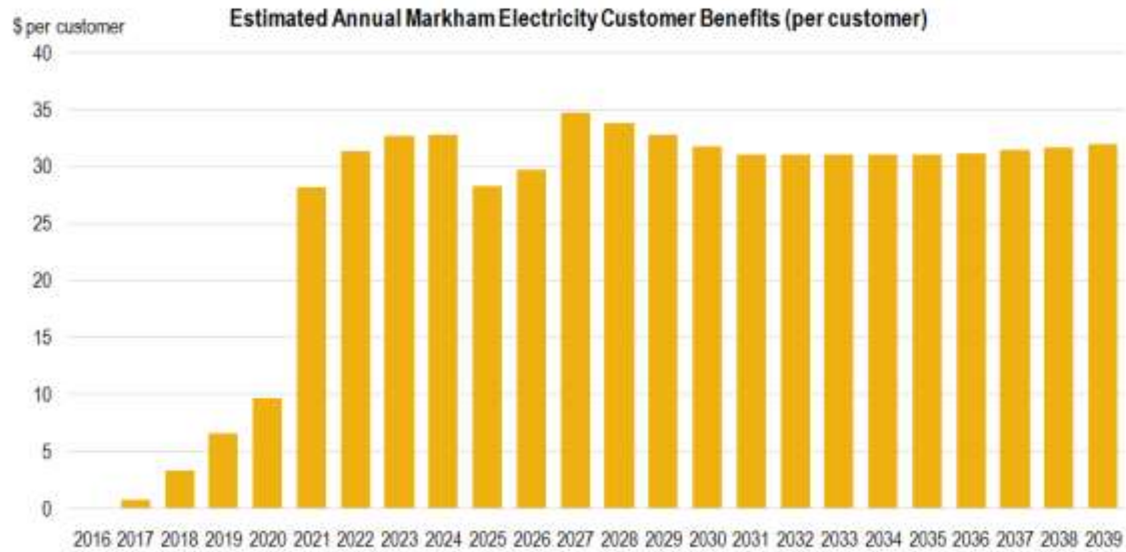
With respect to liquidity provisions, Navigant's view is that under MergeCo "..an exit from the PILs regime (is) at least no worse than the Status Quo, while providing that only a super-majority (two thirds) consent is required, as compared with unanimous consent today."

Impact to Markham LDC Ratepayers

The Transaction is forecasted to result in a favourable impact to Markham LDC ratepayers due to the operating and capital synergies in the amount of $64M (net present valued at a 5% discount rate).



Over the first 25 years, it is estimated that the Transaction could result in savings of approximately $40 per year (average) for each rate payer on the distribution portion of the electricity bill. However, as that figure includes non-residential and bulk-metered multi-residential accounts, the savings for an average resident is estimated to be approximately $24-30 per year, with the first significant savings occurring in 2021. The following chart shows the annual savings for the average residential customer in Markham:



It is important to note that hydro rates are expected to keep increasing over this period due to transmission, commodity, Global Adjustment, and debt portions of their bill, so the projected savings from the Transaction will only partially offset the expected increases.

The impact to Markham owned facilities are estimated to result in savings of approximately $60,000 per year.

FINANCIAL CONSIDERATIONS:

There are numerous complexities with each option given their unique positive and negative aspects, including the risk profile, impact on control, cash flow expectations, and benefits to ratepayers and other considerations, so that on balance, depending on one's perspective of the future of the utilities sector in Ontario, each option could be considered viable.

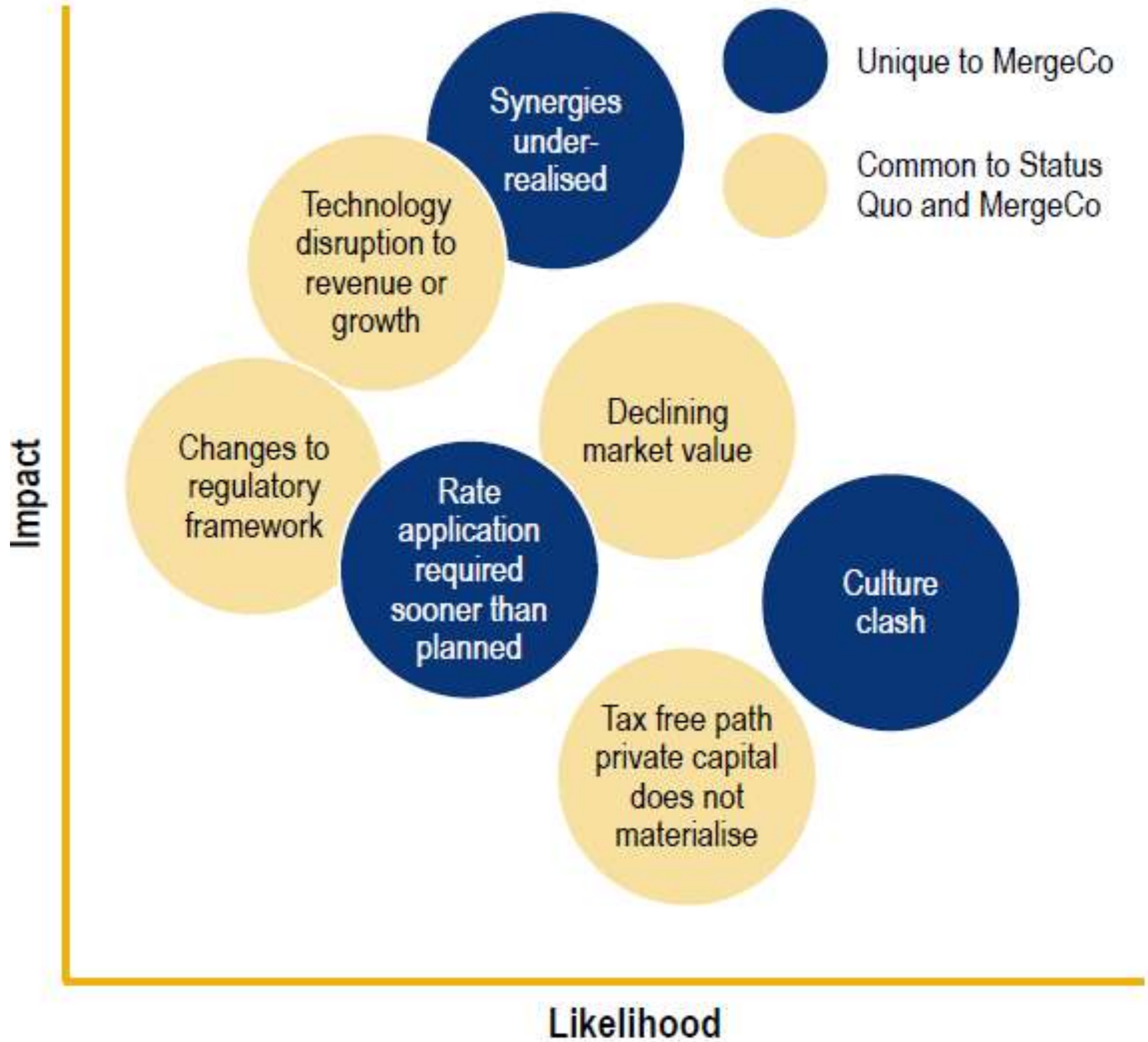
Risks

There are numerous risks involved in the proposed Transaction. The following charts (prepared by Navigant) summarize some of the risks to the forecasted return on investment (bolded items are unique to MergeCo):

Risk	Description
Culture clash	**Each of the four companies has a unique corporate culture. To the extent the new company is not effectively able to integrate the four cultures and retain PowerStream's strong innovation culture, the ability of the company to grow could be hindered.**
Synergies under-realised	**There is a risk that projected merger synergies are not realized. Navigant feel that the forecasted synergies are realistic. Note: the timing**

	of the synergies is important. MergeCo needs to be able to realize the savings early on during the first ten years while they can retain the benefits. After ten years, the benefits flow to the ratepayers.
Rate application required sooner than planned	**Significant value in the Transaction is predicated on effectively managing the regulatory framework and deferring a full rate application for the next ten years. Unforeseen events could force MergeCo to seek new rates sooner, thus transferring the benefit of operating synergies from the Shareholders to electricity customers sooner. Navigant has roughly estimated that rebasing one year earlier would reduce the value of the Transaction to the PowerStream Shareholders collectively by approximately $2M and would reduce the internal rate of return by approximately 0.2%. For Markham, this represents a risk of less than $700k. Navigant's view is that the management of the new company has a number of levers at its disposal to mitigate the early rebasing risk. For example, management could take more aggressive action to increase the synergies or defer capital projects until closer to the 10-year rebasing point. Navigant has characterized the risk as less than likely (i.e. less than 50%).**
Disruptive technology	Disruptive technologies could impact existing revenue and potential for core growth; conversely, these technologies could create new market opportunities for MergeCo. Navigant does not expect this risk to be impactful on the revenue/profitability of the poles and wires utility in Ontario over the next five to ten years.
Declining market value	Low interest rates and low yields are driving up transmission and distribution utility values; absent growth, utility valuations will likely remain stable or decline as interest rates normalize; Ontario's regulatory environment acts as a partial hedge, as the approved return on equity for electricity distribution utilities tracks changes in interest rates.
Regulatory framework change	The Ontario Energy Board has the ability to change the regulatory framework, in part or full, including the formula used to establish the approved return on equity.
Path to private equity does not materialise	Currently, there is a significant tax associated with accessing private capital to fund future growth; an alternative corporate structure that would reduce the impact of this tax was proposed, but a definitive decision from government will not be available prior to the Transaction approval date.

The following chart, prepared by Navigant, details the impact and likelihood of some of these risks:



Cash Flows/Return on Investment

The rate of return, risk profile and cash flows vary significantly depending on the funding source(s) being used to fund Markham's $43M-$47.3M investment. The following analysis is based on Navigant's cash flow model which incorporates the change in expected dividends, the reduction of the City's Promissory Note interest revenue (from 5.58% to 4.54%), and the impact of the Transaction on the projected dividends from PowerStream Solar.

Funding options include: 1) injection of equity from City of Markham, 2) debt (assuming a 4% borrowing rate), 3) conversion of promissory notes, and 4) a sale of up to 10% of PowerStream (with consideration for MergeCo) (it is estimated MEC could receive approximately $30M from the sale of 10% of PowerStream at a 1.5X multiple). The following table, provided by Navigant, outlines the forecasted net present value (NPV) of cash flows of each option (discount rate of 5%), taking into account the varying up front

Option	Funding Source	Cash flows Years 1-10	Cash flows Years 10-24	Cash flows Years 25+ (Terminal Value)	**Total**	**Change from Status Quo**
1 – Status Quo	N/A	$78M	$128M	$164M	**$370M**	
2 – Sell	N/A	$320M	-	-	**$320M**	**($50M)**
3 - Transaction	Equity	$66M	$134M	$179M	**$379M**	**$9M**
3 - Transaction	Debt	$87M	$117M	$179M	**$383M**	**$13M**
3 – Transaction	Promissory Notes	$94M	$122M	$166M	**$381M**	**$11M**
3 - Transaction	10% sale and Equity	$92M	$122M	$164M	**$378M**	**$8M**

outlay required to effect each:

The cash flow analysis indicates that, at a 5% discount rate, the Transaction generates an additional $8M-14M, depending on funding source.

There are many different ways to examine the relative cash flows and each Shareholder may have a different view on what is important based on how they utilize dividends and interest income in their respective budgets. For Markham, these income streams are allocated to the City's Lifecycle Reserve to ensure the repair and replacement of the next 25 years of City infrastructure given known inflows and outflows. Therefore, funding options that would reduce cash flows in the first 25 years (such as through borrowing or an equity injection) are less preferable since any change to the cash flows will have an impact on the reserve that could necessitate a tax rate adjustment.

Preferred Funding Option

Investments in PowerStream account for half of the market value of all the City's investments, with the core business ("poles and wires") being the single biggest investment for the City (38%). To date, the PowerStream core business has been one of the City's top performing investments as it has seen a significant increase in value in recent years. If Markham Council approves the Transaction, the MergeCo core business would account for approximately 45% of the City's investments (in terms of market value). This could be reduced if MEC sold 10% of PowerStream (with consideration for MergeCo) to help fund the Brampton purchase. However, Markham's exposure to the core LDC business would increase to over 40% under any funding scenario for the Transaction.

In order to achieve the goals of: 1) maintaining the current levels of portfolio diversification; 2) taking advantage of the high market multiple being paid of LDCs, 3) maximize cash flows in the first 25 years; and 4) retaining money to potentially invest in future MEC initiatives, staff's preferred funding option is to sell up to 10% of its shares in PowerStream (with consideration for MergeCo), which is estimated to generate approximately $30M. It is also recommended that the remaining equity to be funded come from a combination of cash that is currently retained in MEC. This option provides for an $8M uplift in net present value cash flows. Staff does not recommend the conversion of any of the promissory notes as they provide a solid revenue stream into the City's Life Cycle Reserve.

Proposed Funding

Equity Contribution for Transaction	$43.0M
Add: Closing Costs/Adjustments Contingency	$4.3M
Less: 10% sale of PowerStream	($30.0M)
Less: 10% reduction in Markham's share of Transaction	($4.3M)
Less: Equity already committed for 2016	($5.1M)
Remainder to be funded*	$7.9M

*through MEC debt or equity

It should be noted that selling 10% of PowerStream (with consideration of MergeCo) is estimated to generate approximately $30M assuming a 1.5X multiple. However, that price could prove to be optimistic since the selling of a minority interest has not been fully tested in the market. If the market does not meet these expectations, it may not be prudent for MEC to sell a 10% stake in PowerStream (with consideration of MergeCo).

Backstop

In order to protect against the risk of not being able to sell 10% of PowerStream (with consideration of MergeCo) at the forecasted 1.5X multiple, Markham is pursuing a backstop where one (or more) of the municipalities participating in the merger would fund Markham's $43M - $47.3M contribution in exchange for a prorated equity stake in PowerStream (which would reduce Markham's position in MergeCo from 15.7% to 13.5% -13.7%). If the 10% sale of PowerStream does not occur, staff will report back with alternate funding options which could include any of the aforementioned sources, including the backstop.

LEGAL CONSIDERATIONS:

Each of the LDC's retained legal counsel to complete legal Due Diligence on the parties as follows:

- PowerStream engaged Gowlings LLP to review Enersource
- Horizon engaged Stikeman Elliot LLP to review PowerStream
- Enersource engaged Borden Ladner Gervais LLP to review Horizon and Hydro One Brampton

The Business Plan prepared by the LDC's indicates that the scope of the legal due diligence included:

- Corporate registration and equity instruments;

- Financial matters, in particular credit agreements;
- Real property (owned/leased), as well as registered easements;
- Regulatory filings and orders;
- Distribution system plan and asset condition assessments;
- Labour and employment matters, including post-retirement benefits plans;
- Major contracts and commitments;
- Environmental matters;
- Intellectual property rights;
- Ongoing litigation; and
- Insurance coverage and claims.

MEC has not, nor has any of the other PowerStream Shareholders, duplicated this due diligence work. Our work has centered on the financial aspects and terms of the Transaction and the documents that are being drafted to implement the terms of the Transaction, if approved.

Unanimous Shareholders' Agreement ("USA")

This agreement establishes the governance framework for MergeCo and deals with matters including representation on the Board of Directors, sale of shares between Shareholders or third parties, items requiring unanimous or less consent of the Shareholders, etc. Attached as Appendix '1' to this report is a chart comparing the provisions of the existing PowerStream Unanimous Shareholders' Agreement (PSI USA) and the latest draft of the MergeCo Unanimous Shareholders Agreement (MergeCo USA). This section of the report deals mainly with those provisions that differ from the PSI USA.

Structure

The corporate structure on closing of the merger will be as shown on Appendix '2' hereto. On closing of the merger (and acquisition of Brampton), MergeCo, which will operate as a holding company, will be directly owned by:

- Markham Enterprises Corporation (MEC)
- Vaughan Holdings Inc. (VHI)
- Barrie Hydro Holdings Inc. (BHHI)
- Enersource Corporation (EC)
- Hamilton Utilities Corporation (HUC)
- St. Catharines Hydro Inc. (SCHI)

MergeCo will have three subsidiaries, namely:

- Horizon Solar Corp.
- LDC Co.
- Energy Services (ES) Co.

Horizon Solar Corp., with its own solar assets, will be the corporate vehicle to expand MergeCo's solar assets. PowerStream's existing solar assets will remain in MergeCo.

LDC Co. will operate the electricity distribution enterprise, and ES Co will operate the unregulated businesses.

The current proposal is to keep all of the LDC head offices for a minimum of ten years, during which unanimous Shareholder approval would be required for any re-location. The most recent version of the USA requires 66 2/3 approval (super majority) for any such relocation after ten years.

The corporate head office (Corporate Relations, General Counsel, Finance and Internal Audit) will be located in Mississauga at the Derry Road facility. The Utility Office (Network Service, Network Operations, Customer Service and M&A Business Development) will be located in Hamilton at the John Street Facility and the Sustainability and Innovation Office (Business Development, Technology, Renewable Generation, Energy Service and CDM) will be located in Vaughan at the Cityview Blvd. facility.

Relative Shareholding and Board Structure

The work done by Deloitte was the basis for the negotiation of the relative shareholdings of each of the Shareholders, and the number of directors to be nominated by each Shareholder, as follows:

Shareholder	**Ownership**	**No. of Appointees to Board**
EC	(31.0%)	4
VHI	(20.84%)	3
MEC	(15.72%)	2
HUC	(18.15%)	2
BHHI	(9.43%)	1
SCHI	(4.85%)	1

The initial allocation of Board representatives was negotiated by the parties to the merger. For a minimum of six years after the merger, Markham's number of representatives on the Board of Directors will not change, notwithstanding any changes in Markham's relative share. After the later of that initial six years, and the introduction of any new shareholders, Board representation will be based on the ratio of one representative for each 7.6923% ownership interest. Markham's ownership share will initially be 15.72% and even a small reduction in Markham's ownership interest would take Markham below the 15.3846% required to support two Board representatives. The USA also provides that the "founding" Shareholders will always, notwithstanding the amount of their ownership, be entitled to not less than one Board representative.

Board Members

The MergeCo USA requires that a majority of the Board be composed of Independent members: members who are not members of council or employees of municipal Shareholders, who are not and have not been, during the three years before his or her appointment, a Shareholder, an officer or employee of a Shareholder, a municipality or

MergeCo. The Chair and Vice-Chair of the Board are required to be Independent members.

Each municipal Shareholder may appoint up to one non-Independent Shareholder representative, even if it is the only Shareholder representative to which they are entitled. The municipal Shareholders may appoint more than one independent representative if their ownership share entitles them to more than one representative on the Board, but may not appoint more than one non-Independent.

The USA provides for a “Pre-Approved Shareholder”, in effect a new, permitted equity partner, defined to include the following and their affiliates:

- any public or quasi-public Canadian pension fund-with assets in excess of $5B;
- Canadian banks with assets in excess of $250B;
- Canadian life insurance companies with assets in excess of $10B;
- Credit unions with assets in excess of $5B; and
- Investment funds with assets in excess of $10B

Notwithstanding the above noted definition of Independent members, Pre-Approved Shareholders may appoint one of their directors, officers or employees as their Shareholder representative, if entitled and such appointee will be deemed to be an Independent member. BPC (Borealis) is specifically entitled to appoint a director, officer or employee, through MergeCo’s Shareholder, Enersource, who will be deemed to be an Independent member.

The Board may establish a Human Resources and Governance Committee (HRGC), who will make recommendations to the Board and its Shareholders~~,~~ with respect to candidates for the Board who have specified qualifications and experience~~,~~ in, for instance, corporate governance, human resources, mergers and acquisitions, finance, utility management, generation, etc. Shareholders are not required, however, to select their nominees to the Board from among the candidates recommended by the HRGC.

The Board may also appoint members to an Audit Committee. While the membership of the HRGC is prescribed (three Independent members), the composition of the Audit Committee is not.

Quorum for the Board is a majority of the Board. Any 7 members of the Board in attendance in person or by telecommunication facilities will constitute a quorum. In the PSI USA, there were requirements for members from each Shareholder to be present, for quorum.

<u>Matters for Shareholder Approval</u>

The existing PowerStream USA establishes 18 items that require Unanimous Shareholder Approval. All other matters may be decided by the Board. The MergeCo USA has only 8 matters that require Unanimous Shareholder Approval. In addition, there are 14 matters that require 66 2/3% approval by the Shareholders of MergeCo, a “super majority” or SM. All remaining items may be decided by the Board. The chart attached as Appendix "1" compares the items requiring unanimous Shareholder approval and super majority ("SM") approval. The effect of the significant changes from the PSI USA is that the Shareholders lose a significant measure of control over material decisions (in fact, a veto in 18 matters) and their role moves to that of an investor rather than a shareholder in control. Overall, much more power will reside in the directors of MergeCo, than is the case with the directors of PHI. This is, however, not unusual in circumstances with more Shareholders having smaller ownership percentages in the corporation.

One of the more significant differences between the two agreements is that no Shareholder of MergeCo is required to contribute more funds to the corporation by way of debt or equity, however, the corporation may proceed with the other Shareholders contributing debt or equity and the shareholding of the Shareholder who does not so contribute will be reduced or diluted.

The MergeCo USA requires the initial Strategic Plan to be attached to the agreement, which effectively means that it requires unanimous Shareholder approval. Amendments to the Strategic Plan will require approval by a special majority of the shareholders or all of the directors. Staff have not seen a draft of this Plan. It will be developed by the Transitional Board (see below) and appended to the USA as a schedule.

Recent changes to the USA include a reduction in the threshold for Board – only approved acquisitions from $100M to $75M. Transactions above the $75M threshold require super majority approval of the shareholders. Markham has requested an amendment to the USA to require unanimous shareholder consent for all acquisitions and mergers of regulated businesses until the later of the third anniversary and achievement of 75% of projected synergies.

PowerStream Solar Business

The final relative shareholding in MergeCo for the PowerStream Shareholders was determined with the solar assets of PowerStream excluded, as discussed above, to achieve better preservation of the value of the assets and to preserve the cash flows from the solar business. To that end, the PowerStream Shareholders will receive additional "Class S shares", which will pay dividends in accordance with the draft solar dividend policy, to stream the net income from the existing PowerStream solar operations and achieve the return of Shareholder equity to the former PowerStream Shareholders. The assets will be managed by MergeCo pursuant to the provisions of a Management Services Agreement, along with other existing and future solar assets. A draft of the term sheet for this agreement has been reviewed. A further draft was recently provided. These terms must be finalized before final approval of Transaction.

Dividend Policy

The initial dividend policy will be attached to the USA. The draft policy has been revised recently to address concerns expressed by Markham and the Shareholders, deleting criteria regarding "insufficient capital investment in electricity distribution infrastructure" and "impediment to growth". In addition, MEC staff requested that the dividend policy for the Solar Shares be separated from the Common Shares policy, and this has also been addressed in the latest draft of the policy.

The Common Shares policy will have a target of 60% of net income to be distributed to Shareholders through dividends. Declaration of dividends is a discretionary matter for the Boards of corporations.

Liquidity Provisions
The liquidity restrictions operate at two levels: they apply to both the shares of MergeCo and the shares of the municipal holding companies (i.e., MEC). All transfers are prohibited unless they are expressly permitted, and the USA contain several express permissions.

Internal reorganizations (for example, if Markham wants to transfer its MEC shares to another holding company) are permitted without any approval requirements.

Pre-Approved Shareholders (the pension funds and other financial investors referred to above), and any other third party approved by all the MergeCo shareholders (a Pre-Approved Third Party), may buy up to 10% of MEC and the other municipal holding companies through the issuance of new shares without any approval requirements. This provision is intended to enable shareholders to fund, in part, their equity commitment to MergeCo needed to pay for Hydro One Brampton, although it is not restricted as to time. However, the USA contains terms providing Borealis with a first right to negotiate in good faith the purchase of these newly-issued shares for 20 days, based on a non-binding valuation done by an approved valuator. This provision is significantly better from MEC's perspective than a ROFO (Right of First Offer) as (i) the Offering Shareholder (MEC) and Borealis will go into the negotiation having a good sense of the value, (ii) there is no absolute commitment to sell to Borealis beyond the requirement to negotiate in good faith on an exclusive basis and (iii) if Borealis and the Offering Shareholder don't reach an agreement, the Offering Shareholder can then sell its newly-issued shares to a Pre-Approved Shareholder or Pre-Approved Third Party at whatever price it wants without any time constraints.

Any sale of shares of MergeCo itself is subject to a ROFO in favour of the other shareholders.

The first sale of 10% or more of MergeCo to a non-municipal shareholder will trigger a significant departure tax calculated on the full value of MergeCo. If a transfer of MergeCo shares to such a third party by one or more shareholders is approved by shareholders holdings at least 66.66% of the issued and outstanding shares, the Transferring Shareholders will remain responsible for the payment and indemnity of any tax payable by either MergeCo, the non-Transferring Shareholders or their Principals (municipalities). However, the non-Transferring Shareholders and their Principals must take all fair and reasonable steps to reduce this indemnity obligation and any taxes otherwise payable by the Transferring Shareholder. Additional negotiations on these provisions is required to ensure that, to the extent possible in the context of a changeable tax regime, all parties understand their obligations to mitigate taxes payable on the first and any subsequent sales of shares.

In the event that Markham sells up to 10% of MEC to Borealis or any other third party, some corporate reorganization of MEC will be required to ensure that the shares of Markham District Energy Inc. and the Class S (solar) shares are not held by the holding company in which a third party has invested equity. In this circumstance, a second holding company would likely be established.

All share Transactions are subject to the “anti-flip” provisions in the Hydro One Brampton Share Purchase Agreement which prohibits:

- Sale of more than 49% of MergeCo within three years after closing; and
- Sale of the Hydro One Brampton business within five years of closing

<u>Financing (Capital Calls)</u>
No Shareholder is required to respond to a capital call from MergeCo~~,~~; however, if MergeCo proceeds with the other Shareholders or third parties, the non-responding Shareholder’s ownership interest will be reduced. As indicated earlier, Markham’s ownership interest in MergeCo is very close to the threshold for two representatives on the Board. Not responding to a capital call could result in Markham's ownership share falling below that threshold and the loss of one board representative after the six year period referred to above.

<u>Future Reorganization</u>
The USA provides for a future re-organization, establishing Limited Partnerships for subsidiaries, if approval of the OEB and a favourable federal tax ruling can be obtained. The advantage of this alternative corporate structure is the elimination of the potentially adverse tax consequences for sales of more than 10% of MergeCo to non-municipal third parties.

<u>The Merger Participation Agreement</u>
This agreement is between the six municipalities, their holding companies, BPC Energy Corporation (Borealis), and the three LDCs and sets out the process and the obligations of each party in proceeding to a closing of the merger. It includes, among other provisions:

- The allocation of shares to each of the Shareholders
- Covenants by each of the parties for appropriate adjustments to be made on closing to ensure that each of the LDCs comes into the Merger with a prescribed level of “net working capital” (generally, current assets less current liabilities) and a prescribed ratio of net operating assets to total debt. If an LDC has more than the prescribed amounts, its Shareholders will be entitled to an adjustment payment and if an LDC has less than the prescribed amounts, the LDC will be required to fund the difference.

- The customary and negotiated representations and warranties, indemnities and other documents to be provided by each of the parties, primarily the LDC's, but including deliverables by MEC (and other Shareholders') officers on closing

This agreement must be signed in order for the Share Purchase Agreement to be executed.

Share Purchase Agreement

This agreement sets out the terms for the purchase of Hydro One Brampton Networks Inc. from the Province of Ontario at the price of $607M, plus adjustments for Working Capital and Net Fixed Assets Adjustment, as defined therein. This agreement will not be signed unless and until all of the parties agree to and execute the Merger Participation Agreement.

All three LDCs are parties to the Agreement, as well as Her Majesty the Queen in Right of Ontario as Represented by the Minister of Energy, Brampton Distribution Holdco Inc. and Hydro One Brampton Networks Inc. Upon closing of the Transaction, Hydro One Brampton Networks Inc. will become part of a wholly-owned subsidiary of MergeCo. The expected time for closing is the second quarter of 2016.

This agreement sets out the anti-flip provisions required by the Province of Ontario referred to above.

Prior to Closing

A Transitional Board is to be established, with the mandate to select the Executive Team for MergeCo, determine compensation, establish the Strategic Plan and possibly other matters. This Board has not yet been established.

Improvements to the Transaction

Over the past month, staff have requested the following improvements to the Transaction:

1) Staff requested that unanimous Shareholder approval be required for all mergers and acquisitions in the regulated business until achievement of the long term targeted annual OM+A synergies.

   The USA is being modified to add language that unanimous shareholder approval would be required until 75% of the synergies are achieved. Staff are satisfied with this outcome.

2) Staff requested that the founding Shareholders retain their original Board seat allocation for ten (10) years provided that they retain minimum of 75% of their original number of shares.

The most recent USA states that Markham shall be entitled to two board members until the later of: (A) the end of the sixth annual meeting of the Shareholders (six years from the date of this Agreement); (B) the end of the first annual meeting of the Shareholders after the introduction of a new shareholder; and (C) the end of the first annual meeting of the Shareholders after any Shareholder acquires the Voting Shares of another Shareholder. Staff are satisfied with this outcome.

3) Staff requested revisions to clause 8.3 of the USA to identify specific actions/obligations of Shareholders to reduce tax liability on sales of shares.

   An "aide-memoire" has been prepared to confirm the intent of Clause 8.3 and to provide examples of how any process to mitigate the tax liability would be applied to the first and subsequent movers under the current tax regime, although this document has no legal status. The City is looking for further wording in Section 8.3 on the objectives intended by this clause, as well as more clarity. Staff are not satisfied at the moment but recommend to make satisfactory amendments a condition of closing.

4) Staff requested that the City's promissory note with PowerStream that expires in 2024 be allowed to be extended.

   Staff have been advised that there is agreement among the merging parties that the Municipal Promissory Notes may be extended for a 20 year term from 2016, with an additional extension not to exceed a further 20 years, all at the interest rate permitted by the OEB. Staff are satisfied with this outcome.

5) Markham sought to get clarification for the province with respect to the potential of approving the Limited Partnership structure (to help reduce or defer future taxes).

   The Province responded with a letter dated October 6, 2015 addressing the issues, but they did not provide any firm commitments. As such, Markham must enter into the deal under the assumption Limited Partnerships may not be approved.

6) Successful negotiations of a municipal backstop can reduce Markham's equity commitment to the transaction should a 10% sale of PowerStream not prove to be successful. Negotiations on this continue.

ENVIRONMENTAL CONSIDERATIONS:

<u>Corporate Sustainability</u>
Staff are pleased to see Sustainability and Innovation as a key business area. This continues the sustainability leadership that PowerStream, Horizon, Enersource and Brampton have shown to date.

PowerStream has been recognized for its sustainability leadership numerous times. Horizon is a leader in sustainability and sustainability reporting using the Global Reporting Initiative. Enersouce supports a number of community programs to promote sustainability in their service territory. Horizon, Enersource and Hydro One Brampton are ISO 14001 registered, which means their environmental management systems consider issues relevant to their operation and promotes continual improvement in this area. It is anticipated that MergeCo will continue to demonstrate leadership in sustainability

Attachments:

Attachment "1" – Gowlings Chart comparing USA
Attachment "2" – Structure Chart

Trinela Cane, Commissioner, Corporate Services

Andy Taylor, Chief Administrative Officer

APPENDIX ‘1’

CHART COMPARING

POWERSTREAM UNANIMOUS SHAREHOLDERS AGREEMENT (“PSI USA”) AND

PROPOSED MERGECO UNANIMOUS SHAREHOLDERS AGREEMENT (“MERGECO USA”)

A. DIRECTORS AND OFFICERS OF MERGECO

Subject	PHI USA	MergeCo USA
Composition of Board and Nominees	PHI has 13 directors nominated by its shareholders based upon their respective share ownership, as follows (the approximate percentage that each shareholder owns of PHI is indicated too): • VHI 6 (45.315%) • MEC 4 (34.185%) • BHHI 3 (20.5%)	MergeCo will also have 13 directors based upon their respective share ownership). For the first 3 years, the shareholders will have the following nominees (approximate percentage that each shareholder will own of MergeCo is indicated too) : • Enersource 4 (31.0%) • VHI 3 (20.84%) • MEC 2 (15.72%) • HUC 2 (18.15%) • BHHI 1 (9.43%) • SCH 1 (4.85%) After 3 years, each Shareholder is entitled to 1 nominee for each 7.6923% ownership interest. Each initial Shareholder will always have the right to appoint 1 nominee even if its ownership interest is diluted below 7.6923%.

Subject	PHI USA	MergeCo USA
		It is assumed that Enersource will use one of its board positions to appoint a representative of Borealis to the MergeCo board (Borealis owns 10% of Enersource).
	No requirement for staggering Board appointments	After 3 years, the Board appointments will be staggered so that within the following 3 years, only 4-5 directors' terms will expire in any year. Terms will be selected by random lots at the beginning of the 4th year, so that 4 directors' terms (minimum of two Independents) expire in one year, 4 more directors' terms (minimum of two Independents) terms expire in two years and the final 5 directors' terms expire in three years. Subsequent terms are all three years.
Independence of Directors	No independence requirement.	A majority of the directors must be "Independent", which is defined to mean an individual who: (a) is not the mayor, a councillor, a member of a "local board" or an employee of any municipality in which MergeCo operates; (b) is not, and during the 3 years before appointment, has not been a shareholder, an officer or an employee of any Shareholder or "Principal" (defined to mean any municipality or of MergeCo itself); (c) is not a director of any Shareholder; and (d) does not otherwise have a "material relationship" with a Shareholder or a Principal that could reasonably be expected to interfere with the exercise of such individuals independent judgment. Each of the six MergeCo shareholders may only appoint one director who is not "Independent".
		Notwithstanding the above, Borealis (through Enersource as Shareholder) may appoint a director, employee or officer of BPC Energy Corporation as an Independent Director.

Subject	PHI USA	MergeCo USA
	No limitations on Chair or Vice-Chair selection, except that nominees of one Shareholder cannot hold both positions.	Both Chair and Vice-Chair must be Independent.
	Directors must be appointed so that the Board includes individuals with specified qualifications: knowledge of electricity industry, regulatory knowledge, corporate finance experience and business management experience.	Board may establish Human Resources and Governance Committee (see "Committees of the Board" below) to, among other things, recommend Independent nominees with skills and experience in corporate governance, leadership resources, human resources, compensation, mergers and acquisitions, finance, operations, utility management, generation, development, regulated industries and safety regulations
Exception for "Pre-Approved Shareholder"	N/A	A director, officer or employee of a "Pre-Approved Shareholder" is deemed to be Independent. "Pre-Approved Shareholder" means, essentially: • any public or quasi-public Canadian pension fund-with assets in excess of $5B; • Canadian banks with assets in excess of $250B; • Canadian life insurance companies with assets in excess of $10B; • Credit unions with assets in excess of $5B; and • Investment funds with assets in excess of $10B
Quorum	Of the 13 directors, at least 3 nominees of VHI, 2 nominees of MEC and 2 nominees of BHHI must be present to constitute a quorum.	A quorum is 7 of 13 directors. Of the 13 directors, no Shareholder's nominee must be present to constitute a quorum.

Subject	PHI USA	MergeCo USA
Meetings	Minimum of one meeting per quarter required Special meetings may be called by two directors	Same Special meetings may be called by one director
Compensation	Board members' compensation to be determined by the Shareholders. Reasonable and documented out of pocket expenses reimbursed.	Human Resources and Governance Committee to determine and review human resources policies and corporate governance matters including senior management and Board compensation.
Committees of the Board	N/A	Board may establish committees at its discretion • Audit and Finance Committee • Human Resources and Governance Committee – comprised of 3 Independents
Officers	Senior Executives named in Shareholders Agreement	Senior Executives to be named in Shareholders Agreement:

B. SPECIAL SHAREHOLDER APPROVALS

Subject	PHI USA	MergeCo USA
Matters Requiring Unanimous Approval (Veto)	18 matters require unanimous shareholder approval: (section 2.06)	Only 8 matters require unanimous shareholder approval (section 2.20). An additional 12 matters require 66 2/3% shareholder approval (super-majority or "SM") (section 2.21). Applicable to actions of Subsidiaries as

Subject	PHI USA	MergeCo USA
		well.
	1. carrying on any business except, in effect, PHI's current business (LDC, standard supply, solar, suite metering);	SM for any agreement outside the ordinary course of business – s. 2.21(e)
	2. dissolution of PHI or subsidiary;	Unanimous approval continues – s. 2.20(b)
	3.Transactions other than Board Approved Transactions (see definition attached as Schedule B);	N/A
	4. issuance of new shares; introduction of new shareholders	Unanimous approval for any redemption or purchase for cancellation of Solar Shares or Adjustment Shares – s. 2.20 (d) AND Unanimous approval for issuing any Class S Shares except pursuant to Solar management services agreement referred to in Part C below – s. 2.20(e); AND SM approval for any issuance of new shares of MergeCo or a Subsidiary except (i) Class S Shares (see above and Part C below); (ii) where the Subsidiary is a general partnership or limited partnership (see Part G below); (iii) where the Subsidiary does not operate a business that is regulated by the OEB; and (iv) the total aggregate consideration for such shares is less than $50 million; - s. 2.21(d)
	5. disposition of assets valued at: (i) 5% or more of rate base (for LDC), or (ii) 9%	Unanimous approval for any action that would breach the "anti-flip" provisions of the Brampton purchase agreement (no sale of Brampton or

gowlings

Subject	PHI USA	MergeCo USA
	or more of Asset Value (for the rest);	sale of >49% of MergeCo within 3 years) or prevent a Shareholder from selling a 10% interest (see Part E "Sale of 10% Interest" below) – s. 2.21(f); AND SM approval of sale of more than 20% (by book value) of MergeCo's assets) – s. 2.21(a);
	6. change of auditor;	SM approval for appointment of auditor – s. 2.21(i);
	7. change in dividend policy;	Initial dividend policy is a schedule to the USA (Unanimous approval) AND SM approval for amendment of the dividend policy – s. 2.21(k);
	8. change of name of PHI or subsidiary, or rebranding;	No similar provision
	9. any transaction with related party except on arm's length terms;	SM approval for loans to or guarantees of any Person except a Subsidiary – s. 2.21(h);
	10. any change in articles or by-laws;	Unanimous approval continues – s. 2.21(a)
	11. any agreements outside ordinary course of business;	SM approval for any agreement outside the ordinary course of business (e)
	12. single capital expenditure that is not a "Board Approved Transaction" (definition attached as Appendix B) exceeding 9% of PHI's net book value or, annually, in the aggregate exceeding 20% of the Asset Value;	No similar provisions

Subject	PHI USA	MergeCo USA
	13. any partnership or joint venture;	SM approval for any merger or amalgamation – s. 2.21(b) AND SM approval for acquiring another business (shares or assets) for purchase price of $75M or more – s. 2.21(g) AND SM approval for acquiring securities of a corporation, trust, or partnership for a purchase price of $100M or more – s. 2.21(f) AND SM for voting any shares to elect directors in a Subsidiary other than a wholly-owned subsidiary – s. 2.21(j) AND SM approval for entering into, or any material amendment to, any partnership agreement as part of the Future Reorganization (see Part G below) – s. s.21(l)
	14. any swap or derivative transaction;	No similar provision.
	15. change of head or closing of operations/administrative centre;	Unanimous approval for relocation of any of the 3 head offices for first 10 years – s. 2.20(g). SM approval required for relation of head office after
	16. any call to current shareholders to contribute new capital;	No similar provision (but no Shareholder is required to contribute additional capital)
	17. any new Subsidiary except as part of Board Approved Transaction;	No similar provision
	18. approval of each three-year strategic plan and any material change to it.	Unanimous approval of initial Strategic Plan (to be a schedule to USA);
Matters not included		1. any change to the authorized capital of the corporation (Unanimous

Subject	PHI USA	MergeCo USA
in PHI USA		approval); 2. redemption or purchase for cancellation of Solar or Adjustment shares except in accordance with the (Solar) Services Agreement or Merger Participation Agreement (Unanimous approval); 3. any issuance of new Solar or Adjustment shares (Unanimous approval) 4.Redemption or cancellation of any shares other than Solar and Adjustment shares (SM) 5.Issuing, allotting shares of corporation or subsidiary for $50M or more (SM)

C. POWERSTREAM SOLAR BUSINESS

Subject	PHI USA	MergeCo USA
General	Solar assets are held directly by PowerStream and operated by PowerStream	Solar assets will be held by a separate general partnership (separate from MergeCo's other solar assets)
	PowerStream shareholders hold separate class of shares (Class A Common Shares) that "stream" net income from solar business (dividend policy discussed below)	PowerStream shareholders will hold separate class of shares (Class S Shares) that "stream" net income from legacy PowerStream solar business (dividend policy discussed below)

Subject	PHI USA	MergeCo USA
	No “arm’s length” management agreement is required because there are no external parties	Management agreement required between Partnership, MergeCo and PowerStream Shareholders (detailed term sheet to be appended to USA)

D. DIVIDEND POLICY

Subject	PHI USA	MergeCo USA
Common Shares	Objectives and Guiding Principles include: “for profit corporation”, “optimizing its rate of return and Shareholder value”.	Dividend is predicated on the “mandate” of the Board, which includes “maximizing Shareholder value”.
	PowerStream will maintain capital structure consistent with OEB's deemed capital structure of 60/40 (debt-to-equity), with ability to leverage up to 65% debt. Will try to maintain working capital of 15% of rate base. Will pay **minimum of 50%** of net income of the distribution business	Will target payment of dividends equal to 60% of MergeCo's consolidated net income for the distribution business (that is, excluding the PowerStream Solar Business).
	Criteria for declaring dividends will take into account: • financial covenants on outstanding debt; • the need to maintain an "A" bond rating; • cash requirements to meet	Criteria for declaring dividend payment are: • non-compliance with legislation • breach of contract or anticipated failure to meet terms of financing arrangements; • impairment in continued operation and maintenance of electricity distribution infrastructure;

Subject	PHI USA	MergeCo USA
	working capital needs and short term (two-year) capital expenditure plans	• actual or forecast cash flow that is considered inadequate to meet working capital requirements, capital expenditure plans, or debt servicing requirements of the PowerStream Solar Business; • deterioration in the credit rating of MergeCo; or • non-compliance with financial policies of MergeCo including capital structure.
Solar Shares	PHI agrees to pay **95%** of Net Free Cash Flow. Criteria for declaring dividends are the same as in respect of the Common Shares.	On the Class S Shares MergeCo will pay **up to 80%** of Net Free Cash Flow in respect of the PowerStream Solar Business, net of required reserves and repayment of debt; Conditions precedent to the payment of dividends are the same as in respect of the common shares.

E. LIQUIDITY PROVISIONS

Subject	PHI USA	MergeCo USA
General	Every transfer of PHI's shares is prohibited unless expressly permitted. Every transfer of shares of municipal holding company is prohibited unless expressly permitted. Pledging or encumbering shares (to secure a loan) is prohibited without the unanimous consent of all shareholders.	Every transfer of MergeCo's shares is prohibited unless expressly permitted. Every transfer of shares of municipal holding company is prohibited unless expressly permitted. Pledging or encumbering shares (to secure a loan) is prohibited without unanimous consent of all shareholders. Internal reorganizations (for example if Markham wants to transfer its MEC shares to another corporation owned by Markham) are permitted. Allows for Pre-Approved Shareholders (for definition, see Section A –

Subject	PHI USA	MergeCo USA
		Exception for "Pre-Approved Shareholders" above) and Borealis to buy up to 10% of the Shareholders themselves (for example, MEC). All liquidity rights are subject to the "anti-flip" provisions in the HOBNI Purchase Agreement which prohibit, among other things, the sale of more than 49% of MergeCo.for 3 years after closing .
Right of First Offer ("A")	Any shareholder that wants to sell all of its shares of PHI must first offer its shares to the other shareholders at a specified price. Other shareholders may accept or reject the offer. If all shares are not purchased under the ROFO, the selling shareholder may sell its shares to a third party for a 90-day period at a price that is not lower than the original offer to the other shareholders. • ROFO applies only if shareholder wants to sell all of its shares. • The period within which the shareholder is allowed to respond to an offer is 90 days.	ROFO works in similar fashion except: • Permits the sale of all or any part of the shareholder's shares; • Period within which a shareholder is allowed to respond to an offer is only 20 Business Days; • Period within which a shareholder may sell share to a third party is 180 days after the ROFO period concludes; • If MEC, VHI or BHHI is the selling Shareholder, it must sell its Class S Shares to the remaining PowerStream Shareholders.
Tag Along Rights	• After ROFO has been exhausted, if any shareholder wants to sell its shares to a third party, the other two shareholders must receive the same offer on the same terms and have the right (but not the obligation) to "tag along" and sell their shares.	• No "tag along" right
Drag-Along Rights	• No “drag-along” rights that would enable a majority (or super-majority) shareholder to force minority	• No “drag-along” rights

Subject	PHI USA	MergeCo USA
	shareholder to join in a sale of shares to a third party on the same term and conditions	
Approved Sale	• No concept of "Approved Sale".	• If 66 2/3% of Shareholders approve a sale of Shares to third party, Shareholders who transfer their Shares are liable under tax indemnity (see below) but non-selling Shareholders must try to mitigate adverse tax consequences.
Tax Indemnity	• No tax indemnity.	Includes indemnity from each: • Shareholder who either (a) sells shares of MergeCo, or (b) issues its own shares; and • Principal (in effect, a municipality) who transfers shares of its Shareholder; against adverse tax consequences suffered by MergeCo or other Shareholders (note: under LDC's tax regime, companies must maintain fixed percentage of municipal ownership – 100% by either municipalities or companies that are 90%-owned by municipalities).
Transfer by Principals (Municipalities)	• All transfers of shares by municipalities (Principals) of the shares of their holding companies (VHI, MEC, BHHI) are prohibited without unanimous consent of shareholders, which may be withheld in their sole discretion.	Principals may transfer shares of their holding companies to a third party if: • the shares are first offered to the other Principals under a ROFO and the shares aren't taken up; and • the sale doesn't result in any adverse tax consequences to the other Principals (note: see above under "Tax Indemnity" for brief description of tax regime).
Sale of 10% Interest	• No such provision.	VHI, MEC, BHHI (as well as HUC and SCH) may sell treasury (newly issued) shares, in an amount not exceeding 10% of its issued shares, to a third party subject to the following: • The selling shareholder obtains a valuation from a valuator approved by Borealis and if the selling shareholder and Borealis are unable to

Subject	PHI USA	MergeCo USA
		negotiate the sale of the shares to Borealis the selling shareholder may sell to a Pre-Approved Shareholder or Pre-Approved Third Party. (Borealis already owns 10% of Enersource); in negotiating the sale, the parties are not bound by the valuation; • there are no adverse tax consequences to the other Shareholders or their Principals; • after the sale neither Borealis nor any Pre-Approved Third Party will own more than 10% of the selling Shareholder.

F. FINANCING (CAPITAL CALLS)

Subject	PHI USA	MergeCo USA
Capital Calls	If PHI issues a call for new capital - debt or equity, all shareholders must contribute their proportionate share.	No Shareholder is required to contribute more funds to MergeCo by way of debt or equity; but if MergeCo's board does call for more equity and a Shareholder declines to contribute, that Shareholder's equity position will be diluted.
Pre-emptive Right	There is no pre-emptive right.	MergeCo must allow existing Shareholders to provide additional funding before seeking it from third parties.

G. FUTURE REORGANIZATION

Subject	PHI USA	MergeCo USA
Post-Closing Reorganization	Not applicable	Contains detailed plan for reorganization after the Closing under which operating subsidiaries would be converted into limited partnerships. Main purpose is to enable future third-party investment or asset sales without triggering adverse tax consequences (see above under "Tax Indemnity" for brief description of tax regime).

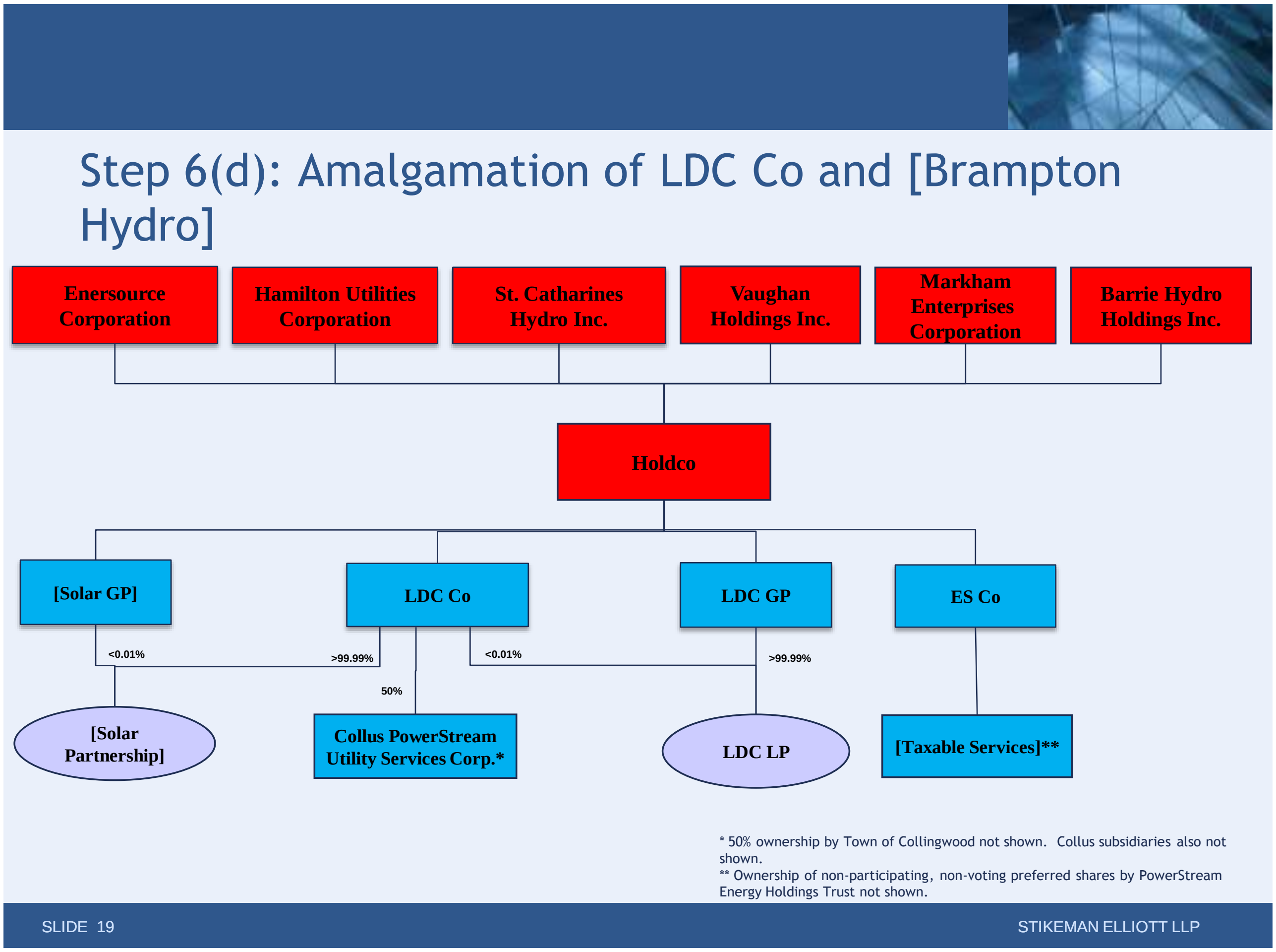
H. GUIDING PRINCIPLES

Subject	PHI USA	MergeCo USA
Guiding Principles	The PHI USA contains 11 Guiding Principles:	The MergeCo USA contains 8 guiding Principles:
	Business: Strategic Plan to be updated every 3 years. Business expansion to occur where business case demonstrates the project will optimize the rate of return and shareholder value	
	For Profit Corporation: optimize rate of return and Shareholder value; achieve maximum rate of return as soon as practical	**Management:** Board oversees business with a view to best interests of Corporation, which may include consumers and ratepayers, Shareholders, employees, creditors, governments and environment. Achieving synergies in the MAAD's application is in the best interests of the Corporation and the Board is committed to achieving such results.
	Dividends and Capital Structure: pay dividends in accordance with policy and develop and maintain a financial and capitalization structure consistent with	

Subject	PHI USA	MergeCo USA
	industry standards and sound financial principles to provide Shareholders with regular dividend and/or interest payments	
	Customers: operational priority; provide reliable, effective and efficient system	**Customers:** similar provision plus: Corporation will not harmonize distribution rates for customers of its predecessor LDC's until the differences between the rates are immaterial.
	Employees: treat in fair and equitable manner	**Employees:** endeavour to treat in fair and equitable manner, aspire to best in class HR policies and practices; adhere to core values, demonstrate shared commitment to high customer service, improved productivity and workplace safety.
	Community: integral to and play significant role in local communities; not favouring one community over another	Same
	Founding Shareholders: mutually cooperative partnership; strive to act fairly and equitably	
	Growth: pursue significant growth opportunities on prudent and profitable basis; enhancing strategic position and economies of scope and scale. Pursue acquisition, merger, or other arrangements	**Growth:** pursue growth opportunities on prudent and profitable basis where aligned with Corporation's strategy; acquisition, merger or other arrangements, acquiring embedded customers in Corporation municipalities (Hydro One customers); unregulated business; require 3rd party investment to finance mergers, new opportunities;
	Distribution performance, reliability and planning, customer service and employee and community safety.	
	Environmental Stewardship: responsible steward, strong commitment to energy conservation and sustainability; minimize impact on environment	**Same**
	Shareholder Debt repayment: if in the best interest of the corporation or LDC to prepay or redeem debt, if permitted.	

Subject	PHI USA	MergeCo USA
		Sector Leadership: leader in energy sector and influence and shape the sector from operational policy and regulatory perspective.
		Ongoing Review: review guiding principles and recommend desired standards and practices and establish culture focussing on continuous improvement and building performance improvement.

APPENDIX 2 – PROPOSED STRUCTURE



NAVIGANT

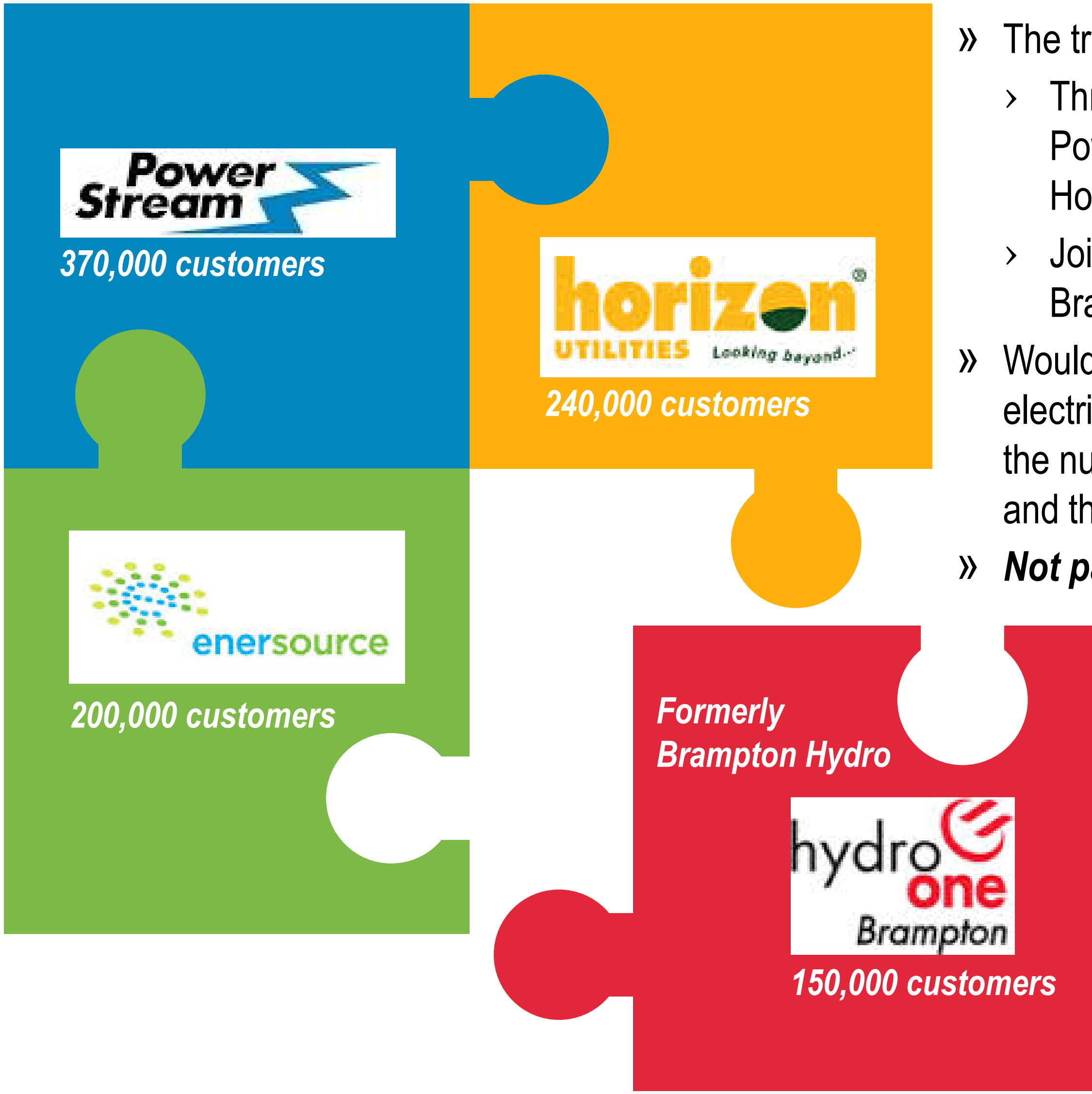
ENERGY

PowerStream Merger and Acquisition: Decision Support

Prepared for the City of Markham

November 11, 2015

Proposed Transaction



- The transaction has two components
  - Three-way merger between PowerStream, Enersource, and Horizon
  - Joint acquisition of Hydro One Brampton (formerly Brampton Hydro)
- Would create the second largest regulated electricity distribution utility in Ontario by the number customers, nearly one million, and the third largest by asset value
- ***Not part of the Hydro One privatisation***

NAVIGANT

Navigant was retained to provide decision support to PowerStream's shareholders

Navigant's analysis addresses five critical questions

1. ***Value and risks:*** What is the value of the transaction to PowerStream shareholders and what are the associated risks?

2. ***Cash flow:*** What are the expected cash flows to PowerStream shareholders under the status quo and the proposed transaction?

3. ***Liquidity:*** What flexibility is there for PowerStream shareholders (jointly and individually) to divest their holdings and what is the associated impact of such divestment under the status quo and the proposed transaction?

4. ***Acquisition price:*** Is the purchase price for Hydro One Brampton consistent with market value?

5. **Relative value:** Are PowerStream shareholders receiving an appropriate share of the equity in the new company?

Navigant is a global provider of specialised professional services

Navigant is a specialised global expert services firm that helps clients create and protect value in the face of critical business risks and opportunities. Our experts have deep industry knowledge in energy, healthcare, construction, and financial services. Navigant has over 5,000 professionals located in more than 50 cities around the world, serving clients in more than 70 countries.

Client Profile

Nearly 300 financial services companies including many of the largest banks in the U.S.	Over 80% of AMLAW 100 firms	50 of the largest electricity and natural gas utilities globally	Over 300 hospitals, health systems & academic medical centers, and global life sciences companies	Federal, state and local government departments and agencies

Geographic Profile

Talent Profile

- 5,000+ employees as of Dec. 31, 2014
  - 1,700 expert / consulting professionals
  - 2,700 business process management services professionals
- Credentials include CFAs, CPAs/CAs, economists, engineers, physicians, PhDs, and attorneys
- Niche areas of expertise combined in unique ways
- Broad networks of experts and affiliates
- Collaborative and nimble resource management

Key aspects of the business case are reasonable

- Navigant ***reviewed, analysed, and tested*** the business case assumptions, and revised as appropriate

- Hydro One Brampton purchase price
  - Price for Hydro One Brampton ***in within, but at the high end of, the valuation range***

- Relative valuation of PowerStream, Enersource, and Horizon
  - Relative valuation of PowerStream is ***reasonable***
  - PowerStream Solar is ***likely undervalued***
    - As a result, management successfully negotiated that the PowerStream Solar assets be carved out and earmarked for only the existing PowerStream shareholders
    - Small negative impact to the expected PowerStream Solar cash flows

- Synergies
  - Synergies were ***reviewed and determined to be reasonable*** and achievable
    - Roughly half of the functional area synergies are likely conservative (i.e. synergies may be greater)
    - There are risks associated with the synergies, but PowerStream has a track record of delivering

NAVIGANT

Basic Transaction Economics

Markham Investment

$38 to 43 million

Return on Investment

7.7%

4.1% | 6.1% | 8.7% | 10.6%

Shareholder Value

+$10 million

-$5M | +$2M | +$20M | +$33M

Additional Upside

Strategic value, platform for growth, influence, financing, timing of capital, etc.

Customer Benefit

$106 million
$64 million (Y1-24)

$24 to $30 per year for an average Markham household starting in 2021

NAVIGANT

No Money In Option

Markham Investment

$0

Return on Investment

N/A

Shareholder Value

+$4 million

-$6M | +$1M | +$7M | +$14M

Additional Upside

Strategic value, platform for growth, influence, financing, timing of capital, etc.

Customer Benefit

$106 million
$64 million (Y1-24)

$24 to $30 per year for an average Markham household starting in 2021

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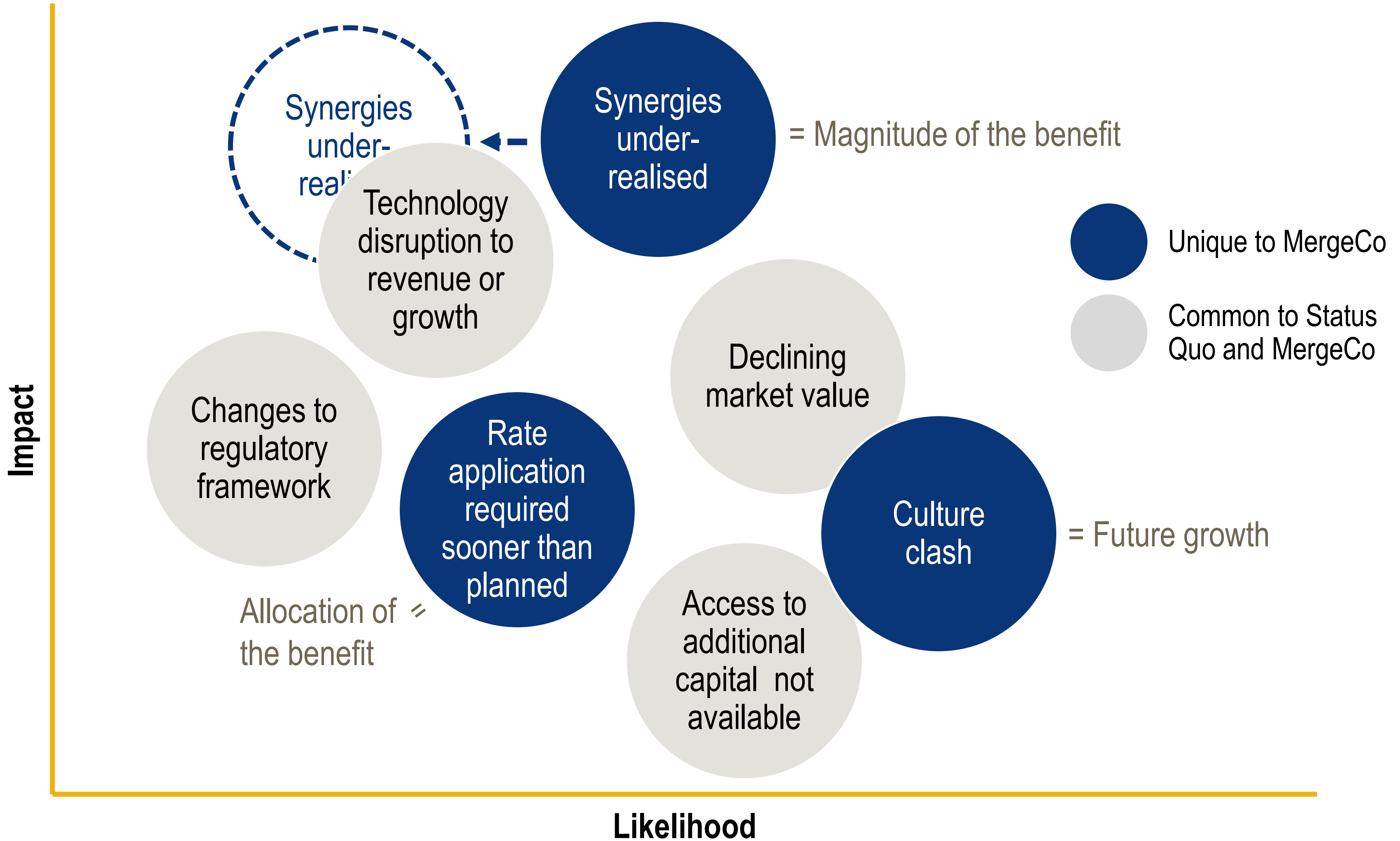
Navigant identified seven major risks, three are unique to the transaction



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Markham General Committee Meeting

PowerStream Update - M&A Transaction

November 11, 2015

Utility Landscape

- ✓ Technology is evolving rapidly
- ✓ Consumer demands are increasing
- ✓ Competition and regulation are impacting the industry
- ✓ We are at a "watershed moment"

Our History

2004 — Hydro Vaughan, Markham Hydro and Richmond Hill Hydro merge to become PowerStream

2005 — PowerStream purchases Aurora Hydro

2008 — Gold LEED certified head office is built in Vaughan

2009 — PowerStream and Barrie Hydro merge to create the 2nd largest municipally-owned LDC in Ontario; PowerStream Solar photo voltaic (PV) business is launched

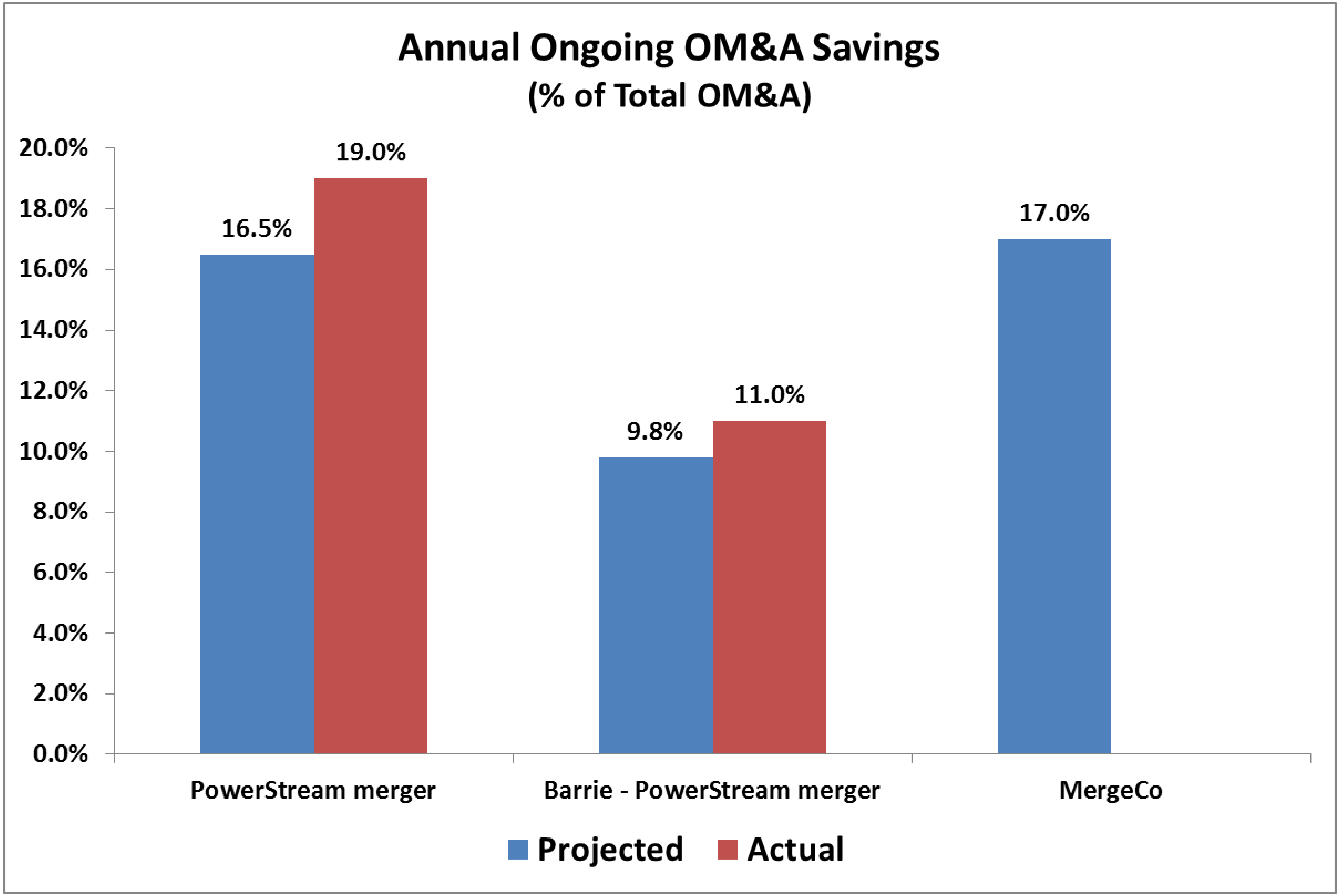
2010 — Gold LEED certified service centre is built in Markham

2012 — PowerStream acquires a 50% stake in Collingwood's Collus Energy Corp - creates Collus PowerStream Corp

2013 — PowerStream launches PowerStream Energy Services Inc (PESI) affiliate, offering new products and services to customers

2015 — PowerStream Inc. pursues a mega-merger with Enersource Corporation and Horizon Utilities; proposes to purchase Brampton Hydro

PowerStream Historic Mergers



Barrie Hydro Experience

Distribution costs were also reduced by $20 per year for customers in Markham

PowerStream Successes

- ✓ PowerStream Solar – largest municipally-owned solar generation business
- ✓ Individual metering of condominiums – largest municipally owned sub-metering business
- ✓ Advantage Power Pricing
- ✓ PowerHouse
- ✓ Other opportunities to grow

A Multi-Faceted Organization

PowerStream SOLAR

PowerStream SmartGrid Technologies

PowerStream

PowerStream Energy Services

Collus PowerStream

Broad Support For Consolidation

Industry and political support for consolidation of Ontario's Local Distribution Companies has been consistent and wide-spread:

Energy Competition Act, 1998: set the stage for rapidly reducing the number of LDCs supported by the Electricity Transition Committee

Queen's Park today: both the Ontario PCs and the Liberals have repeatedly encouraged voluntary consolidation (e.g. 2012 PC White Paper, Ontario Government 2015 Budget)

Since 1998, four successive Premier's have supported concept of LDC Consolidation (Harris, Eves, McGuinty, Wynne)

Government Reports: 2012 multi-partisan Ontario Distribution Sector Review Panel, 2014/2015 Premier's Advisory Panel on Government Assets Report (review of optimization of government owned assets including Hydro One)

Ontario Energy Board: consistent policy support for industry consolidation for rate-payer benefit (reviews and policy changes in 2004, 2007, 2014 and 2015)

Industry Associations: Ontario Energy Association, Electricity Distributors Association, all supportive of voluntary consolidation for benefit of ratepayers.

Why Status Quo Is Not An Option

- ✓ Regulatory expectations for productivity
- ✓ Liquidity for sustainable investment in a sector that requires considerable renewal and ongoing incremental investment in renewable generation
- ✓ Keeping pace with technological change
- ✓ Managing the risk of disruptive technologies

Merger History

- **Apr, 2014** - Premier created an Advisory Council, Chaired by Ed Clark, to provide recommendations to unlock the full value of provincial assets, including Hydro One Distribution Networks.
- The Advisory Council acknowledged the huge challenges in the electricity system:
  - Too many LDCs, many of which are inefficient, unable to adapt to the changing environment and modernize appropriately
  - Barriers to much needed private sector investment in distribution
- Liberal Campaign Platform committed to looking into maximizing the value of provincial assets.

- **Apr, 2015** - Advisory Council released final report and announces potential merger of 3 GTA area utilities with Hydro One Brampton, as well as recommendations for Hydro One.
- Provincial budget includes plans for Hydro One and industry consolidation through tax reforms

2014 | APR | JUN | AUG | OCT | DEC | 2015 | APR

- **Nov, 2014** - Advisory Council released interim report. Government indicated notional support:
  - Province should retain Hydro One Transmission but should reduce its ownership in Hydro One Brampton and the rest of their distribution business
  - Province should adjust ownership structures and use Hydro One Brampton and the remaining distribution business to spur consolidation

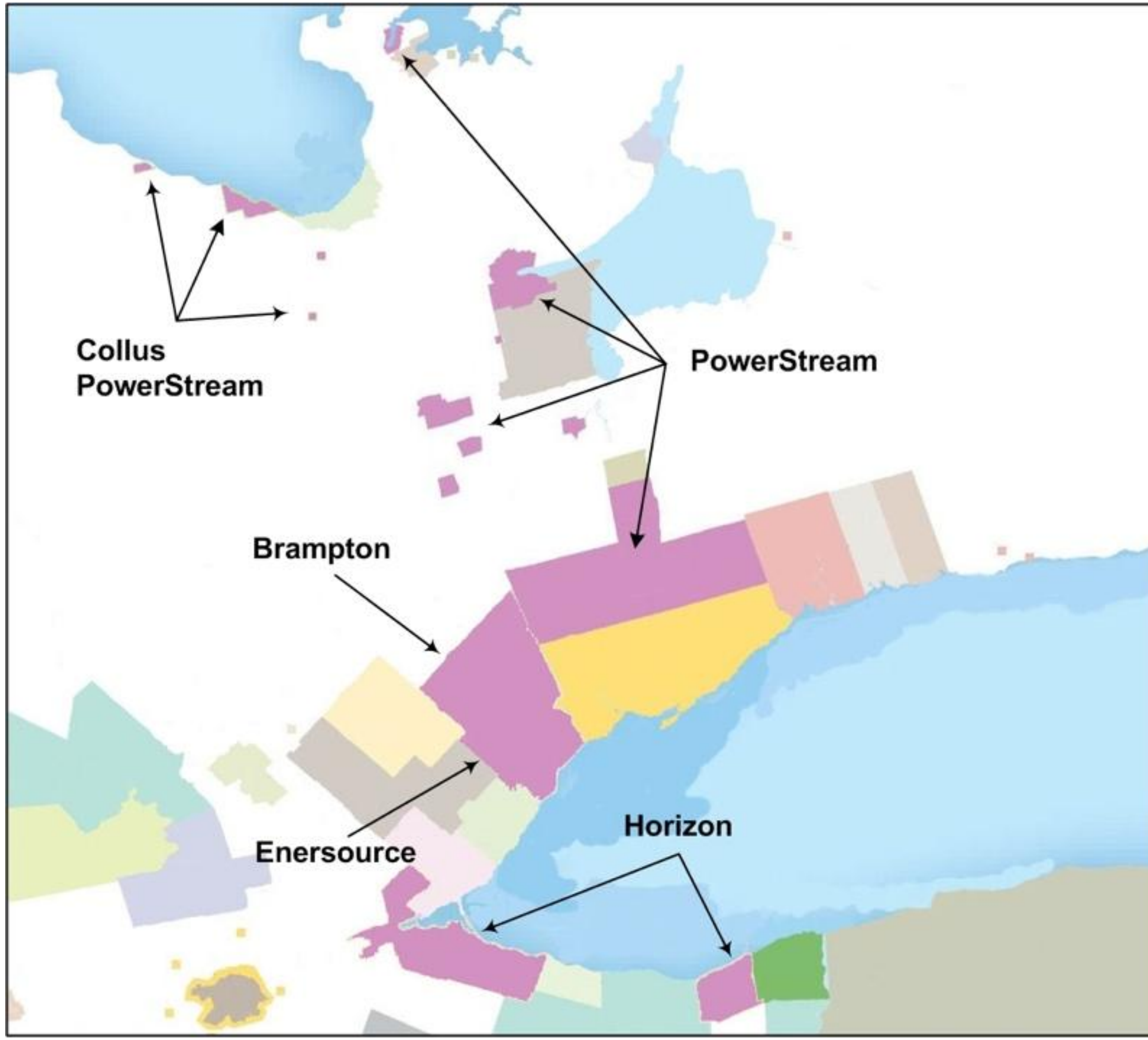
Hydro One Brampton Purchase

- ✓ The purchase of Hydro One Brampton, while announced in conjunction with the province intention to proceed with Hydro One IPO, is a separate transaction that advances the distinct public policy goal of consolidation in the electricity energy sector

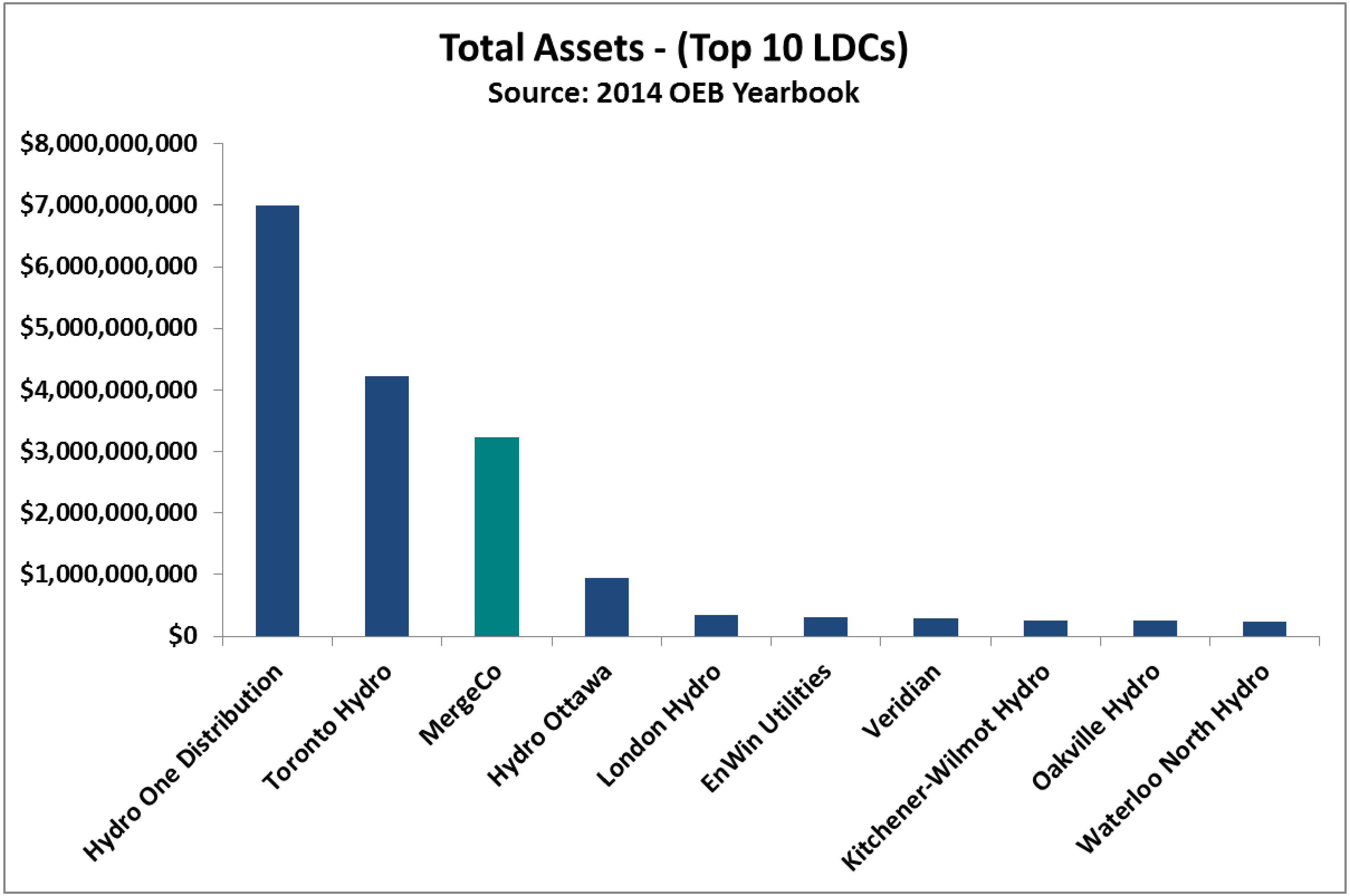
- ✓ After completion of purchase, Hydro One Brampton will maintain municipal ownership ; it will NOT be privately owned

Where Will We Be

- ✓ 970,000 customers
- ✓ $2.7 billion in assets
- ✓ $2.5 billion rate base



Where Will We Be



MergeCo will be the third largest LDC in the province, based on assets

Proposed Transaction Financing

- ✓ Hydro One Brampton purchase is financed through debt, at the OEB prescribed debt/equity ratio
- ✓ After the transaction is completed, MergeCo will keep a 60/40 debt/equity ratio which will allow it to keep an A credit rating
- ✓ It is the same capital structure that PowerStream currently maintains

Value To Shareholders

Overall

- ✓ Steady and growing dividend stream at a level higher than the Status Quo
- ✓ Investment has a payback of 11 years
- ✓ Investment will increase in value, due to synergy savings and Brampton dividends

Markham

- ✓ Markham is being asked to invest up to $43M , with an expected return on investment of 7.7%

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- ✓ All customers will share in merger efficiencies and Markham customers will benefit by approximately $64M over the first 24 years, or approximately one month of distribution charges/residential customer annually
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- ✓ Investment in new business opportunities improves economic development in our communities

Markham Commercial And Industrial Customers

Examples

- ✓ Industrial Customer: Annual Savings of $26,000 or a 19% reduction in the distribution (i.e. PowerStream) portion of the bill
- ✓ Commercial Customer: Annual Savings of $8,100 or a 16% reduction in the distribution (i.e. PowerStream) portion of the bill
- ✓ Municipal, University, School and Hospital (MUSH) Sector Customer: Annual Savings of $10,300 or a 17% reduction in the distribution (i.e. PowerStream) portion of the bill

Markham "MUSH" Sector

	Annual savings, $
City buildings	$95,000
Universities/Colleges	$10,000
Schools	$22,000
Hospitals	$23,000
Region of York buildings	$52,000
Total	$202,000

Teaming Up With Quality Partners

Measure	PowerStream	Enersource	Horizon	Hydro One Brampton
Customer Satisfaction	88%	88%	87%	Excellent
Billing Accuracy	99.93%	98.73%	99.65%	99.61%
Outage Hours per Customer	1.41	1.49	1.59	0.55
Outages per Customer	1.66	1.13	1.65	0.9

Significant Benefit To Customers

- ✓ Unique opportunity to combine four leading distributors
- ✓ 3 million of customers in 18 communities that will be served by MergeCo save about $1B over the next 25 years
- ✓ Rate harmonization impact to be managed and minimized

Summary

- ✓ ***Unique opportunity to generate customer savings on this large a scale***
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- ✓ *Increased Shareholder value and cash flows*
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BUILDING MARKHAM'S FUTURE TOGETHER
2015-2019 Strategic Plan

MARKHAM

Proposed Merger of PowerStream, Enersource, and Horizon, and Acquisition of Brampton Hydro

Staff Recommendations Report
Special Council
November 19, 2015
7:00 PM

Agenda

1. Decision Support
2. PowerStream vs. MergeCo
3. Relative Valuation
4. Brampton Hydro Acquisition
5. Synergies
6. Risks to the Investment
7. Amendments to the Transaction
8. Guiding Principles for Decision Making
9. Investment Summary
10. Customer Benefits
11. Recommendations

1. Decision Support

Due Diligence

- PowerStream Shareholders: Markham Enterprises Corporation, (MEC), Barrie Hydro Holdings Inc., and Vaughan Holdings Inc, retained independent consultants to provide strategic financial and legal advice:
  - Navigant Consulting Ltd.
  - BDR North America Inc.
  - Gowlings LLP

2. PowerStream vs. MergeCo - Summary

	PowerStream	MergeCo
Size	2nd Largest Municipally Owned LDC in Ontario	Largest Municipally Owned LDC in Ontario
Customers	370,000	1,000,000
Rate Base	$1B	$2.5B
Ownership	Barrie (20.5%), Vaughan (45.3%), Markham (34.2%)	Enersource (31%), Hamilton (18.2%), St. Catharines (4.9%), Barrie (9.4%), Vaughan (20.8%), Markham (15.7%)
Board Composition	13 members, no restrictions on independent members (majority non-independents)	13 members, 7 required to be independent
Markham Seats	4 seats - 3 non-independent ,1 independent	2 seats - maximum 1 non-independent (7.69% ownership/per seat)
Governance	100% Shareholder approval for major projects	Fewer unanimous approval matters, 2/3 Shareholder approval for most decisions, increased Board only approvals

Conclusion – Markham will transition from owner to investor

2. PowerStream vs MergeCo - Vision

PowerStream

- Strategic vision to grow via mergers, acquisitions and new business
- Control and influence
  - Pace and speed of investment
  - Nature of business

MergeCo

- Strategic vision to grow via mergers, acquisitions and new business
- Less control and influence
  - Board approved < $75M*
  - 2/3 shareholder > $75M*

  * After 75% of synergies achieved

Vision may not align with the City, e.g. funding capability. Less control and influence over projects and acquisitions selected by MergeCo.

3. Relative Valuation

- Deloitte was engaged to perform a relative valuation of each Local Distribution Company (LDC) for purposes of allocating MergeCo shareholdings to the respective Shareholders:

LDC	Relative Holding
Enersource	31.0%
Hamilton	18.2%
St. Catharines	4.9%
Barrie	9.4%
Vaughan	20.8%
Markham	15.7%

46%

Navigant's review indicates that 46% for PowerStream, plus 100% of PowerStream Solar is reasonable and that the shareholders are receiving appropriate value; BDR concurs

4. Brampton Hydro Acquisition

Holding Company	Equity Contribution
Enersource	$65M
Hamilton	($6M)
St. Catharines	($2M)
Barrie	$26M
Vaughan	$57M
Markham	$43M

Navigant estimates that the $607M purchase price for Brampton Hydro is within, but at the high end of market value. BDR also concludes the valuation is within a reasonable range.

5. Synergies

Synergies are key to the achievement of the projected investment rate of return and customer benefits.

- Estimated synergies in first 10 years:
  - operating savings of $310M
  - capital savings of $110M - $170M

6. Risks to the Investment

Achievement of Synergies

- Navigant concludes:
  - Synergies were *reviewed and determined to be reasonable and achievable*
  - Roughly half of the functional area synergies are likely conservative (i.e. synergies achieved may be greater)
  - Three major risk factors (i.e. information technology integration, collective bargaining agreements, and process change / standardization) may reduce overall synergies
  - PowerStream has a track record of delivering on synergy targets
- BDR accepts the reasonableness of the Navigant conclusions

6. Risks to the Investment (cont'd)

Timing of Rate Rebasing

- Under the current regulatory regime, a Shareholder retains the benefit of operating synergies following a merger for up to 10 years
- Where a rate application is required before 10 years, the allocation of the benefit between shareholders and customers will be affected
- Navigant has roughly estimated that rebasing one year earlier would reduce the value of the Transaction to the PowerStream Shareholders collectively by approximately $2M and would reduce the internal rate of return by approximately 0.2%.
  - For Markham, this represents a risk of less than $700k per year, if rebasing occurs one year earlier.

Navigant's view is that the management of the new company has a number of levers at its disposal to mitigate the early rebasing risk.

6. Risks to the Investment (cont'd)

Culture Clash

Navigant indicates:

"Each of the four companies has a unique corporate culture.

To the extent the new company is not effectively able to integrate the four cultures, and retain PowerStream's strong innovative culture, the ability of the company to grow could be hindered."

7. Amendments to the Transaction

Completed

- Unanimous shareholder consent for LDC mergers and acquisitions until 75% of synergies achieved
- Founding shareholders maintain original board seats for six years
- Limited Partnership Comfort Letter Received from the Province
- Promissory note extension available until 2056 at OEB deemed rate

Pending

- Staff are seeking a municipal backstop to fund MEC's portion of the transaction – further follow up underway
- Tax mitigation language has been improved with respect to mitigation of departure tax liability for first and subsequent share sales

8. Guiding Principles for Decision Making

1. Ensure benefit to Markham taxpayers

2. Alignment with Markham's Investment Policy

3. Ensure benefit to PowerStream customers

8. Guiding Principles for Decision Making (cont'd)

1. Ensure benefit to Markham taxpayers:

- Maintain or improve cash flow to City's Life Cycle Reserve to ensure proper repair and replacement of City's facilities and infrastructure over the next 25+ years
- Reduce upward pressure on future tax rate increases

8. Guiding Principles for Decision Making (cont'd)

2. **Alignment with Markham's Investment Policy**
   – Preservation of principal
   – Return on Investment - preference for increased cash flows over long term compared to increase in enterprise value
   – Liquidity - retain ability to sell investment

Overall goal is to minimize the risk profile of the investment

8. Guiding Principles for Decision Making (cont'd)

3. Ensure benefit to PowerStream's customers:

- Mitigate distribution rate increases
- Improved service and reliability
- Leadership in Conservation Demand Management

Overall goal is ensure financial and non-financial benefit for customers.

9. Investment Summary

Net Present Value	Option	Funding Source	Cash flows Years 1-10	Cash flows Years 11-24	Cash flows Years 25+	Total
1. Deloitte and PowerStream – Core Dividends Only	1 – Status Quo	N/A	$60M	$81M	$131M	$272M
	2 - Transaction	Equity	$54M ($6M)	$105M $24M	$169M $38M	$328M $56M
2. Navigant Adjustments – Core and Solar Dividend, Promissory Note Interest and Funding Source	1 – Status Quo	N/A	$78M	$128M	$164M	$370M
	2 - Transaction	10% Sale plus MEC equity	$92M $14M	$122M ($6M)	$164M $0	$378M $8M

9. Investment Summary - Cash Flows

Scenarios	Years 1-10	Change from SQ	Years 11-24	**Years 1-24**	Change from SQ	Years 25+	**Total**	Change from SQ
Status Quo (SQ)	$78M		$128M	$206M		$164M	$370M	
Transaction - Equity Funded	$66M	($12M)	$134M	$200M	($6M)	$179M	$379M	$9M
Transaction - Debt @ 4%	$87M	$9M	$117M	$204M	($2M)	$179M	$383M	$13M
Transaction - Promissory Note Funded	$94M	$16M	$122M	$215M	$9M	$166M	$381M	$11M
Transaction- 10% Sale of MergeCo to 3rd Party - with Markham funding the remainder; approx $8M	$92M	$14M	$122M	$214M	$8M	$164M	$378M	$8M

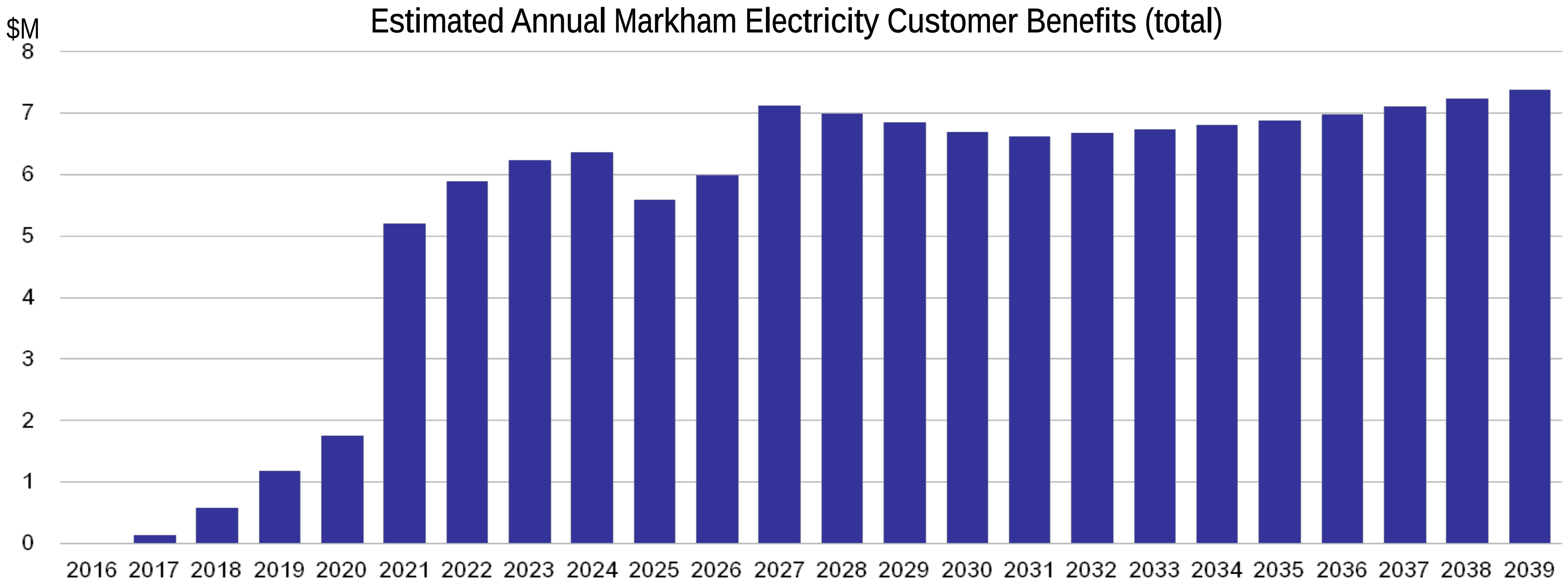
9. Investment Summary - Analysis

- Cash flows to Markham estimated to increase by $8-13M Net Present Value (NPV) depending on funding source
- Transaction as an investment does add value vs status quo
- Return on incremental investment is greater than 5% under all funding source options in the long term
- Transaction has risk (predominant risk is the successful achievement of synergies – timing and magnitude)
- Staff have negotiated amendments to reduce the Transaction risk
- Transaction incremental value is not compelling and is not recommended independent of customer benefits

10. Customer Benefits

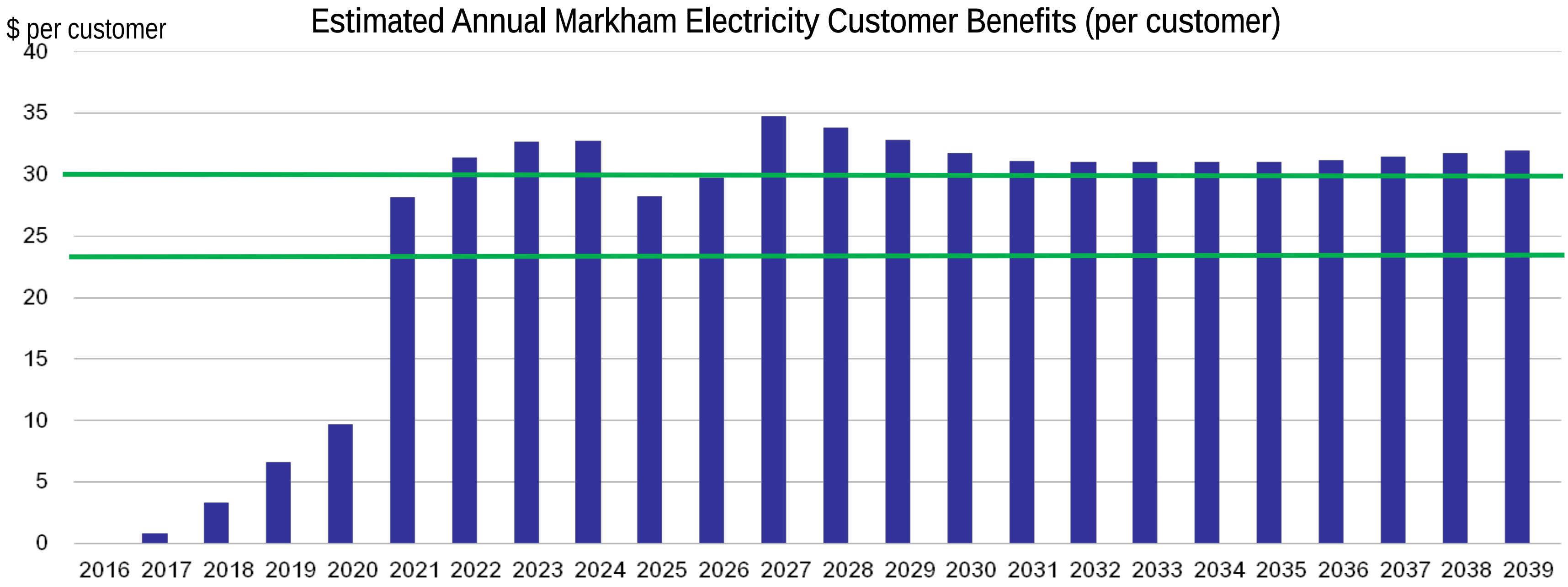
- Achieving synergies drives customer benefits
- Full synergy benefits will flow to the customer after ten years or earlier if there is rebasing through the Ontario Energy Board
- The customer savings on the distribution portion (20%) of their electricity bill are meaningful:
  - Total NPV of Markham customer savings over first 25 years is $64M:
    - Average of $40/year for all customers
    - $24-$30/year for average residential customers
- Impact to Markham owned buildings - approximately $60,000 per year
- Markham would need to find approximately $5.4M in annual savings to generate similar savings to the Markham taxpayers.

10. Customer Benefits – Markham Average Total of $5.4M per year



Source: Navigant Project Aura Valuation and Business Case Model (September 10, 2015)
Notes:
1) All values nominal
1) Customer benefits over the first 5 years are driven by avoided capital expenditures
2) Customer benefits after the first 5 years are driven by lower operating costs and avoided capital expenditures

10. Customer Benefits – Residential Average $24-30 per customer per yr



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Notes:

1) All values nominal

1) Customer benefits over the first 5 years are driven by avoided capital expenditures

2) Customer benefits after the first 5 years are driven by lower operating costs and avoided capital expenditures

10. Customer Benefits – All PowerStream

2014 Statistics	Customers	**Annual Savings per Customer**	Annual Bill (Assumes Distribution is 20%)	Savings as % of Distribution Bill	Savings as % of Total Bill
Residential	316,765	**$ 24.56**	$ 1,359.94	9.0%	1.8%
General Service < 50 kW	31,865	**$ 69.73**	$ 3,861.47	9.0%	1.8%
General Service > 50kW to 4999 kW	4,789	**$ 873.54**	$ 48,373.86	9.0%	1.8%
Large User	2	**$ 13,751.59**	$ 761,520.00	9.0%	1.8%
Unmetered Scattered Load	2,890	**$ 14.02**	$ 776.64	9.0%	1.8%

11. Recommendations

WHEREAS:

- PowerStream's Board of Directors has approved and recommended to its shareholders the merger with Horizon and Enersource and purchase of Brampton Hydro the "Transaction"
- Unanimous shareholder approval is required for the Transaction
- The Transaction will form a company currently called "MergeCo"
- MEC, VHI and BHHI jointly hired independent consulting and legal services from:
  - Navigant Consulting Ltd.
  - BDR NorthAmerica Inc.
  - Gowlings LLP

11. Recommendations

- On October 7, 2015 the City at General Committee received presentations from Navigant, PowerStream and City Staff
- The Transaction requires an equity contribution from Markham of $43-47.3M depending on closing costs and adjustments
- The City's promissory note of $67.9M with PowerStream will have an interest rate reduction from 5.58% to 4.54% as deemed by the Ontario Energy Board ("OEB")
- The dividends from MergeCo are expected to increase, but there is incremental uncertainty compared to PowerStream
- PowerStream's solar assets, dividend income and equity return have been segregated for its shareholders' benefit, but will result in a $1M NPV reduction

11. Recommendation

- Greater than 5% incremental investment return is expected
- Staff negotiated significant amendments to the Transaction to reduce risk, but it is still not financially compelling given the remaining risk
- The Transaction cannot be recommended by City staff solely on an investment basis
- The Transaction will deliver meaningful customer benefits
  - After year six an average savings of $40/yr for all customers and $24-30/yr for residential utility bills (5-9% of the distribution portion of the bill)
  - Offsetting future increases

11. Recommendations

NOW THEREFORE, be it resolved:

1. The City of Markham approves the Transaction as described in the Merger Participation Agreement, Unanimous Shareholder Agreement and Share Purchase Agreement.
2. Completion of the Transaction be conditional on:
   a. The terms being substantially as set out in the above mentioned agreements and the draft PowerStream Solar Business Services and Indemnity Agreement.

11. Recommendations

b. Amendments to the agreements satisfactory to the CAO as follows:
   i. Unanimous shareholder approval required for mergers and acquisitions until 75% of the targeted synergies achieved;
   ii. Extension of the promissory note to 2056 at OEB deemed interest rates;
   iii. Clarity on departure and transfer tax mitigation strategies for first and subsequent sales of shares in MergeCo;

c. Municipal financial backstop to be negotiated;

d. Maximum equity contribution of $47.3M;

e. Confirmation from the Province of Ontario, satisfactory to the Chief Administrative Officer and the City Solicitor, with respect to the terms and rates of the shareholder loans to LDC's;

f. Approval of MergeCo's strategic plan by MEC Directors.

11. Recommendations

3. Staff work to reduce the City's equity contribution, including but not limited to a 10% formal sale with the other shareholders of PowerStream with consideration for MergeCo's value.
4. If the 10% sale is unsuccessful staff will report back with alternate funding options, including no additional funding from Markham.
5. Mayor and Clerk be authorized to execute the necessary agreements once modified or amended to the CAO's satisfaction. .

FOCUSED ON EXCELLENCE

Markham
Special Council Meeting

PowerStream Update - M&A Transaction

November 19, 2015

Utility Landscape

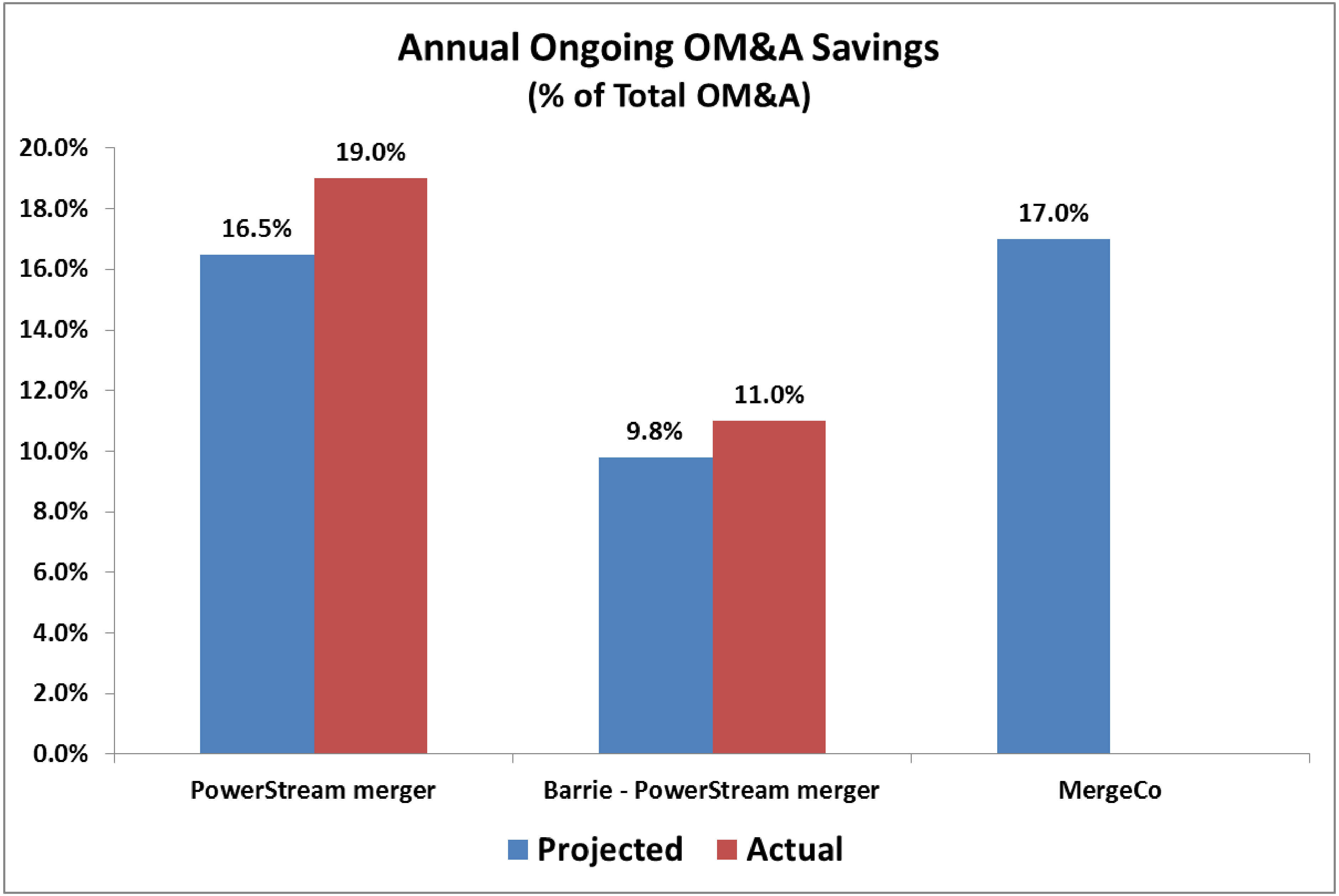
- ✓ Technology is evolving rapidly
- ✓ Consumer demands are increasing
- ✓ Competition and regulation are impacting the industry
- ✓ We are at a "watershed moment"

PowerStream

Our History

- **2004** – Hydro Vaughan, Markham Hydro and Richmond Hill Hydro merge to become PowerStream
- **2005** – PowerStream purchases Aurora Hydro
- **2008** – Gold LEED certified head office is built in Vaughan
- **2009** – PowerStream and Barrie Hydro merge to create the 2nd largest municipally-owned LDC in Ontario; PowerStream Solar photo voltaic (PV) business is launched
- **2010** – Gold LEED certified service centre is built in Markham
- **2012** – PowerStream acquires a 50% stake in Collingwood’s Collus Energy Corp - creates Collus PowerStream Corp
- **2013** – PowerStream launches PowerStream Energy Services Inc (PESI) affiliate, offering new products and services to customers
- **2015** – PowerStream Inc. pursues a mega-merger with Enersource Corporation and Horizon Utilities; proposes to purchase Brampton Hydro

PowerStream Historic Mergers



Barrie Hydro Experience

Distribution costs were also reduced by $20 per year for customers in Markham

PowerStream Successes

- ✓ PowerStream Solar – largest municipally-owned solar generation business
- ✓ Individual metering of condominiums – largest municipally owned sub-metering business
- ✓ Advantage Power Pricing
- ✓ PowerHouse
- ✓ Other opportunities to grow

A Multi-Faceted Organization

Power Stream SOLAR

PowerStream SmartGrid Technologies

Power Stream

Power Stream Energy Services

Collus PowerStream

Broad Support For Consolidation

Industry and political support for consolidation of Ontario's Local Distribution Companies has been consistent and wide-spread:

Energy Competition Act, 1998: set the stage for rapidly reducing the number of LDCs supported by the Electricity Transition Committee

Queen's Park today: both the Ontario PCs and the Liberals have repeatedly encouraged voluntary consolidation (e.g. 2012 PC White Paper, Ontario Government 2015 Budget)

Since 1998, four successive Premier's have supported concept of LDC Consolidation (Harris, Eves, McGuinty, Wynne)

Government Reports: 2012 multi-partisan Ontario Distribution Sector Review Panel, 2014/2015 Premier's Advisory Panel on Government Assets Report (review of optimization of government owned assets including Hydro One)

Ontario Energy Board: consistent policy support for industry consolidation for rate-payer benefit (reviews and policy changes in 2004, 2007, 2014 and 2015)

Industry Associations: Ontario Energy Association, Electricity Distributors Association, all supportive of voluntary consolidation for benefit of ratepayers.

Why Status Quo Is Not An Option

- ✓ Regulatory expectations for productivity
- ✓ Liquidity for sustainable investment in a sector that requires considerable renewal and ongoing incremental investment in renewable generation
- ✓ Keeping pace with technological change
- ✓ Managing the risk of disruptive technologies

Merger History

- **Apr, 2014** - Premier created an Advisory Council, Chaired by Ed Clark, to provide recommendations to unlock the full value of provincial assets, including Hydro One Distribution Networks.
- The Advisory Council acknowledged the huge challenges in the electricity system:
    - Too many LDCs, many of which are inefficient, unable to adapt to the changing environment and modernize appropriately
    - Barriers to much needed private sector investment in distribution
- Liberal Campaign Platform committed to looking into maximizing the value of provincial assets.

- **Apr, 2015** - Advisory Council released final report and announces potential merger of 3 GTA area utilities with Hydro One Brampton, as well as recommendations for Hydro One.
- Provincial budget includes plans for Hydro One and industry consolidation through tax reforms

2014	APR	JUN	AUG	OCT	DEC	2015	APR

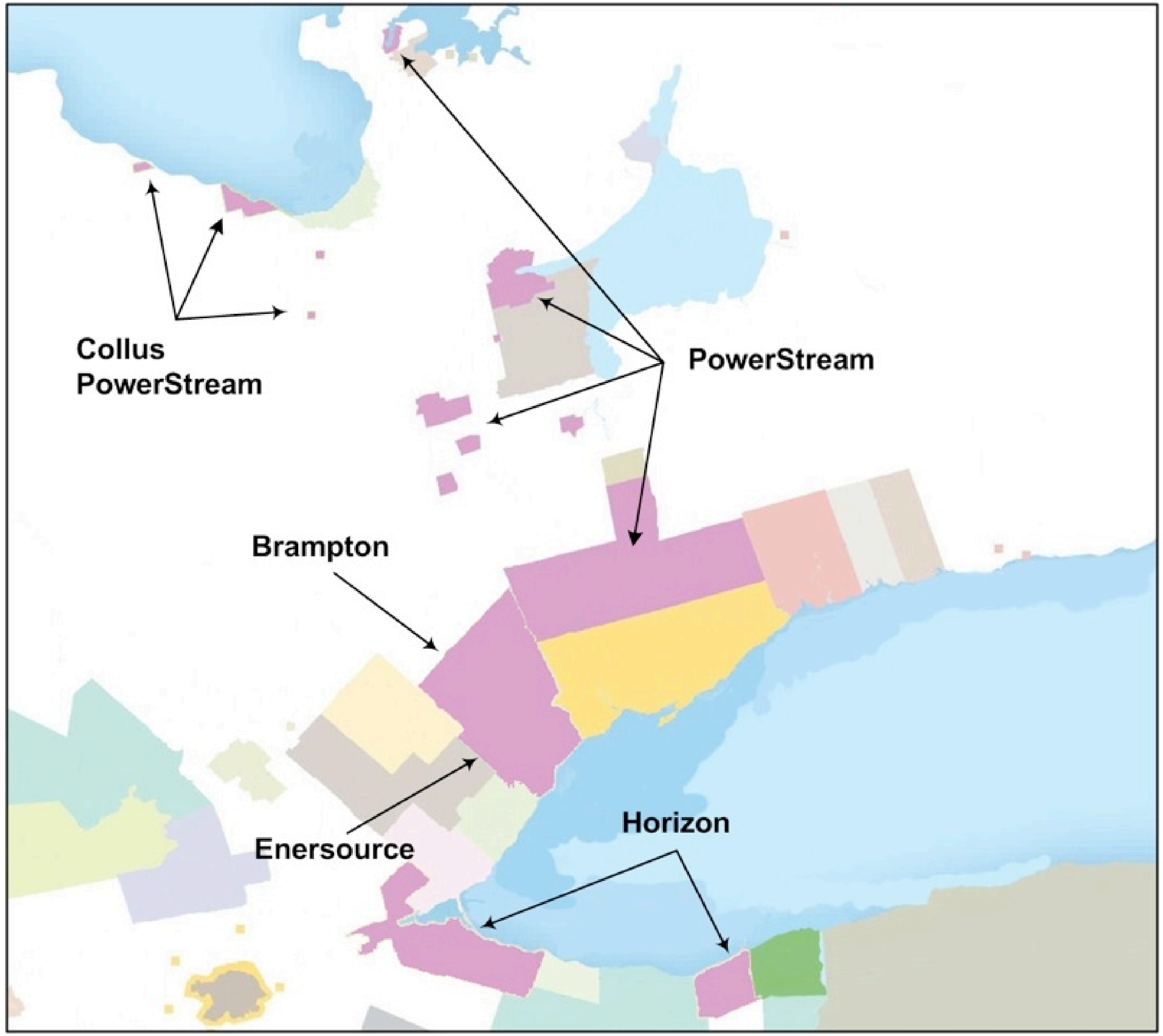
- **Nov, 2014** - Advisory Council released interim report. Government indicated notional support:
    - Province should retain Hydro One Transmission but should reduce its ownership in Hydro One Brampton and the rest of their distribution business
    - Province should adjust ownership structures and use Hydro One Brampton and the remaining distribution business to spur consolidation

Hydro One Brampton Purchase

- ✓ The purchase of Hydro One Brampton, while announced in conjunction with the province intention to proceed with Hydro One IPO, is a separate transaction that advances the distinct public policy goal of consolidation in the electricity energy sector
- ✓ After completion of purchase, Hydro One Brampton will maintain municipal ownership ; it will NOT be privately owned

Where Will We Be

- ✓ 970,000 customers
- ✓ $2.7 billion in assets
- ✓ $2.5 billion rate base



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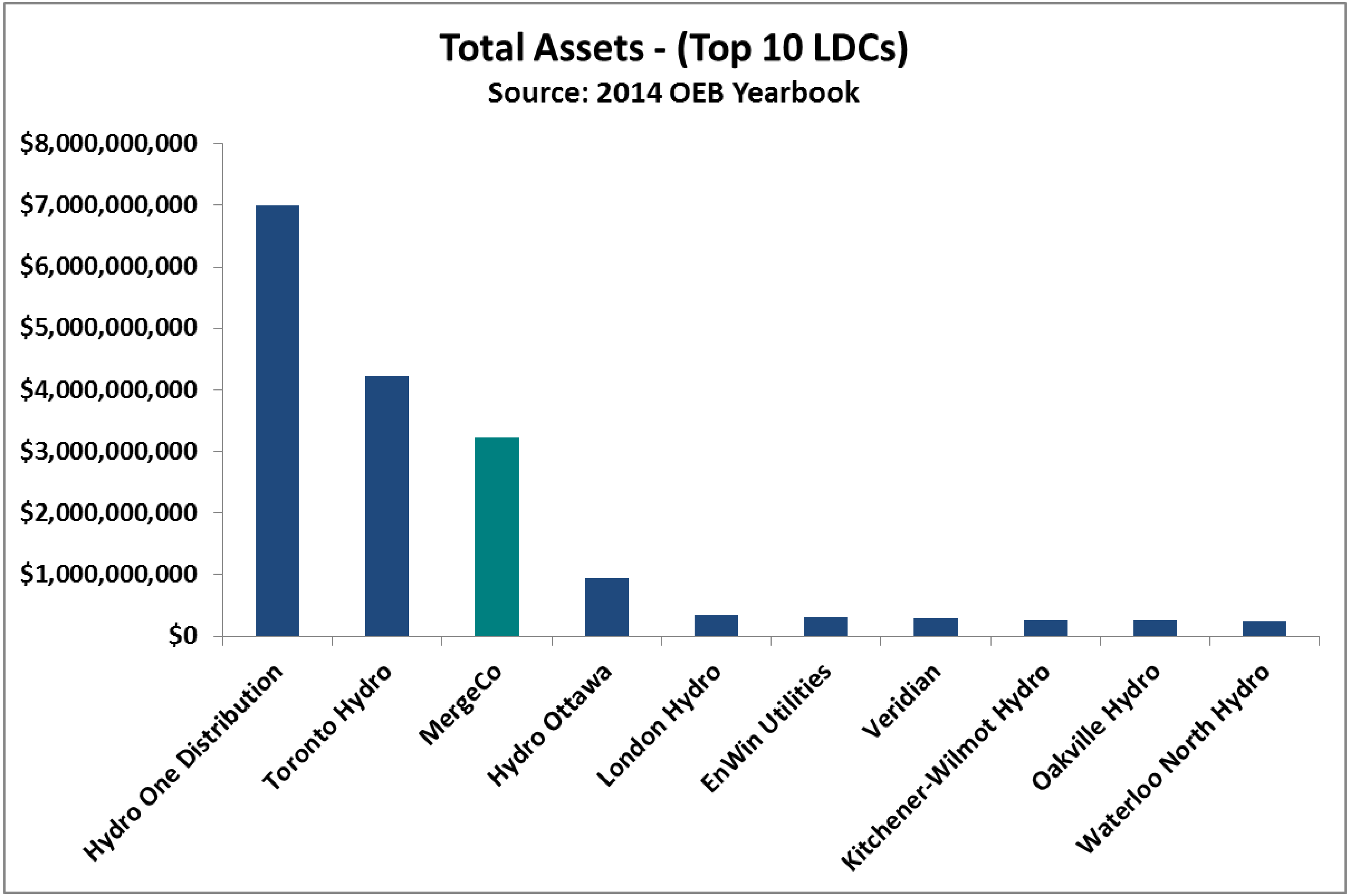

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- ✓ *Increased Shareholder value and cash flows*
- ✓ *Strategically positioned to take advantage of opportunities in a changing industry landscape*

MERGECO: BUSINESS CASE POWERSTREAM OVERVIEW

Table of Contents

MergeCo: Current Status

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, currently at the critical phase of Shareholder approval, is the result of many months of effort and negotiation between the parties.

A number of forces including global market trends, technological innovations, rising residential, commercial and industrial electricity rates, and regulatory and tax changes recently mandated by the Ontario government are affecting the electricity sector in unprecedented ways. Through this proposed merger, the parties, including PowerStream, are poised to increase their leadership in the energy sector, enhance their influence and most importantly, provide increased customer and shareholder value.

Key Aspects of the Merger:

Following months of negotiation with our merger partners, PowerStream is pleased to have reached agreement on a number of key aspects.

1. **Relative Value**: PowerStream`s Shareholders will own 46% of the new company
2. **Solar "Carve Out"**: the dividend stream from existing Powerstream solar investments will be maintained through special shares
3. **Local Presence & Facilities**: all of PowerStream existing facilities will be maintained following the merger
4. **Governance**: 6 of 13 board members are to be appointed by PowerStream Shareholders
5. **Executive**: significant Executive presence of current PowerStream staff
6. **Liquidity Rights**: Improved rights to raise capital for growth, or to monetize existing investments

Key Benefits of the Merger:

Improved Financial Returns to Shareholders and Cost Savings for Customers Compared to the Status Quo:

- 5.9% lower average annual customer distribution rates than with maintaining separate utilities, due to costs savings, averaged over the first 25 years after the merger.
- $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.

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

Context: Electricity Distribution Landscape in Ontario

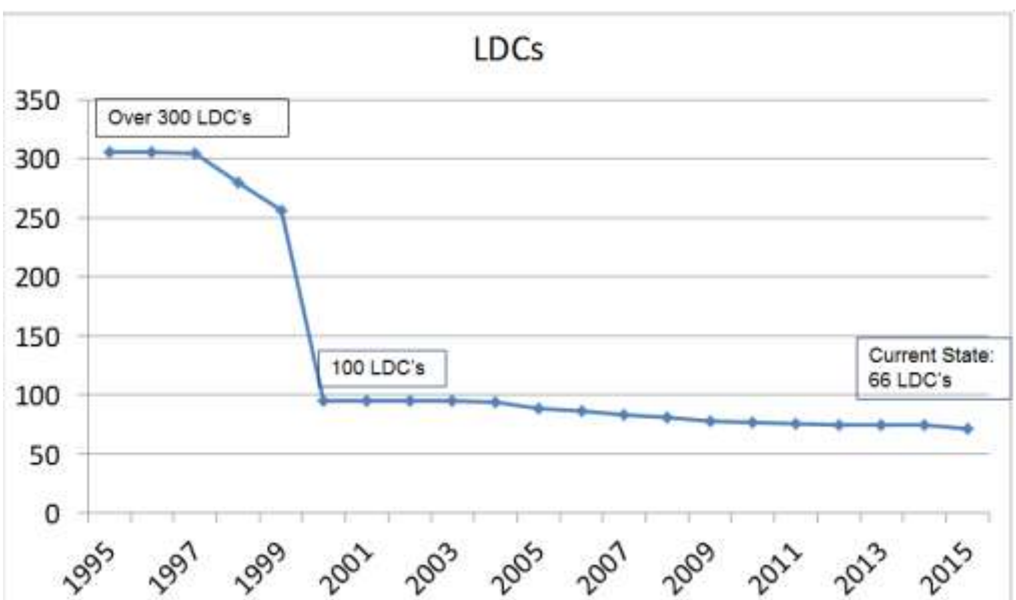
Local Distribution Companies (LDCs) in Ontario operate in a complex regulated environment highly responsive to shifts in Ontario government policy. The current distribution sector makeup is a product of a number of pieces of legislation and can be summarized as follows.

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 Committee 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 incentive to structure sustainable corporations, or Local Distribution Companies (LDC), 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 departure tax treatment from the PILs (payments in lieu of taxes) regime.

Given the recent policy and regulatory changes enacted by the province and the Ontario Energy Board (OEB), significantly more consolidation and private sector participation is expected.

Industry Trends Towards Consolidation



MergeCo: Policy Context

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:

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.

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.

Governance

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

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 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 Ontario Energy Board (both discussed below), the government has effectively endorsed all of the Clark panel's recommendations with respect to electricity distribution.

Uniform support for LDC Consolidation has also come from other government reports (2012 Drummond Report on Reform of Ontario's Public Services), the Ontario Progressive Conservative Party, academic journals and energy sector associations.

Industry Regulator

The OEB has conducted repeated analysis aimed at driving ratepayer value in the LDC sector. Their first report related to this was in 2004, "*Report on Stakeholder Submissions: Efficiencies in the Electricity Distribution Sector*." More significant policy movement happened following the report of the Ontario Distribution Sector Review in 2012 when the OEB undertook an initiative to assess how the Board's regulatory requirements for electricity distributors may affect the ability of distributors to realize operational or organizational efficiencies. During this time, the government set policy expectations that included LDC consolidation to improve efficiencies within the sector. As a result, the OEB made specific policy amendments in their March 2015 report, Rate-Making Associated with Distributor Consolidation"[1]:

1) The duration of the deferral period for rebasing following the closing of a MAADs transaction has been increased—adjusted from five years to ten (MergeCo`s rate harmonization approach benefits from this change)

2) Utilities will have an opportunity to use a mechanism for adjusting rates to reflect incremental capital investments during the deferred rebasing period.

[1] Ontario Energy Board (2015). *Rate-Making Associated with Distributor Consolidation*. Retrieved from: www.ontarioenergyboard.ca/oeb/_Documents/EB-2014-0138/Board_Report_MAADS_Ratemaking_20150326.pdf

MergeCo: Why Are We Doing This?

In determining the value of the proposed merger PowerStream has evaluated three components:

1- Lower electricity rates for customers

2- Increased cash flow to the shareholder

3- Increased equity value

The proposal also has significant strategic value which will likely be demonstrated in the near to long term as the value of the investment grows and the merged entity is able to act as a major player within the new distribution landscape.

Good fit with PowerStream's Strategic Plan

PowerStream's management and Board of Directors have consistently advanced and endorsed a strategic path that is aligned with national and global sector trends and is positioned to achieve the best possible outcomes for its customers and communities.

Excerpt from 2013 Approved Strategic Plan:

PowerStream believes that there is value to our customers and shareholders in continuing to grow the company given the current operating environment for rate regulated utilities in Ontario. 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.

The Corporation will seek business expansion through acquisitions, amalgamations or strategic partnerships with other utilities. PowerStream`s management has been engaged in Merger and Acquisition (M&A) discussions with other LDCs, including the current merger partners, for several years.

PowerStream's M&A strategy actually pre-dates some of the government policy that has come out recently with regards to consolidation and tax treatment of municipally owned LDCs and PowerStream's previous merger activities have set an industry standard.

Through this merger, PowerStream is well on its way to achieving our long-term strategy:

By 2020, we will build on our core electricity distribution business to become Ontario's premier integrated energy services provider

The proposed merger is directly in line with the company's long-term business goals. It would position MergeCo to be the second largest electricity Distribution Company in Ontario with one million customers, $2.7 billion in assets and a $2.5 billion dollar ratebase.

MergeCo: Lower Electricity Rates for Customers

The proposed merger between PowerStream, Enersource and Horizon Utilities and the acquisition of Hydro One Brampton would bring significant value to customers in York Region and Simcoe County. Analysis has found that customers will be able to save approximately $450 million over 25 years (an average of $40 to $50 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.

In designing a merger rate strategy, the merger partners target to maximize shareholder and ratepayer savings. Under current OEB policy, all of the savings corresponding to LDC consolidations are transferred to customers at the new utility's first rate re-basing following a merger. The maximum length of time post-merger that a utility can stay out before being required to rebase (go back to the OEB for new rates) is 10 years This is based on new OEB policy that previously only allowed LDCs to retain synergy savings (and not re-base) for up to five years.

A principle of the merger agreed to by all merger partners is that each community benefits equally from lower rates post rebasing. To accomplish this aim, separate rate zones will be maintained for the former service area of each utility until the rate zone differences are immaterial. And, those separate rate zones will be maintained even after MergeCo rebases in the 11th year following the merger until the rate zones differences are immaterial. The rates are expected to be 8% lower than they would otherwise be in the 11th year post rebasing.

On an aggregate savings basis, the York Region Municipalities of Vaughan and Markham, as well as the City of Barrie are expected to see significant benefits from the merger on electricity bills for municipal buildings and public facilities.

There are numerous benefits of the merger that go beyond the demonstrated cost savings on customer bills. The new entity will be able to better serve customers through enhanced and shared systems. It will also be able to provide a broader range of products and services than what is available to customers today. Increased resources will allow the utility to better respond to reliability issues and utilize innovative technologies to better serve customers. The increased capital that will be available in a larger, consolidated utility will allow for increased investment in new business opportunities to continuously improve economic development in our communities. Finally, the new entity will be in a key position of leadership to influence government and regulatory energy policy for the benefit of customers and shareholders.

MergeCo: Increased Equity Value and Increased Cash Flows (dividends)

Analysis has demonstrated that the proposed merger will provide a steady and growing dividend stream at a higher level than the Status Quo. The three shareholders of PowerStream can expect an increase in shareholder value of between $230 and $300 million (assuming a 5% equity discount rate).

MergeCo: Finding the Synergies

In order to realize expected synergies, MergeCo will execute its operational plan utilizing the Balanced Scorecard approach to ensure that customer activities, internal processes and people are aligned.

MergeCo will be an entity that is organized around processes, focused on outputs and accountable for performance. Organizational structure will be aligned to major business processes. The centralization versus decentralization of functions will depend on many factors including the need for certain functions to be close to related operating assets (e.g. field crews).

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 have 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.

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 $42M 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).

MergeCo will implement its business mission and vision by focusing on four operating strategies:

1. Improving service delivery to customers

MergeCo will focus on five attributes within the Customer Perspective. Initiatives will be identified and organized to target improvement in the following five areas:

- Efficiency i.e. distribution rates/price
- Electricity reliability
- Bill accuracy/quality
- Responsiveness/ease of doing business

- Trust/corporate image

2. Increasing shareholder value through growth and productivity improvements

    a. Revenue growth: build the franchise and take advantage of growth opportunities in unregulated business, as well as other areas (distributed generation, renewable energy etc.)
    b. Increase customer value (expand service offerings, where possible)

3. Improving internal operational cost efficiencies and asset utilization
    a. Productivity:
        i. Reduce controllable expenditures by utilizing a systematic approach that builds from a foundation of solid management information.
        ii. Employ better utilization of existing assets
        iii. Consolidate Information Technology and Operations Technology (CIS/ERP/GIS/OMS, SCADA)

4. Developing and maintaining highly skilled and motivated employees.

The Employee Perspective pertains to MergeCo's most important resource: its employees. The Operational Plan cannot be achieved unless employees are matched/selected/hired into the right positions, have been properly trained, communicated to with regard to performance expectations, given the appropriate authority to match their responsibilities and provided the necessary tools to perform their jobs.

MergeCo will focus on four key areas to ensure that employees are fully engaged and contributing at their peak:

- Safe and healthy workplace
- Employee skill development
- Effective internal corporate communications
- Performance based culture

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.

MergeCo: Managing the Risks

Risk	Response
Synergies may not be achieved	PowerStream has a track record of meeting or exceeding its targets
Integration challenges	This is our fourth transaction in 10 years: experience counts
Unidentified expenses/liabilities	Extensive due diligence already completed, and specific contractual protection
Transaction financing in a rising interest rate environment	Bridge financing for two years is secured; flexibility to arrange capital details after closing
Regulatory uncertainty affects business plan going forward	A larger, more prominent utility will carry more weight in the industry and have a greater role in policy

MergeCo: What it will Look Like

MergeCo is interested in continuing to add value to its customers through continuous improvement and will also be seeking to grow the business through mergers and acquisition with other LDCs.

MergeCo is also focused on growing through new and related energy opportunities. It has a significant energy services business and renewable generation portfolio with a desire to pursue commercially viable, sustainable, and innovative solutions.

MergeCo will be organized around three corporate entities:

- Corporate entity that will act as a holding company.
- Utility or LDC entity that will largely manage the regulated utility business.
- Sustainability and Innovation entity that will be focused on the future growth for MergeCo in addition to the delivery of corporate services.

MergeCo Structure

Each corporate entity's office is to be located in a separate community, taking advantage of existing head office facilities. At each office, a strong local executive presence will exist. This reflects standard industry best practices for the maintains of a shared vision through the holding company, but the reality of maintaining separate corporate entities for the regulated and unregulated businesses.

The determination of location for the head office and each of operating entities was based on practical considerations for both current and future requirements.

<u>Corporate Administration</u>

The Corporate Head Office of MergeCo will be located in Mississauga at Enersource's Derry Road facility. The Mississauga location is central to MergeCo's existing business, is readily accessible by multiple highways, is nearly at equal distance from other offices which maximizes efficiency of interaction and travel, and has immediate space availability.

<u>Utility Operations</u>

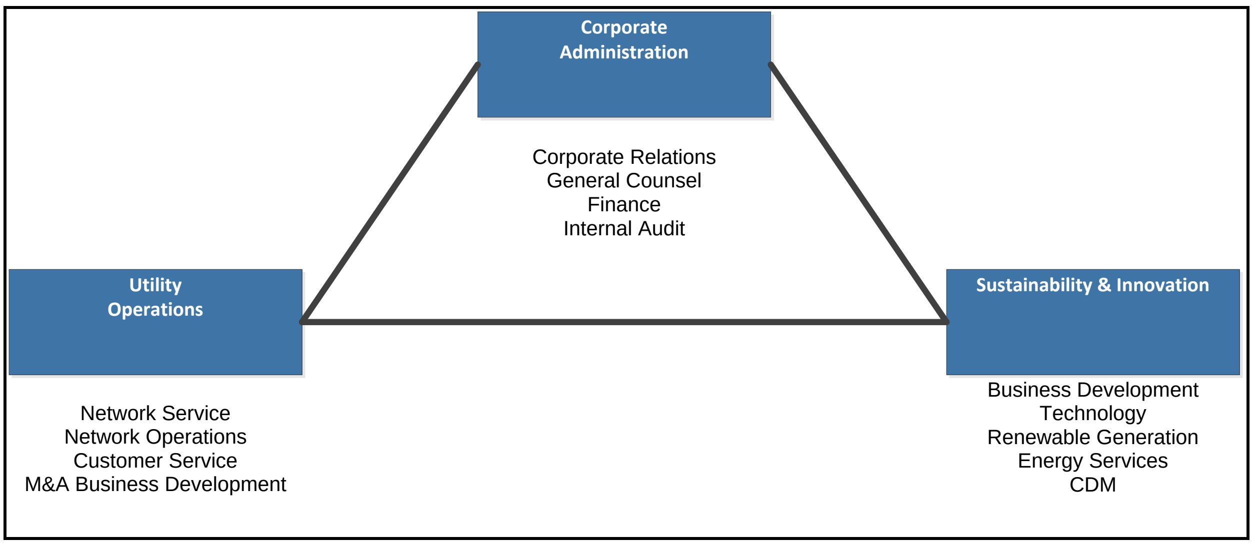
The Utility Head Office of MergeCo will be located in Hamilton at Horizon Utilities' John St. facility and will be focused on delivering operational excellence and on future LDC consolidations.

<u>Sustainability and Innovation</u>

The Sustainability and Innovation Head Office will be located in Vaughan at Powerstream's Cityview Blvd. facility and will focus on innovation in such areas as solar, smart grid and new energy services.
MergeCo will initially have three distinct operating regions that contain several non-contiguous service districts. These will be reflected in the organizational design at the operational structure at the operating level.

The following principles will underlie the final determination of which employees will work from each of the head office locations:

- Focus on fair and equitable treatment of merging communities.
- Executive Teams at offices will have substantial presence in that location.
- Management flexibility to fulfill synergy targets.
- Centralized and de-centralized functions in each community.



Head Office Locations

PowerStream

161 Cityview Blvd.
Vaughan ON L4H 0A9

Horizon Utilities

55 John St N, Hamilton,
ON L8R 3M8

Enersource

2185 Derry Road West,
Mississauga, ON L5N 7A6

MergeCo: Due Diligence

For the past several months PowerStream and its merger partners have established working groups, headed by the CFOs, who were tasked with the analysis and review of the merger particulars. Deloitte was engaged to provide a 3rd 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

In addition, the valuation model and Business Case model was reviewed and stress tested over 6 months by each of the following parties:

- Navigant Consulting Inc. - Representing PowerStream Shareholders
- Morrison Park Advisors Inc. – Providing advisory services to PowerStream
- PricewaterhouseCoopers LLP – Representing Enersource Shareholders
- Ernst & Young Global Limited – Representing Horizon Utilities Shareholders

Deloitte's conclusions reached through the various approaches employed produced the following results:

Relative Valuation including PowerStream Solar

(Including Un-regulated)	**Enterprise Value (EV)**	**Market Value (MV)**	**∆ (MV-EV)**
PowerStream	49.1%	47.9%	-1.2%
Enersource	29.2%	30.0%	0.8%
Horizon Utilities	21.7%	22.2%	0.5%

Relative Valuation Excluding PowerStream Solar

LDCs	**Regulated (EV)**	**Reg. & Non-Reg (EV)**
PowerStream	45.9%	46.0%
Enersource	31.6%	31.0%
Horizon Utilities	22.5%	23.0%
	100.0%	100.0%

The Parties used the following base <u>business model base case assumptions</u>:

- PowerStream, Enersource, and Horizon merge on December 31, 2015

- Hydro One Brampton purchase for $607M

- PowerStream Solar excluded

- Synergies kept for 10 years

It is evident from the above that both Enterprise Value and Market Multiple approaches yield very similar results. The Parties anticipate using the EV approach as the primary approach to value.

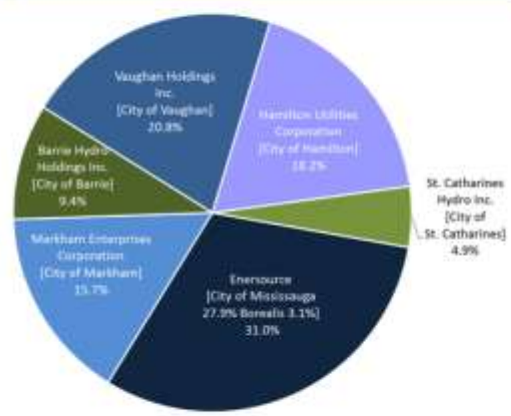
The allocation of shareholdings in the new entity will be as follows:

Individual Shareholder Ownerships

Pre-Merger Shareholding

Owner	HoldCo	
Enersource		
City of Mississauga	Enersource Corporation	90.0%
BPC Energy Corp. (Borealis)	Enersource Corporation	10.0%
		100.0%
PowerStream		
City of Barrie	Barrie Hydro Holdings Inc.	20.5%
City of Vaughan	Vaughan Holdings Inc.	45.3%
City of Markham	Markham Enterprises Corporation	34.2%
		100.0%
Horizon Utilities		
City of Hamilton	Hamilton Utilities Corporation	78.9%
City of St. Catharines	St. Catharines Hydro Inc.	21.1%
		100.0%

Potential MergeCo Shareholding Contribution



The valuation results indicate that there is no single controlling interest in MergeCo.

MergeCo: What Happens Next

PowerStream will be seeking shareholder approval by its three shareholders in September-October 2015.

The terms and conditions for the proposed transaction are accomplished primarily through three key agreements:

1-Share Purchase Agreement **(SPA) for the purchase of Hydro One Brampton**

- Purchase price – the purchase price is $607M.
- Adjustments – the Purchase price is subject to certain limited price adjustments i.e. for working capital and fixed assets.
- Closing conditions – the Agreement will provide for limited closing conditions, including approval by all Parties to the Merger Agreement, competition Board approval, and OEB approval. . All requisite Shareholder and Municipal approvals will have been obtained prior to signing the Agreement(s).
- Closing date – the target closing date is March 31, 2016.
- Indemnification – the Agreement will provide for indemnification by the Province, on certain matters, i.e. environmental, and include thresholds and cap on claims.

2-Merger Participation Agreement (MPA) to give effect to the 3-way merger

Overview

- Parties – the Parties to the Merger Participation Agreement (MPA) and the Shareholder Agreement (SHA) will be all of the municipal holding companies, their respective municipalities, the three merging companies (PowerStream Holdings Inc., a new Enersource Holdings company, and Horizon Holdings Inc.) as well as BPC Energy Corporation (Borealis/OMERS), a 10% owner of Enersource Corp.
- Shareholders – the shares of MergeCo would be held directly by each of the municipal holding companies. There will be at least one indirect shareholdings; in the case of Enersource 10% of their interest owned by Borealis Amalgamation
- The three merging companies – PowerStream Holdings Inc, Enersource Holdings, and Horizon Holdings would amalgamate with each other and continue as a new corporation (“MergeCo”).
- Closing Date – the Merger would close up to 30 days prior to the closing of the purchase of the shares of Brampton.
- Representations & Warranties – the Agreement provides for customary Representations and Warranties between the Parties, with respect to; financial matters, material contracts, corporate status, condition of assets, full disclosure, environmental, and tax matters.

- Indemnification – each of the Parties agree to indemnify one another for claims, with thresholds and caps to be negotiated.
- The SPA and SHA will provide for the share purchase of Brampton. Debt financing for that purchase is being negotiated.

3-Shareholders *Agreement* (SA) to govern the rights of the shareholders in the future

Overview

- The SHA between the Parties will come into effect upon Closing of the Merger.
- The draft SHA is similar to PowerStream's existing SHA in terms of structure, and incorporates the matters agreed to in the 3-way/purchase LOI.
- The Agreement will define the "Business", governance, composition of the Board of Directors.
- The Agreement will set out the Guiding Principles, which will also help inform the initial Strategic Plan.

Regulatory Approvals

Following shareholder approval, PowerStream and its merger partners will focus on completing the Mergers, Acquisitions, Amalgamations and Divestitures, or MAADs process, for regulatory approval of the deal. The MAADs process before the OEB will be a public and highly transparent process where public interest groups will have an opportunity to ask questions about the deal and the OEB will be able to determine that no harm will come (in the way of rates or service quality) to any of the customers involved the merger.

The MAADs process is expected to unfold between October and March of 2016 (with no timing guarantees), in time for the deal to close by the end of March 2016.

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Paul H. Harricks
Direct 416-369-7296
paul.harricks@gowlings.com

Memorandum

To: Mayor and Members of Council for the City of Vaughan
Date: September 18, 2015
Re: Project Aura Interim Report
File Number: T1003698

A. Introduction

I have been retained by the shareholders of PowerStream Holdings Inc. ("**PHI**") to provide independent legal advice to them and their municipal shareholders on:

1. The legal risks and considerations related to the merger (the "**Merger**") of PHI, Enersource Holdings Inc. ("**Enersource**") and Horizon Holdings Inc. ("**Horizon**");

2. The corporate structure and governance arrangements of the new corporation resulting from the Merger ("**MergeCo**"); and

3. The legal risks and considerations related to MergeCo's purchase of Hydro One Brampton Networks Inc. ("**HOBNI**").

The Merger and the acquisition by MergeCo of HOBNI are referred to in the report as the "**Transactions**".

As part of my engagement I have met on several occasions with the boards of directors of each PHI shareholder, including Vaughan Holdings Inc. ("**VHI**"), and have been involved in providing instructions to PHI and its legal advisors on issues that were of concern to the PHI shareholders.

B. Scope of Review

In the course of my engagement I have reviewed successive drafts of each of the following (collectively, the "**Documents**"):

1. the Merger Participation Agreement ("**MPA**") pursuant to which the Merger will be completed;

2. the Unanimous Shareholders Agreement ("**MergeCo Shareholders Agreement**") which, as of the effective date of the Merger, will govern the relationship between the shareholders of MergeCo and its subsidiaries;

Gowling Lafleur Henderson LLP · Lawyers · Patent and Trade-mark Agents
1 First Canadian Place · 100 King Street West · Suite 1600 · Toronto · Ontario · M5X 1G5 · Canada T 416-862-7525 F 416-862-7661 gowlings.com

3. the Share Purchase Agreement pursuant to which MergeCo will acquire all of the issued and outstanding shares of HOBNI;

4. the proposed dividend policy for MergeCo (the "**Dividend Policy**"); and

5. the term sheet (the "**Solar Term Sheet**") for the operation and management by MergeCo and its subsidiaries of the current solar power business of PHI which, pursuant to the MergeCo Shareholders Agreement, will be owned by a subsidiary of MergeCo but operated for the exclusive benefit of the PHI shareholders.

Each of the Documents is, as of the date of this report, still under negotiation between the relevant parties although, as I have been advised by PHI and its advisors, almost all of the major commercial issues have been settled as between PHI, Enersource and Horizon.. Consequently, I will be preparing and providing to the PHI shareholders a subsequent report once all of the Documents have been settled to the satisfaction of the negotiating parties.

C. Summary of Conclusions

Consistent with the mandate that I was given by the PHI shareholders, and based upon my review of the current versions of the Documents that have been provided to me, my conclusions are as follows:

1. All of the Documents are in a form that are typical for transactions such as the Transactions.

2. The legal risks to VHI and the City of Vaughan associated with the Transactions are within the range of what is typical in similar transactions.

3. The Documents are drafted in a way that, from a legal perspective, adequately protects the interests of VHI and the City of Vaughan.

4. While the Dividend Policy is still under discussion, if it is adopted by all the parties in substantially the form being proposed, and while the payment of dividends can never be guaranteed, it will provide considerable assurance that the Shareholders of MergeCo will receive the level of cash flows (as a percentage of net income) that they are expecting. In this regard, we understand that the resolution approving the Transaction passed by the Board of Directors of VHI includes a condition that the Dividend Policy will be in a form acceptable to the City of Vaughan Council.

5. Similarly, if the Solar Term Sheet is finalized in the form currently being proposed, it will provide the PHI shareholders, including VHI, with satisfactory legal protections. In this regard we similarly understand that the VHI board resolution approving the Transactions includes a condition to the effect that the definitive management agreement will be executed and substantially a form contemplated by the Solar Term Sheet.

VAUGHAN

memorandum

C 1
Communication

CW (WORKING SESSION)
September 22, 2015

Item- 1

DATE: SEPTEMBER 18, 2015

TO: MAYOR AND MEMBERS OF COUNCIL

FROM: JOHN HENRY, COMMISSIONER OF FINANCE AND CITY TREASURER
HEATHER A. WILSON, INTERIM COMMISSIONER OF LEGAL AND ADMINISTRATIVE SERVICES/CITY SOLICITOR

RE: COMMUNICATION - COMMITTEE OF THE WHOLE (WORKING SESSION) - SEPTEMBER 22, 2015
ITEM 1 - POWERSTREAM MERGER AND ACQUISITION

Recommendations

1. That the City of Vaughan approve the Vaughan Holdings Inc. Board's recommendation that PowerStream Holdings Inc. ("PowerStream") enter into a three way merger with Enersource Corporation ("Enersources") and Horizon Holdings Inc. ("Horizon") and then proceed to acquire Hydro One Brampton Networks Inc. ("Hydro One Brampton"), subject to the identical conditions set out by Vaughan Holdings Inc. as further described in this communication;

2. That the City of Vaughan agree to subscribe for equity common shares in Vaughan Holdings Inc. in the maximum amount of $45,600,000 to partially fund Vaughan Holdings Inc.'s portion of the acquisition of Hydro One Brampton;

3. That the City of Vaughan's investment in such common shares be made consistent with the timing and amounts deemed necessary by Vaughan Holdings Inc. in order to complete the merger and acquisition transaction;

4. That the City of Vaughan authorize Vaughan Holdings Inc. to pursue a sale from treasury of up to 10% of its shares related to its PowerStream interests to substantially recover the City's portion of the required equity investment and that a report on the process and recommendations be provided prior to completing the merger;

5. That the Mayor, together with the City Clerk, are hereby authorized to execute all documents and agreements on behalf of the City with respect to the proposed merger and acquisition, in a form satisfactory to the City Solicitor, and that City staff be authorized to take such steps as may be necessary (and substantially in accordance with the terms set out in this communication and its related report) to give effect to the proposed merger and acquisition;

6. That staff report to Council if it appears that transaction negotiations could result in agreements which deviate substantially from the principles set out in this communication and its related report; and

7. That, within 60 days of executing the agreements and documents required to finalize the merger and acquisition, staff provide Council with an update.

Purpose

The purpose of this communication to provide the outcome of the Vaughan Holdings Inc. meeting held September 16, 2015.

This memorandum supplements the information contained in the September 22, 2015 Committee of the Whole (Working Session) meeting report ("the report") pertaining to the proposed PowerStream Merger and Acquisition.

The purpose of this memorandum is:

- to inform Council and the public of the September 16, 2015 Vaughan Holdings Inc. (VHI) Board recommendations and approved resolution to move forward with the proposed PowerStream Merger and Acquisition proposal;
- to request that Council adopt recommendations and conditions in support of VHI's endorsement of the PowerStream Merger and Acquisition plan;
- to provide an update on the upset limit amount of equity investment required; and
- to provide assurances from the City's external Legal Counsel with regard to the governance issues associated with the transaction (Attachment 1 – Memorandum from Gowlings LLP, dated September 17, 2015)

Background – Analysis and Options

On September 16, 2015, Vaughan Holdings Inc. (VHI) Board met to consider the proposed three way merger between PowerStream, Enersource, and Horizon and their subsequent acquisition of Hydro One Brampton. The proposed transaction was approved by the PowerStream Board on September 11, 2015. Details of the proposed transaction can be found in the report related to this communication. The result of the VHI Board meeting on September 16, 2015 was to approve the PowerStream Board's resolution to enter the three way merger and subsequent acquisition of Hydro One Brampton, subject to certain conditions as further detailed below.

Maximum Investment Threshold

Since the release of the September 22, 2015 Committee of the Whole (Working Session) report one notable change has been made to the amount required to fund the equity needed to acquire Hydro One Brampton. The report described "$56M, subject to closing costs" as the amount required for equity injection. Since the release of that report a contingency of up to 10% has been identified as reasonable to fund the closing costs and therefore the new total amount of funding required has been revised to $61.6M. Setting the maximum amount of the equity injection as $61.6M was one of the conditions set by the VHI Board. Table 1 below shows the new funding plan and is consistent with the recommended common share purchase of VHI found in the recommendations section of this report.

Table 1 – Funding Plan for Merger and Acquisition Proposal - VHI/City Portion Only ($M)

Purchase Price of Hydro One Brampton	$56.0
Add: Contingency for Closing Costs @ 10%	$5.6
Total Funding Required for Transaction	**$61.6**
From Available VHI Cash Balance	$16.0
Issuance of New Common Shares to the City	$45.6
Proposed Funding Available for Transaction	**$61.6**

It should be noted that consistent with the report and the recommendations set out in the communication, it is expected that a substantial portion (estimated at $40M) of the City's commitment to invest in VHI and VHI's corresponding commitment to invest in the merged company will be recovered through a 10% sale of VHI's common shares from treasury. As discussed in the report this is deemed to be the most financially advantageous option permitting the City of Vaughan to take advantage of very favourable market conditions, which help minimize the City's financial requirement, while benefiting from improved net 10 year cash flows and equity value. It also ensures that cash is available in the long term for the purposes of future City capital programs or alternative high yield investments.

Commitment to Cash Flow Expectations

As a result of the closing cost adjustment noted above, the cash flows associated with the transaction were revised. The second condition set out by the VHI Board details a minimum level of cash flow expectation, projections presented in Table 2, as the basis for which the transaction would proceed. Any substantial change to these projections would require a new approval by both the VHI Board and the City of Vaughan before the close of the transaction.

Table 2 – Forecasted Cumulative 10 years Cash Flow (VHI Specific)

Cashflow to VHI (10 Years Forecast) - All values in 000's	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total
Status Quo											
Equity Injection	(6,797)										(6,797)
Dividends - regulated	6,313	6,672	7,373	8,038	8,668	10,639	11,273	11,907	12,409	13,161	96,453
Interest on shareholder loans	4,718	4,718	4,718	4,718	4,718	4,718	4,718	4,718	4,718	3,505	45,967
Subtotal	4,234	11,390	12,091	12,756	13,386	15,357	15,991	16,625	17,127	16,666	135,623
Solar Dividends	4,576	4,803	4,622	4,169	3,670	3,172	2,719	2,583	1,994	1,541	33,847
TOTAL	8,810	16,193	16,712	16,925	17,056	18,529	18,710	19,207	19,120	18,206	169,469
Cumulative 10 Yr Cashflow excl equity injection											176,267
MergeCo - funded by cash (100% OPEX and 100% CAPEX synergies)											
Equity Injection	(56,000)										(56,000)
Closing adjustments (up to)	(5,600)										(5,600)
Dividends - regulated	8,483	11,707	14,005	16,065	16,560	16,730	17,103	17,010	18,331	19,877	155,872
Interest on shareholder loans	3,505	3,505	3,505	3,505	3,505	3,505	3,505	3,505	3,505	3,505	35,053
Subtotal	(49,612)	15,212	17,511	19,571	20,066	20,236	20,608	20,516	21,836	23,383	129,325
Solar Dividends	4,576	4,667	4,486	3,942	3,262	2,900	2,447	2,356	1,858	1,450	31,944
TOTAL	(45,036)	19,879	21,996	23,512	23,328	23,135	23,055	22,872	23,694	24,832	161,269
Cumulative 10 Yr Cashflow excl equity injection											222,869
MergeCo - funded by 10% sale											
Proceeds from sale	39,948										39,948
Equity injections	(50,979)										(50,979)
Closing adjustments (up to)	(5,600)										(5,600)
Dividends - regulated	7,634	10,536	12,605	14,459	14,904	15,057	15,393	15,309	16,498	17,890	140,285
Interest on shareholder loans	3,505	3,505	3,505	3,505	3,505	3,505	3,505	3,505	3,505	3,505	35,053
Subtotal	(5,491)	14,041	16,110	17,964	18,410	18,563	18,898	18,814	20,003	21,395	158,707
Solar Dividends	4,576	4,667	4,486	3,942	3,262	2,900	2,447	2,356	1,858	1,450	31,944
TOTAL	(915)	18,708	20,596	21,906	21,672	21,462	21,345	21,171	21,861	22,845	190,650
Cumulative 10 Yr Cashflow excl equity injection											207,281

Source: Navigant Model forecast for regulated dividends; PowerStream forecast for Solar dividends

Execution of Solar Management Term Sheet Key Principles

The third condition added by the VHI Board to minimize transaction uncertainty was to ensure that a management agreement for the Solar business be executed in a form substantially acceptable to the VHI Board (a draft "Solar Term Sheet" outlining key principles was created that is currently acceptable to the VHI Board). Further assurances regarding the Solar issues are provided through the Gowlings LLP memorandum as attached.

Finalization of the MergeCo Dividend Policy

The last condition was to protect VHI's and the City of Vaughan's interest in the Dividend Policy currently being finalized. The VHI Board approved an amended resolution to ensure that a finalized Dividend Policy be in a form acceptable to City of Vaughan before it approves the recommendations of this communication and the report at a City Council meeting on a date yet to be determined. The Dividend Policy is substantially complete with a few clauses under final revision. Given that the City relies on dividend cash flow to support operations it is prudent to ensure the Dividend Policy is satisfactory to the City before formally endorsing the merger and acquisition proposal. The impetus towards this is intended to provide more cash flow certainty to VHI and in turn the City and to decrease the discretionary powers of the new MergeCo Board of Directors with regard to the Dividend Policy to ensure these cash flows are further protected. This Dividend Policy excludes the Solar dividends, which have its own dividend policy.

Assurances and Governance

Gowlings LLP has reviewed several governance issues on behalf of the City of Vaughan to provide assurances from a legal perspective on these matters. As part of Attachment 1 some of the issues considered include; Corporate Structure, Board of Directors, Special Approvals, Post-Closing Adjustments and Dividend Policy, Liquidity Conditions, Financing MergeCo, Future Reorganization and the PowerStream Solar Business.

Conclusion

On September 16, 2015, the Board of VHI approved the PowerStream Board's resolution to enter the three way merger and acquisition of Hydro One Brampton.

As wholly owned by the City of Vaughan, VHI's decision to adopt and approve the resolution and recommendation as detailed above are submitted to the September 22, 2015 Committee of the Whole (Working Session) meeting for further consideration by Council.

Attachments

1. Memorandum from Gowlings LLP, dated September 17, 2015

Respectfully Submitted,

John Henry
Commissioner of Finance and City Treasurer

Heather A. Wilson for
Interim Commissioner of Legal and Administrative Services/City Solicitor

Copy to: Steve Kanellakos, City Manager
Lloyd Noronha, Director of Development Finance and Investments

C2
CW (Working Session) - September 22, 2015
Item 1

Vaughan Committee of the Whole (working session)

PowerStream Update
September 22, 2015

Agenda

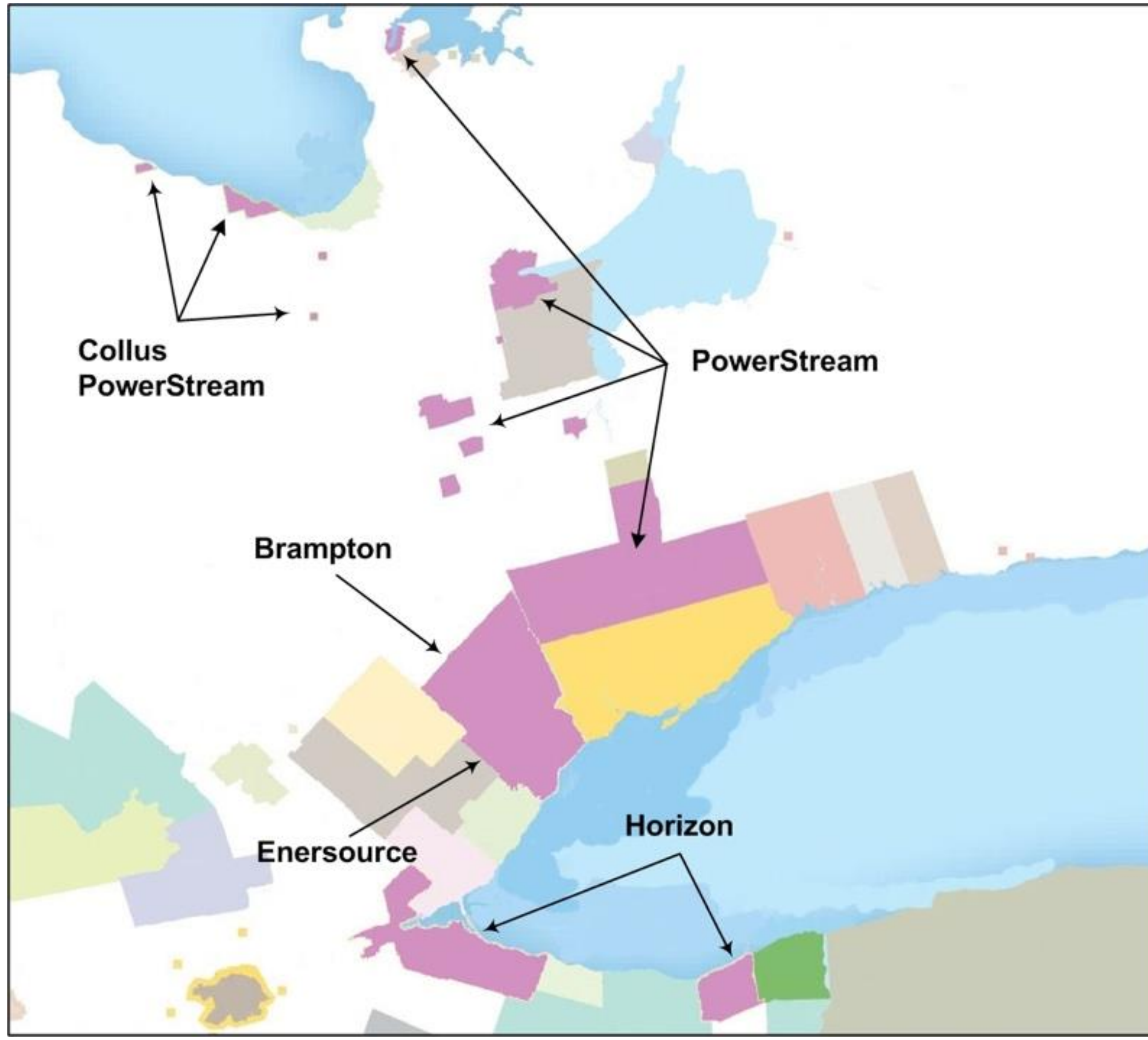
- ✓ Value Proposition
- ✓ Key Aspects of Transaction
    - Corporate Structure
- ✓ Business case
    - Synergies
    - Value to Shareholders & Customers
    - Relative Value
    - Acquisition Financing
- ✓ Key Legal Documents
- ✓ Conclusion

Second Largest Electricity Distribution Company in Ontario

- 1 million customers

- $2.7 billion in assets

- $2.5 billion rate base



Value Proposition

Improved Financial Returns to Shareholders

- *Steady and growing dividend stream at a level higher than the Status Quo*
- *$125M investment has nominal payback of 11 years*
- *$125M investment will increase in value to $230 - $300 million, due to synergy savings and Brampton dividends*

Cost Savings for Customers Compared to Status Quo

- *Rates will be lower than expected in the Status Quo*
- *Customers will save an average of approximately $40-$50/year over 25 years*

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

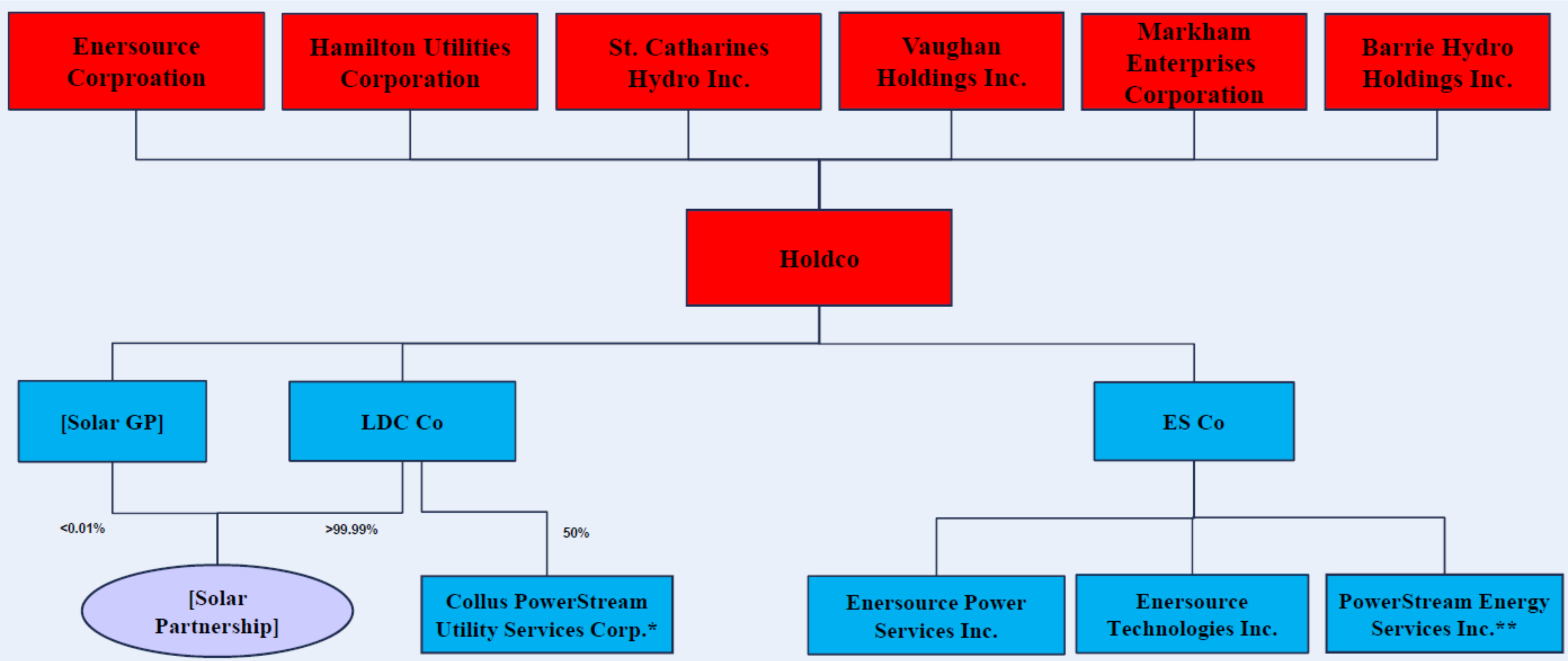
- *MergeCo will be in a key position of leadership to influence government and regulatory energy policy for the benefit of customers and shareholders*

Key Aspects of Transaction

Issue	Result
Relative Value	PowerStream @ 46%
Local Presence & Facilities	Maintain existing facilities
Solar Carve Out	Maintain solar cash flows through special shares
Governance	6 of 13 Board Members to be appointed by PS shareholders
Executive	Significant presence in Executive for current PS Staff
Liquidity Rights	Improved rights to raise capital for growth, or to monetize existing investment

MergeCo Structure will Enable Execution of Strategy

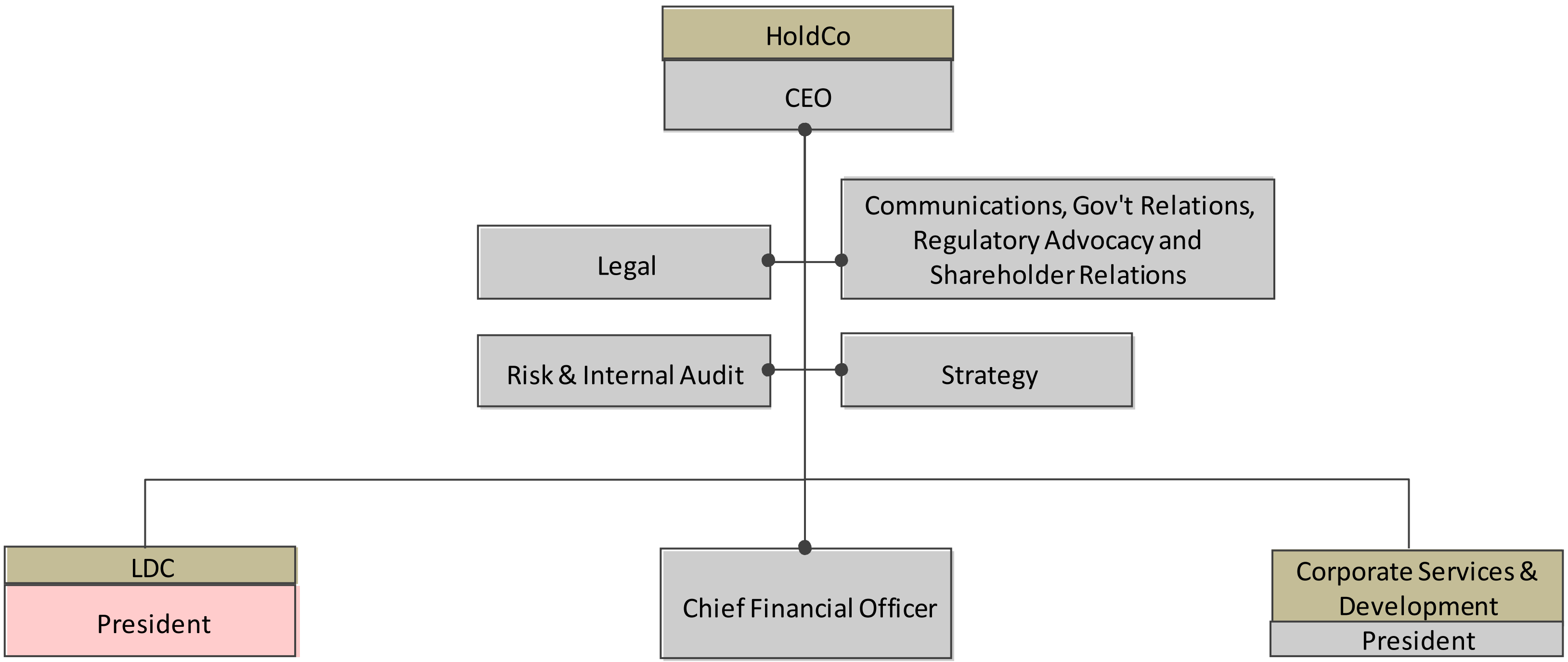
Power Stream



* 50% ownership by Town of Collingwood not shown. Collus subsidiaries also not shown.
** Ownership of non-participating, non-voting preferred shares by PowerStream Energy Holdings Trust not shown.

- *Municipal Holding Companies are 100% owned by Municipalities, with the exception of Enersource Corporation (90% City of Mississauga, 10% Borealis)*
- *PowerStream Solar will reside in a segregated component of the LDC entity or a downstream partnership to preserve a full separation from the regulated LDC interests of MergeCo.*

MergeCo Organizational Structure



Business Case

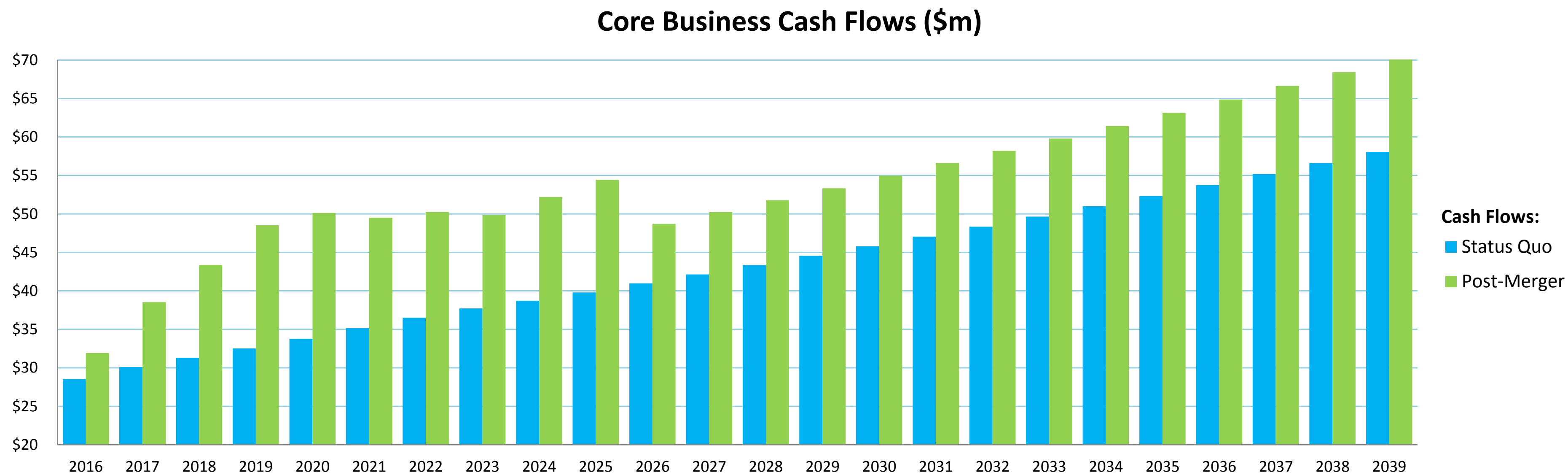
Estimated Synergy Savings

	<u>2016 – 2020</u>
Estimated OM&A Synergy Savings	$167 Million (approx)
Estimated Capital Savings	$ 127 Million (approx)
Estimated Transition Costs (Includes Severance) (Approx 45% OM&A; 55% Capital)	$ 96 Million (approx)

- Synergies of approximately $47.5M/year after 2020

- **Pace/timing of achieving synergy savings is very important**
  - balancing financial need with HR/LR and broader cultural impact along with operational requirements.

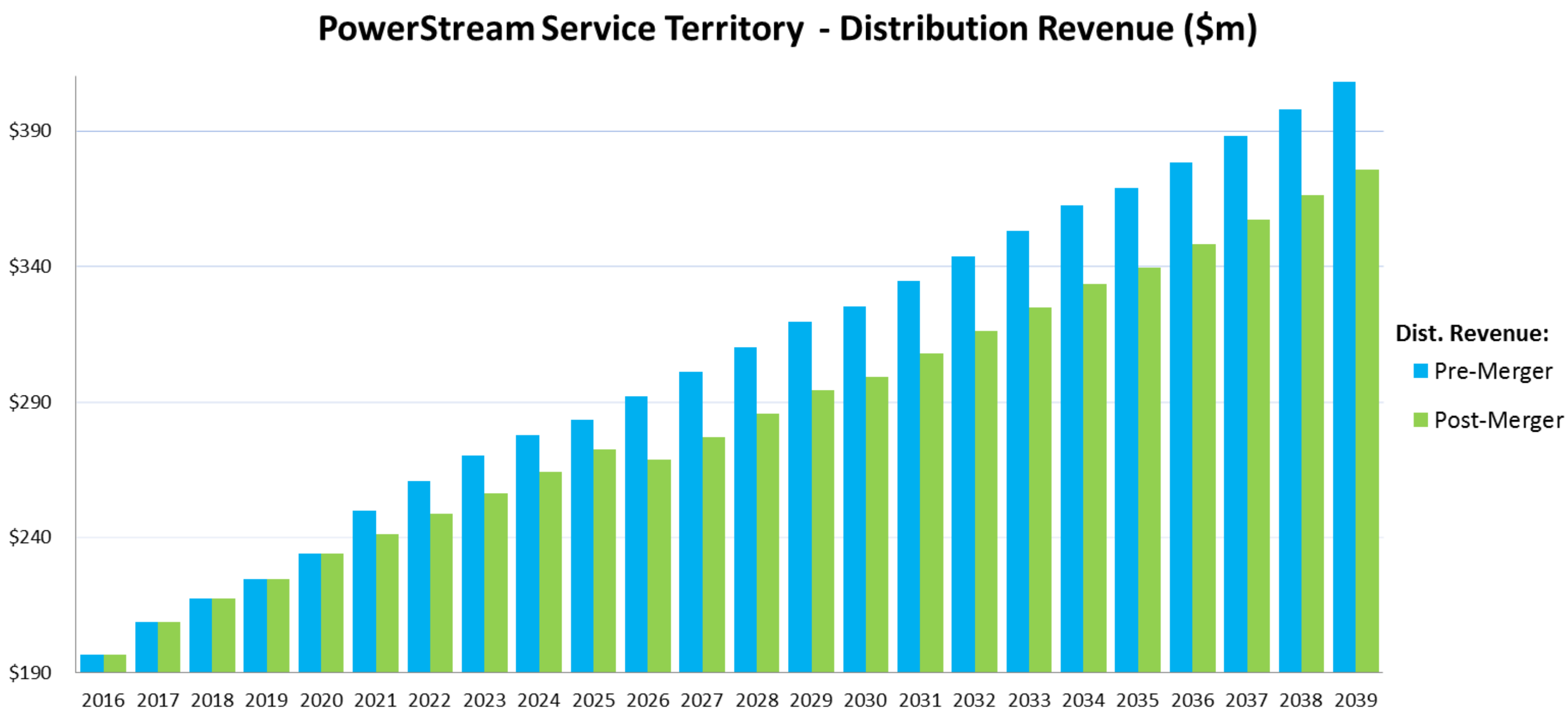
Value to Shareholders



*Updated to assume Promissory Notes and Deferred Interest are at 4.77% (long-term OEB rate); stand alone cash flows are amended to reflect impact of 2021-2025 rebasing that would occur if merger does not happen

Average Annual Increase in Cash Flows	1 - 5 Years	6 - 10 Years	11 - 15 Years	16 - 20 Years	21 - 24 Years	Total Increase of Cash Flows
	$11.2	$13.7	$8.4	$10.2	$11.6	$264.1

Value to Customers



- *Customers will share in merger efficiencies and will save approximately $450M over 25 years, or approximately $40-$50/customer annually*
- *Better ability to serve customers through enhanced and shared systems and range of products/services available ,with increased resources to respond to reliability issues*
- *Investment in new business opportunities improves economic development in our communities*

Value to Customers (cont.)

Typical Monthly Bill

	PowerStream	Enersource	Horizon	Hydro One Brampton
Residential	$ 131.47	$ 133.97	$ 138.15	$ 133.05
GS<50	$ 318.47	$ 335.93	$ 329.27	$ 325.12
GS>50	$ 12,971.56	$ 13,480.01	$ 13,227.02	$ 12,996.53

- PowerStream is currently undergoing a custom IR rate submission and new rates will be set for 2016:

	Proposed 2016 Rates PowerStream
Residential	$ 143.82
GS<50	$ 363.46
GS>50	$ 13,141.40

Distribution Revenue with Merger Transaction

- From 2026 onward, annual Distribution Revenue is approximately 8% lower as compared to PowerStream status quo

Community Impact

York Region Municipalities of Vaughan and Markham, as well as the City of Barrie are expected to see significant benefits on electricity bills for municipal buildings

Annual Total Bill Savings ***($ thousands)***

Municipality	Stand Alone Utility	Merged Utility	Cost Difference
Barrie Municipal Buildings	$ 17,829	$ 17,521	-$ 308
Markham Municipal Buildings	$ 11,497	$ 11,296	-$ 202
Vaughan Municipal Buildings	$ 12,498	$ 12,275	-$ 223

Large accounts in York Region and Simcoe County, as well as in Markham, would see savings on their total bills. For example, annual total bill savings after 10 years would be over:

- $10,000 for Markham Campus of Seneca College
- $11,000 for Markham-Stouffville Hospital
- $43,000 for Royal Victoria Hospital
- $9,000 for Vaughan City Hall

- The same savings can be seen at a number of other large facilities in PowerStream’s current service territory.

Valuation & Business Case Summary

Valuation model and Business Case model was reviewed, stress tested, and negotiated over 6 months by consultants representing each Shareholder's interests:

VALUATION

(including unregulated and PowerStream Solar)

Valuation	**Enterprise Value**
PowerStream	49.1%
Enersource	29.2%
Horizon Utilities	21.7%

BUSINESS CASE

(excluding PowerStream Solar)

Business Case	**Enterprise Value**
PowerStream	46.0%
Enersource	31.0%
Horizon Utilities	23.0%

Closing Adjustments:

- Closing adjustments for each LDC determined prior to merge and leveraged accordingly by MergeCo
- Purchase price is subject to certain limited price adjustments i.e. for working capital and fixed assets

PowerStream Solar

PowerStream Shareholders continue to benefit from the economics of the underlying solar assets

- PowerStream Solar will remain in LDC company
- Ring-fenced, similar to current structure, to comply with OEB requirements
- PowerStream Shareholders receive 100% of the dividends of the Solar business
- Revised dividend policy for PowerStream Solar is being developed and will provide a dividend stream similar to the one currently forecasted
- PowerStream Shareholders will indemnify the other Shareholders for risks associated with Solar business

PowerStream Solar - forecasted dividends

Factors not related to the merger transaction

- The refinancing of IO Ontario debt; IO financing can only be used if PowerStream is 100% municipally owned ; given that it is expected that PowerStream would obtain Private Equity financing even on a stand alone basis, it is not possible to use IO financing anymore. For 2016-2025 the total impact of increased interest cost and refinancing cost is approx. $1.7M
- Updating the SLA to include markup; for 2016-2025 the total impact is about $0.1M
- **Overall impact on dividends: reduction of $1.8M (2.3%)**

Factors related to the merger transaction

- The increased spread on long-term debt ; at 50 bps for 2016-2025 the total impact of increased interest cost and refinancing cost is approx. $2.9M
- Updating the SLA to 10% markup; for 2016-2025 the total impact is less than $0.1M
- Changing the dividend policy to 80% of net Free Cash Flow - for 2016-2025 the total impact is about $1.2M . This effect is due to the timing only; at the end of 20 year period it will be reversed.
- **Overall impact on dividends: reduction of $4.2M (5.5%)**

HOBNI Acquisition Financing

Purchase price - $607M

- Option to finance the purchase HOBNI with 70% - 75% debt
- Shareholder equity requirements to purchase HOBNI will be subject to closing adjustments
- Debt/equity adjustments, working capital adjustments and other assets adjustments to be based on pre-merger financial statements
- Bridge financing of up to $625M to purchase HOBNI, and $500M revolving credit will be available for MergeCo

($ millions)	City of Vaughan	City of Markham	City of Barrie	PowerStream Total
	45.315%	*34.185%*	*20.50%*	
Ownership in MergeCo (Excl. Solar)	20.8%	15.7%	9.4%	46.0%
Equity Required (Excl. Solar)	$56.5	$42.6	$25.6	$124.7

Sources of equity contribution:

- Debt conversion pre-merger
- Municipal support
- Private Equity funding

Key Legal Documents

Key Legal Documents

The terms and conditions for the proposed transaction are accomplished primarily through three key agreements:

- *Share Purchase Agreement* (SPA) for the purchase of Brampton;
- *Merger Participation Agreement* (MPA) to give effect to the 3-way merger;
- *Shareholders Agreement* (SA) to govern the rights of the shareholders in the future

All key aspects of the legal documents have been negotiated and the agreements are now substantially final and complete;

Details are summarized as follows:

Share Purchase Agreement ("SPA")

Share Purchase Agreement

- Purchase price – the purchase price is $607M.

- Adjustments – the Purchase price is subject to certain limited price adjustments i.e. for working capital and fixed assets.

- Closing conditions – the Agreement will provide for limited closing conditions, including closing of the Merger, Competition Act approval, and OEB approval. The purchase is not subject to a financing condition. All requisite Shareholder and Municipal approvals will have been obtained prior to signing the Agreement(s).

Share Purchase Agreement Cont'd

- Closing date – the target closing date is March 31, 2016.

- Anti-Flip – the Province has insisted on the inclusion of anti-flip provisions that would (a) prohibit the purchasers from selling all, or substantially all the shares or assets of Brampton without the consent of the Province for a period of 5 years, and (b) prohibit the sale of more than 49% of the equity of the entire merged entity (MergeCo) for a period of 3 years (except as between the current owners).

- Indemnification – the Agreement will provide for indemnification by the Province, on certain matters, i.e. environmental, and include thresholds and cap on claims.

Merger Participation Agreement ("MPA")

Merger Participation Agreement

- Parties – the Parties to the Merger Participation Agreement (MPA) and the Shareholder Agreement (SHA) will be all of the municipal holding companies, their respective municipalities, the three merging utilities (PowerStream, Enersource and Horizon) as well as BPC Energy Corporation (Borealis/OMERS).

- Shareholders – the shares of MergeCo would be held directly by each of the municipal holding companies. There will be one or two indirect shareholdings; in the case of Enersource 10% of their interest owned by Borealis or in the case of the PowerStream's or Horizon's shareholders a sale of 10% would result in 10% indirect ownership by a major pension fund such as Borealis or Teachers'.

Merger Participation Agreement Cont'd

- Amalgamation – PowerStream, Enersource, and Horizon would amalgamate with each other and continue as a new corporation ("MergeCo").

- Closing Date – the Merger would close up to 30 days prior to the closing of the purchase of the shares of Brampton.

- Representations & Warranties – the Agreement provides for customary Representations and Warranties between the Parties, with respect to; financial matters, material contracts, corporate status, condition of assets, full disclosure, environmental, and tax matters.

- Indemnification – each of the Parties agree to indemnify one another for claims, with thresholds and caps.

- The SPA and SHA will provide for the payment of the Share purchase of Brampton. Debt financing for this purchase has been arranged.

Shareholders Agreement

Overview

- The SHA between the Parties will come into effect upon Closing of the Merger.

- The draft SHA is similar to PowerStream's existing SHA in terms of structure, and incorporates the matters agreed to in the 3-way/purchase LOI.

- The Agreement will define the "Business", governance, composition of the Board of Directors.

- Composition of the Board of Directors: Total of 13 directors; 6 of 13 PowerStream appointments; Vaughan 3, Markham 2, and Barrie 1. As part of their respective allotment of board seats, each municipality may appoint 1 non-independent board member.

- The Agreement will set out the Guiding Principles, which will also help inform the initial Strategic Plan.

Shareholders Agreement Cont'd

Overview

- The Agreement sets out the unanimous approval matters and matters that require 66 2/3rds (Supermajority) approval. There is a much shorter list of the Unanimous and Supermajority matters than in PowerStream's current SHA, resulting in a greater delegation to the Board.

- The Agreement deals with the transfer of Shares and Liquidity Rights. The Agreement will provide, with 66 2/3rds approval, the ability to bring in third party capital in order to fund growth, and also with 66 2/3rds approval, the ability to monetize in whole or in part, with a mechanism to deal with the allocation of taxes.

Risk Management

Risk	Response
Synergies may not be achieved	PowerStream has a track record of meeting or exceeding its targets
Integration challenges	This is our fourth transaction in 10 years: experience counts
Unidentified expenses/liabilities	Extensive due diligence already, and specific contractual protection
Transaction financing in a rising interest rate environment	Bridge financing for two years is secured; flexibility to arrange capital details after closing
Regulatory uncertainty affects business plan going forward	A larger, more prominent utility will carry more weight in the industry and have a greater role in policy

Next Steps

<u>PowerStream</u>

PowerStream Board – September 11th

BHHI – September 14th**, City of Barrie** September 21st or 28th, Oct 5th TBC

VHI – September 16th**, City of Vaughan** September 22nd**,** Final Approval TBD

MEC – September 16th**, City of Markham** September TBD

Horizon

City of St. Catharines – TBD

City of Hamilton – September 2nd and 23rd

Enersource

Board – September 3rd

City of Mississauga– September 16th

Borealis – by September 16th

Conclusion

By pursuing the merger transaction, we will be stakeholders of the most dynamic utility in Canada

- ✓ *The 2nd largest LDC in Canada, serving 1 million customers*
- ✓ *Reduced upward pressure on distribution rates for our customers*
- ✓ *Scale and opportunity to innovate and grow*
- ✓ *Strategically positioned to take advantage of opportunities in a changing industry landscape*
- ✓ *Increased Shareholder value and cash flows*

C3
CW (Working Session) - September 22/15
Item #1

NAVIGANT ENERGY

PowerStream Merger and Acquisition: Decision Support

Prepared for the City of Vaughan

September 22, 2015

Proposed Transaction

- The transaction has two major components
  - Three-way merger between PowerStream, Enersource, and Horizon
  - Joint acquisition of Hydro One Brampton
- Would create the second largest regulated electricity distribution utility in Ontario by the number customers, nearly one million, and the third largest by regulated asset value

Navigant was retained to provide decision support to PowerStream's shareholders

Navigant's analysis addresses five critical questions

1. Value and risks: What is the value of the transaction to PowerStream shareholders and what are the associated risks?
2. Cash flow: What are the expected cash flows to PowerStream shareholders under the status quo and the proposed transaction?
3. Liquidity: What flexibility is there for PowerStream shareholders (jointly and individually) to divest their holdings and what is the associated impact of such divestment under the status quo and the proposed transaction?
4. Acquisition price: Is the purchase price for Hydro One Brampton consistent with market value?
5. Merger relative value: Are PowerStream shareholders receiving an appropriate share of the equity in the new company ("MergeCo")?

Navigant is a global provider of specialised professional services

Navigant Consulting Ltd. is the Canadian operating company and a wholly owned subsidiary of Navigant Consulting, Inc. (together "Navigant"). Navigant is a specialised global expert services firm that helps clients create and protect value in the face of critical business risks and opportunities. Our experts have deep industry knowledge in energy, healthcare, construction, and financial services. Navigant has over 5,000 professionals located in more than 50 cities around the world, serving clients in more than 70 countries. Navigant is traded on the New York Stock Exchange and had revenue of US $860 million in 2014.

Client Profile

- Nearly 300 financial services companies including many of the largest banks in the U.S.
- Over 80% of AMLAW 100 firms
- 50 of the largest electricity and natural gas utilities globally
- Over 300 hospitals, health systems & academic medical centers, and global life sciences companies
- Federal, state and local government departments and agencies

Geographic Profile

Talent Profile

- 5,000+ employees as of Dec. 31, 2014
  - 1,700 expert / consulting professionals
  - 2,700 business process management services professionals
- Credentials include CFAs, CPAs/CAs, economists, engineers, physicians, PhDs, and attorneys
- Niche areas of expertise combined in unique ways
- Broad networks of experts and affiliates
- Collaborative and nimble resource management

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Qualifications

Navigant’s Energy practice has the depth of knowledge and breadth of capabilities to solve the most complex energy sector challenges

Navigant Energy offers a full range of advisory services specifically targeted to the power and utilities and oil and gas industries. Navigant’s Energy practice has over 400 consultants around the world and a breadth of capabilities to solve the most complex energy sector issues. Our consultants have substantial hands-on industry experience with unmatched expertise across the entire energy value chain. Our experts combine their business strategy knowledge with exceptional operational experience to deliver solutions that are technically and financially viable.

Market Intelligence

1. Research
2. Benchmarking
3. Modelling

Strategy, Technology, and Organization

4. Business strategy, planning and implementation
5. Technology, strategy assessment, and advisory
6. Due diligence and M&A support
7. Innovation and R&D management
8. Technology and appliance standards, codes and testing
9. Reverse engineering and test facilities

Markets, Customers

10. EE/DSM Market research and characterisation
11. EE/DSM evaluation, measurement, and verification
12. EE/DSM program design

Operations & Asset Management

13. Energy markets advisory
14. Utility contracting support
15. Energy project development support
16. Integrated resources planning 2.0
17. Electric transmission planning and operations
18. Electric distribution planning and operations
19. End user energy strategy

Financial, Risk and Regulatory

20. Retail regulatory support
21. Energy SME litigation support

Sample Engagements

Merger of PowerStream and Barrie Hydro

The City of Barrie retained Navigant to serve on the Joint Steering Committee to negotiate a merger agreement between Barrie Hydro and PowerStream. As part of this engagement, Navigant explored the potential savings, rate, and reliability impacts of the potential merger and made numerous presentations to Barrie City Council and senior staff regarding the implications of the potential merger. The merger was ultimately approved by the three municipal shareholders of the two utilities.

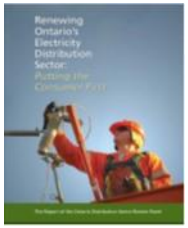
Transaction advisor to Constellation Energy merger of Constellation Energy and Exelon

Navigant was engaged by Constellation Energy to provide transaction due diligence and advisory assistance in support of the company's proposed merger with Exelon which would result in one of the nation's largest competitive energy products and services suppliers with 64 terawatt-hours of load per year delivered to over 100,000 businesses and approximately 1 million residential clients.

Navigant mobilized a cross functional team of transaction and energy professionals from its corporate finance and energy practices to perform a comprehensive due diligence process that focused on identifying any strategic, financial, or operating issues with the potential to affect the valuation/stock price of the combined entity post-close. Navigant's process and findings were delivered in a summary report identifying any potential red flag issues and recommendations on mitigation strategies for any key risks identified.

Transmission utility transaction diligence

Navigant provided technical, financial and due diligence support to the a large utility investment holding company in its pursuit of the acquisition of AltaLink, an Alberta Transmission Facility Operator. Navigant's support included a review of the regulatory framework and ratemaking process for transmission facilities, a comparison of the Alberta regulatory framework with other jurisdictions globally and an assessment of the key risk factors related to the business.



Technical advisor to the Distribution Sector Review Panel

Navigant provided technical consulting services to the Ontario Distribution Sector Review Panel. As part of this engagement, Navigant provided insight on previous local distribution company mergers and quantification of associated savings, trends in LDC spending and implications on the potential for further efficiencies, cost drivers for local distribution companies and potential efficiencies, and areas where local distribution companies are currently sharing common infrastructure, systems, and processes, and the potential for further efficiencies in these areas.

Key aspects of the business case are reasonable

- Navigant ***reviewed, analysed, and tested*** the business case assumptions, and revised as appropriate
- Hydro One Brampton purchase price
  - Price for Hydro One Brampton ***in within, but at the high end of, the valuation range***
- Relative valuation of PowerStream, Enersource, and Horizon
  - Relative valuation of PowerStream is ***reasonable***
  - PowerStream Solar is ***likely undervalued***
    - As a result, management successfully negotiated that the PowerStream Solar assets be carved out and earmarked for only the existing PowerStream shareholders
    - Small negative impact to the expected PowerStream solar cash flows, up to $1.7M for Vaughan
- Synergies
  - Synergies were ***reviewed and determined to be reasonable*** and achievable
    - Roughly half of the functional area synergies are likely conservative (i.e. synergies may be greater)
    - There are risks associated with the Synergies, but PowerStream has a track record of delivering

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High Level Findings

Proposed transaction creates value for the City of Vaughan, but comes with risk

1. Transaction ***requires ~$56M investment*** from the City of Vaughan, plus or minus closing adjustments (10%)

2. The transaction is ***expected to create between $71 and $102M of shareholder value***, approximately 30% to 80% more than the $56M initial investment, representing a 6 to 9% return on investment

3. Vaughan's initial investment is expected to be ***recovered through increased dividends over 10 years***, if ratepayer benefits are also considered, the simple payback period is reduced to seven years

4. Over 25 years, the present value of the ***projected benefit to Vaughan electricity customers is $61M***, equivalent to an **average of $40 per year for all customers** *and $25 per year for residential customers*

5. The transaction can be ***funded with limited or no cash*** if the City of Vaughan (i) sells 10% of PowerStream and reinvests the proceeds, or (ii) swaps its shareholder loans for equity; the former also ***mitigates risk associated*** with the *transaction*

6. The investment has ***more risk and is expected to provide a lower return*** than investments made to-date in PowerStream, although under certain reasonable conditions the return could be higher

7. The transaction is expected to ***have a limited impact on the liquidity*** of Vaughan's existing investment, and could result in a small improvement

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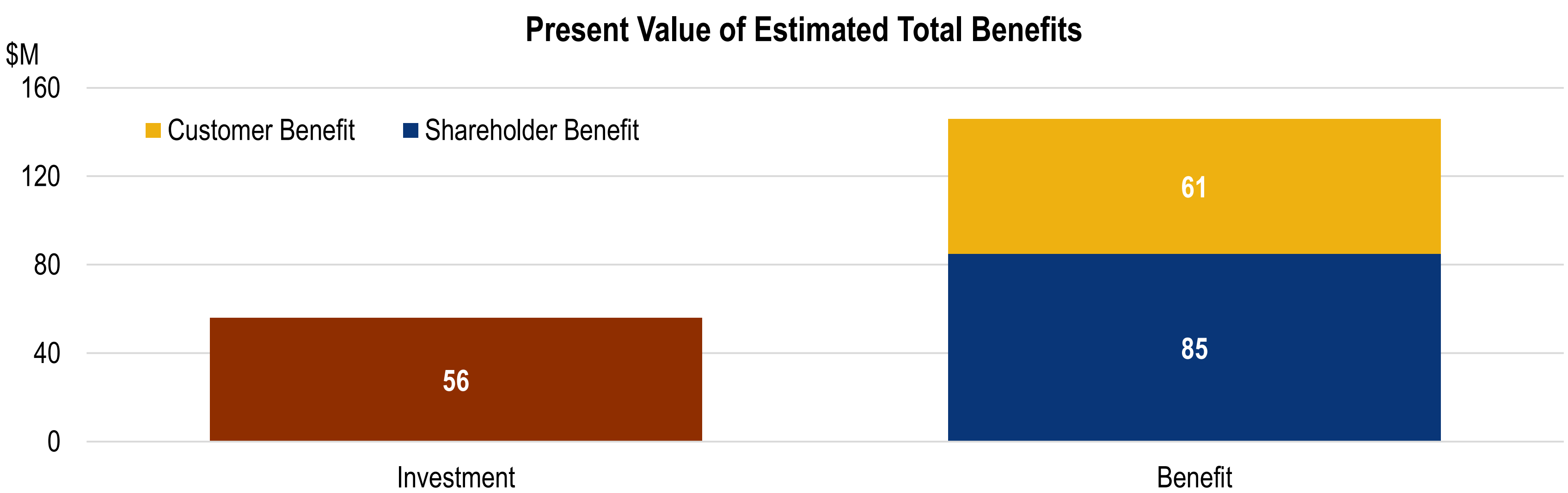
Total Benefit

Combined shareholder and customer benefit is substantial

» $146M of total benefit (present value) for $56M investment
  › $85M of benefit is realised through increased dividends and equity value to Vaughan
  › $61M of benefit is realised through lower electricity rates than would otherwise



Source: Navigant. “Decision support for the proposed three-way merger between PowerStream Holdings Inc., Enersource Corporation, and Horizon Holdings Inc., and the joint acquisition of Hydro One Brampton Networks Inc.”. September 18, 2015.
Notes:
1) All values discounted at 5%

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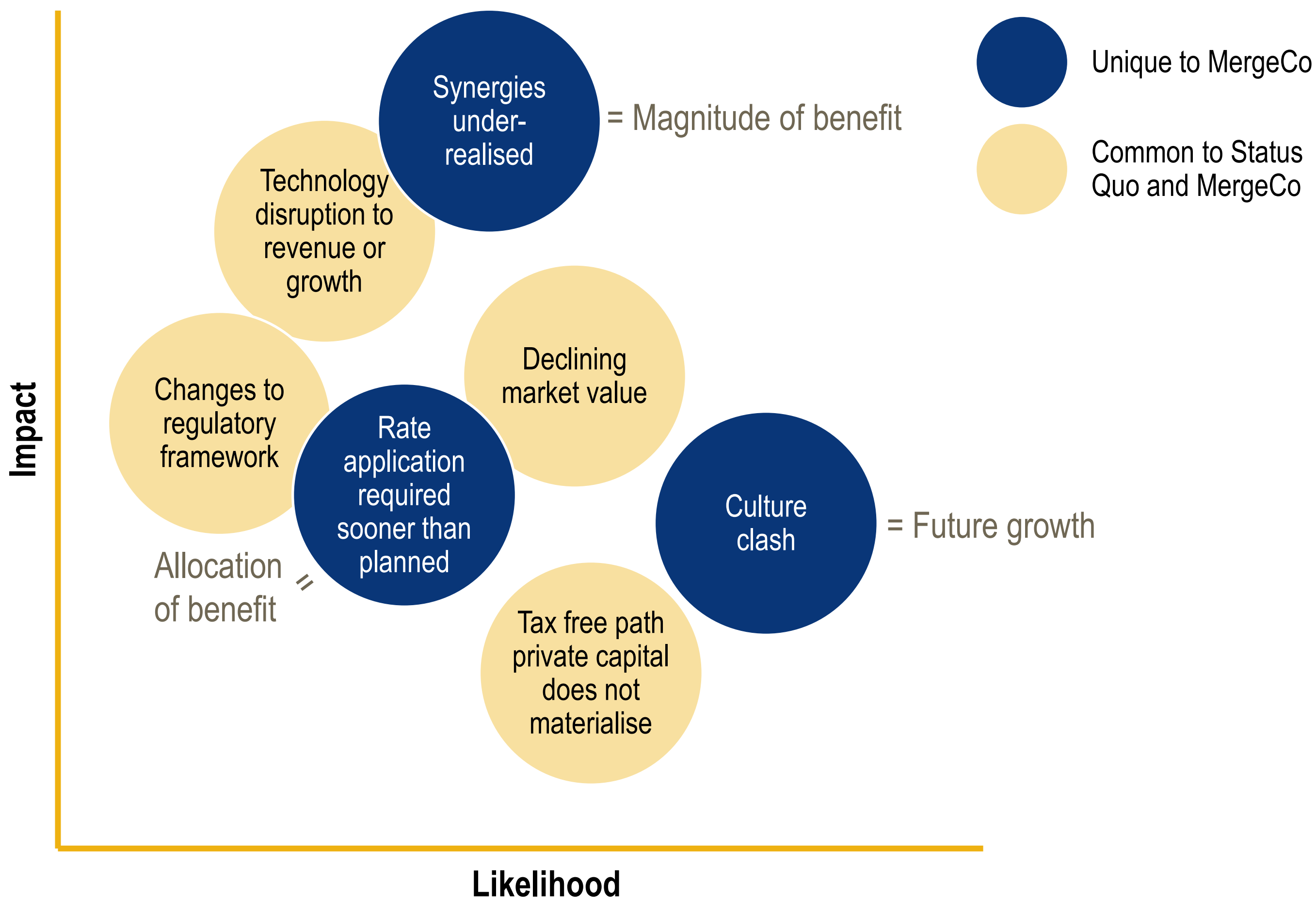
Navigant assessed the risks associated with the transaction based on (i) likelihood of occurrence and (ii) impact on value



Funding Options

Four considerations on funding options; 10% sale provides second highest cash flow, but mitigates risk

Consideration	Status Quo	100% Cash	Convertible Note	10% Sale
1. Cash flow magnitude				
Investment required	$7M	$56M	$0	$11M
Net present value (10-years)	$101M	$87M	$126M	$122M
2. Cash flow risk	--	Neutral	Increase	Neutral
3. Investment exposure	--	Increase	Neutral	Neutral
4. Liquidity	--	Decrease	Decrease	Neutral

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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).

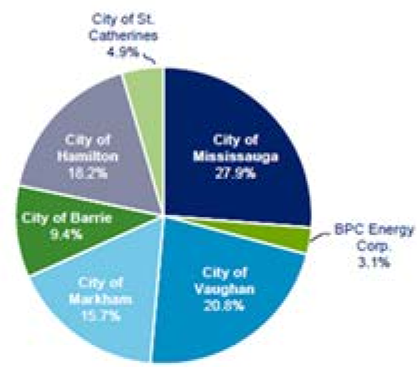
The City of Vaughan holds 45.31% of PowerStream via its holding company VHI. Under the merger, the City's ownership of MergeCo will be approximately 20.80% (second largest shareholder in the proposed MergeCo). Figure 1 below illustrates the pre and post ownership shares involved in the Transaction.

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.

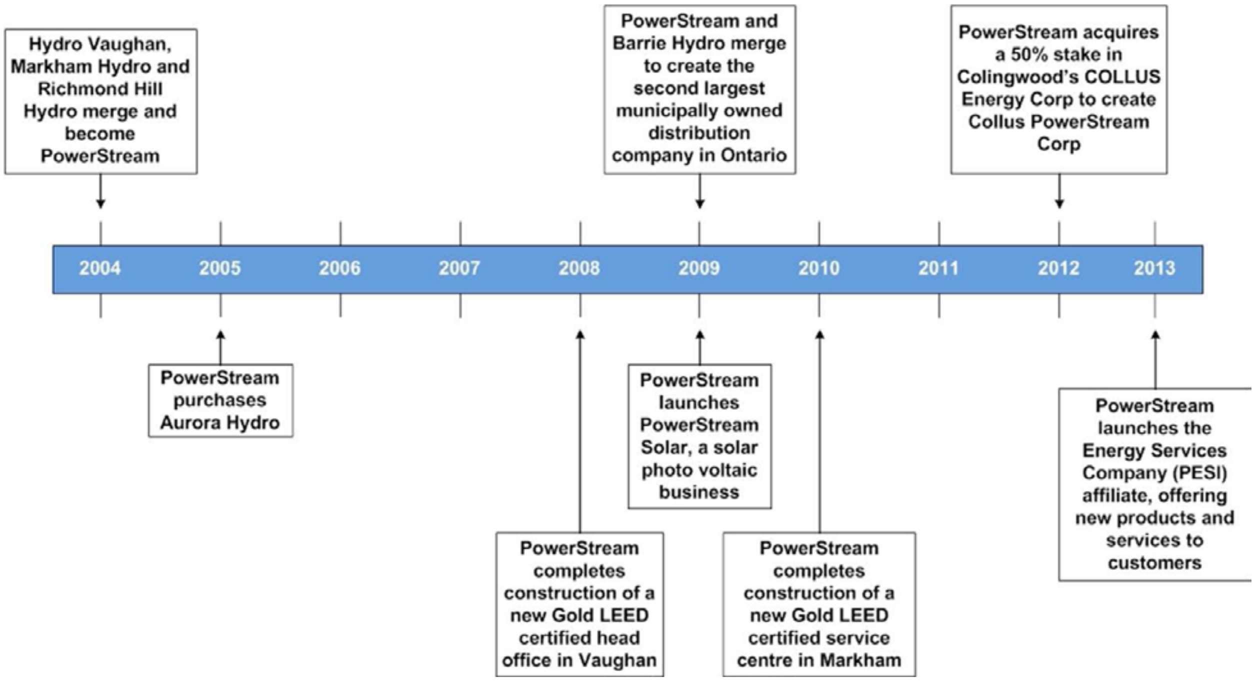
PowerStream encompasses an 854 sq. km service territory and delivers over 8,384 GWh of electricity to customers annually.

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

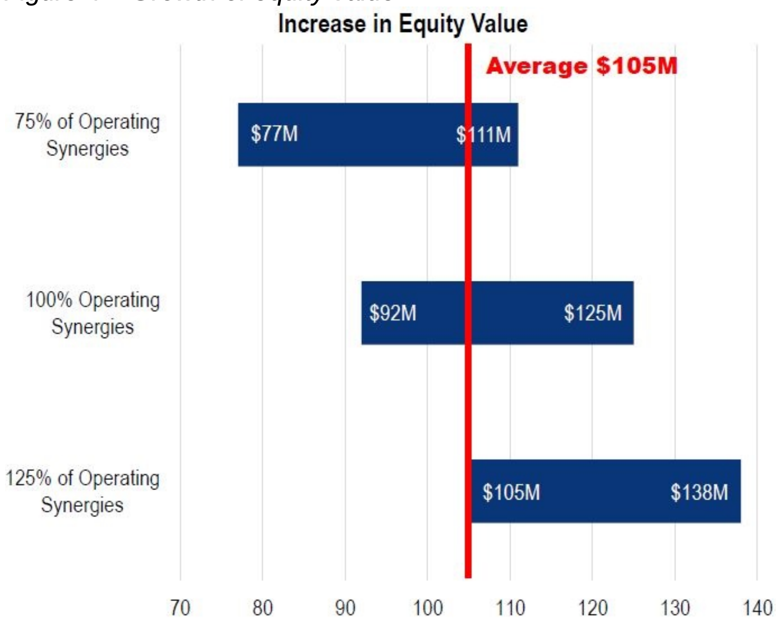
The proposed transaction is expected to increase equity value and provide a steady and growing dividend stream to shareholders

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.

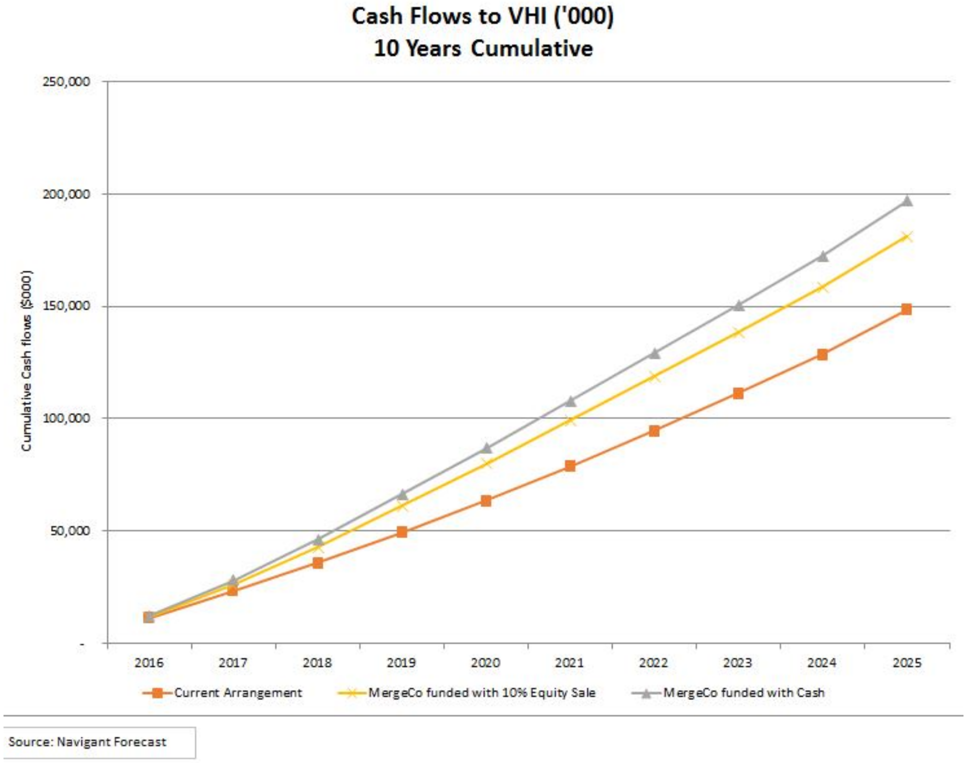
Figure 4 – Growth of equity value



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

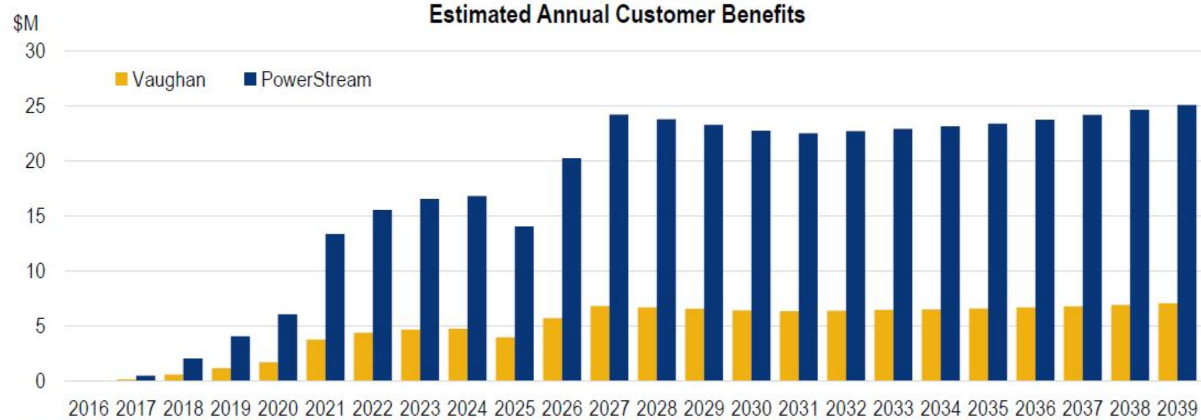
- Increase in the Net Present Value (NPV) of earnings of approximately $276M from $1,154M to $1,430M from 2016 to 2036 relative to the current arrangement, a 24% increase.
- Rates of return begin to normalize post 10 years, however projections beyond 10 years become less predictable given several uncertainties.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

Regional Implications

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.

Conclusion

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

Revised

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 upon receipt)
2. MergeCo Business Case from PowerStream Inc**.** (available at the Office of the City Clerk for viewing upon receipt)
3. Navigant Consulting Ltd. written analysis of Business Case (available at the Office of the City Clerk for viewing upon receipt)
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

MERGECO: BUSINESS CASE POWERSTREAM (OVERVIEW)

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MergeCo: Current Status

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, currently at the critical phase of Shareholder approval, is the result of many months of effort and negotiation between the parties.

A number of forces including global market trends, technological innovations, rising residential, commercial and industrial electricity rates, and regulatory and tax changes recently mandated by the Ontario government are affecting the electricity sector in unprecedented ways. Through this proposed merger, the parties, including PowerStream, are poised to increase their leadership in the energy sector, enhance their influence and most importantly, provide increased customer and shareholder value.

Key Aspects of the Merger:

Following months of negotiation with our merger partners, PowerStream is pleased to have reached agreement on a number of key aspects.

1. **Relative Value**: PowerStream`s Shareholders will own 46% of the new company
2. **Solar "Carve Out"**: the dividend stream from existing Powerstream solar investments will be maintained through special shares
3. **Local Presence & Facilities**: all of PowerStream existing facilities will be maintained following the merger
4. **Governance**: 6 of 13 board members are to be appointed by PowerStream Shareholders
5. **Executive**: significant Executive presence of current PowerStream staff
6. **Liquidity Rights**: Improved rights to raise capital for growth, or to monetize existing investments

Key Benefits of the Merger:

Improved Financial Returns to Shareholders and Cost Savings for Customers Compared to the Status Quo:

- 5.9% lower average annual customer distribution rates than with maintaining separate utilities, due to costs savings, averaged over the first 25 years after the merger.
- $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.

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

Context: Electricity Distribution Landscape in Ontario

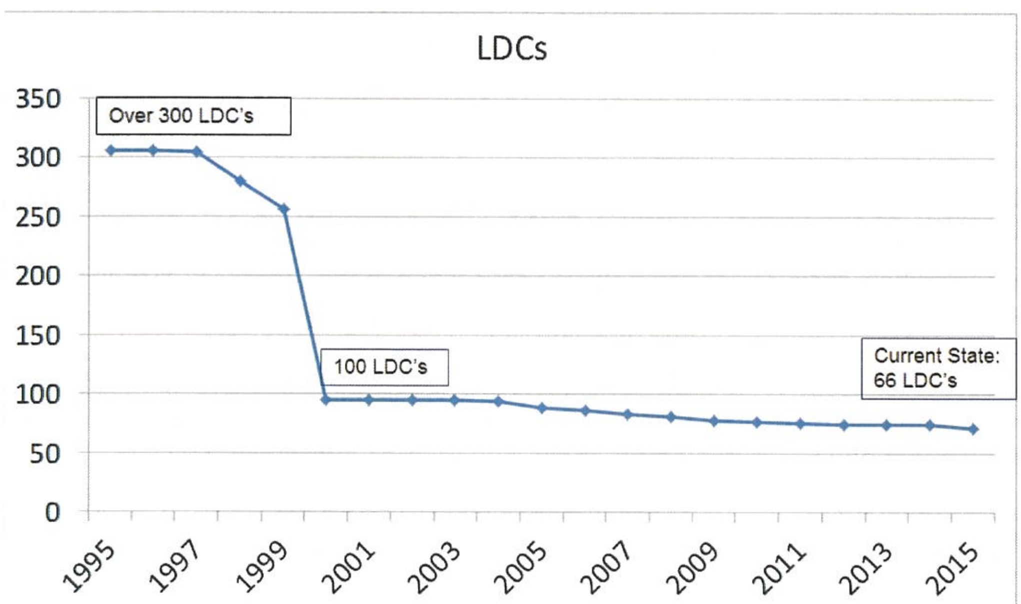
Local Distribution Companies (LDCs) in Ontario operate in a complex regulated environment highly responsive to shifts in Ontario government policy. The current distribution sector makeup is a product of a number of pieces of legislation and can be summarized as follows.

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 Committee 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 incentive to structure sustainable corporations, or Local Distribution Companies (LDC), 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 departure tax treatment from the PILs (payments in lieu of taxes) regime.

Given the recent policy and regulatory changes enacted by the province and the Ontario Energy Board (OEB), significantly more consolidation and private sector participation is expected.

Industry Trends Towards Consolidation



MergeCo: Policy Context

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:

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.

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.

Governance

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

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 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 Ontario Energy Board (both discussed below), the government has effectively endorsed all of the Clark panel's recommendations with respect to electricity distribution.

Uniform support for LDC Consolidation has also come from other government reports (2012 Drummond Report on Reform of Ontario's Public Services), the Ontario Progressive Conservative Party, academic journals and energy sector associations.

Industry Regulator

The OEB has conducted repeated analysis aimed at driving ratepayer value in the LDC sector. Their first report related to this was in 2004, "*Report on Stakeholder Submissions: Efficiencies in the Electricity Distribution Sector*." More significant policy movement happened following the report of the Ontario Distribution Sector Review in 2012 when the OEB undertook an initiative to assess how the Board's regulatory requirements for electricity distributors may affect the ability of distributors to realize operational or organizational efficiencies. During this time, the government set policy expectations that included LDC consolidation to improve efficiencies within the sector. As a result, the OEB made specific policy amendments in their March 2015 report, Rate-Making Associated with Distributor Consolidation"[1]:

1) The duration of the deferral period for rebasing following the closing of a MAADs transaction has been increased—adjusted from five years to ten (MergeCo`s rate harmonization approach benefits from this change)

2) Utilities will have an opportunity to use a mechanism for adjusting rates to reflect incremental capital investments during the deferred rebasing period.

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[1] Ontario Energy Board (2015). *Rate-Making Associated with Distributor Consolidation*. Retrieved from: www.ontarioenergyboard.ca/oeb/_Documents/EB-2014-0138/Board_Report_MAADS_Ratemaking_20150326.pdf

MergeCo: Why Are We Doing This?

In determining the value of the proposed merger PowerStream has evaluated three components:

1- Lower electricity rates for customers

2- Increased cash flow to the shareholder

3- Increased equity value

The proposal also has significant strategic value which will likely be demonstrated in the near to long term as the value of the investment grows and the merged entity is able to act as a major player within the new distribution landscape.

Good fit with PowerStream's Strategic Plan

PowerStream's management and Board of Directors have consistently advanced and endorsed a strategic path that is aligned with national and global sector trends and is positioned to achieve the best possible outcomes for its customers and communities.

Excerpt from 2013 Approved Strategic Plan:

PowerStream believes that there is value to our customers and shareholders in continuing to grow the company given the current operating environment for rate regulated utilities in Ontario. 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.

The Corporation will seek business expansion through acquisitions, amalgamations or strategic partnerships with other utilities. PowerStream`s management has been engaged in Merger and Acquisition (M&A) discussions with other LDCs, including the current merger partners, for several years.

PowerStream's M&A strategy actually pre-dates some of the government policy that has come out recently with regards to consolidation and tax treatment of municipally owned LDCs and PowerStream's previous merger activities have set an industry standard.

Through this merger, PowerStream is well on its way to achieving our long-term strategy:

By 2020, we will build on our core electricity distribution business to become Ontario's premier integrated energy services provider

The proposed merger is directly in line with the company's long-term business goals. It would position MergeCo to be the second largest electricity Distribution Company in Ontario with one million customers, $2.7 billion in assets and a $2.5 billion dollar ratebase.

MergeCo: Lower Electricity Rates for Customers

The proposed merger between PowerStream, Enersource and Horizon Utilities and the acquisition of Hydro One Brampton would bring significant value to customers in York Region and Simcoe County. Analysis has found that customers will be able to save approximately $450 million over 25 years (an average of $40 to $50 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.

In designing a merger rate strategy, the merger partners target to maximize shareholder and ratepayer savings. Under current OEB policy, all of the savings corresponding to LDC consolidations are transferred to customers at the new utility's first rate re-basing following a merger. The maximum length of time post-merger that a utility can stay out before being required to rebase (go back to the OEB for new rates) is 10 years This is based on new OEB policy that previously only allowed LDCs to retain synergy savings (and not re-base) for up to five years.

A principle of the merger agreed to by all merger partners is that each community benefits equally from lower rates post rebasing. To accomplish this aim, separate rate zones will be maintained for the former service area of each utility until the rate zone differences are immaterial. And, those separate rate zones will be maintained even after MergeCo rebases in the 11th year following the merger until the rate zones differences are immaterial. The rates are expected to be 8% lower than they would otherwise be in the 11th year post rebasing.

On an aggregate savings basis, the York Region Municipalities of Vaughan and Markham, as well as the City of Barrie are expected to see significant benefits from the merger on electricity bills for municipal buildings and public facilities.

There are numerous benefits of the merger that go beyond the demonstrated cost savings on customer bills. The new entity will be able to better serve customers through enhanced and shared systems. It will also be able to provide a broader range of products and services than what is available to customers today. Increased resources will allow the utility to better respond to reliability issues and utilize innovative technologies to better serve customers. The increased capital that will be available in a larger, consolidated utility will allow for increased investment in new business opportunities to continuously improve economic development in our communities. Finally, the new entity will be in a key position of leadership to influence government and regulatory energy policy for the benefit of customers and shareholders.

MergeCo: Increased Equity Value and Increased Cash Flows (dividends)

Analysis has demonstrated that the proposed merger will provide a steady and growing dividend stream at a higher level than the Status Quo. The three shareholders of PowerStream can expect an increase in shareholder value of between $230 and $300 million (assuming a 5% equity discount rate).

MergeCo: Finding the Synergies

In order to realize expected synergies, MergeCo will execute its operational plan utilizing the Balanced Scorecard approach to ensure that customer activities, internal processes and people are aligned.

MergeCo will be an entity that is organized around processes, focused on outputs and accountable for performance. Organizational structure will be aligned to major business processes. The centralization versus decentralization of functions will depend on many factors including the need for certain functions to be close to related operating assets (e.g. field crews).

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 have 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.

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 $42M 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).

MergeCo will implement its business mission and vision by focusing on four operating strategies:

1. Improving service delivery to customers

MergeCo will focus on five attributes within the Customer Perspective. Initiatives will be identified and organized to target improvement in the following five areas:

- Efficiency i.e. distribution rates/price
- Electricity reliability
- Bill accuracy/quality
- Responsiveness/ease of doing business

- Trust/corporate image

2. Increasing shareholder value through growth and productivity improvements

    a. Revenue growth: build the franchise and take advantage of growth opportunities in unregulated business, as well as other areas (distributed generation, renewable energy etc.)
    b. Increase customer value (expand service offerings, where possible)

3. Improving internal operational cost efficiencies and asset utilization
    a. Productivity:
        i. Reduce controllable expenditures by utilizing a systematic approach that builds from a foundation of solid management information.
        ii. Employ better utilization of existing assets
        iii. Consolidate Information Technology and Operations Technology (CIS/ERP/GIS/OMS, SCADA)

4. Developing and maintaining highly skilled and motivated employees.

The Employee Perspective pertains to MergeCo's most important resource: its employees. The Operational Plan cannot be achieved unless employees are matched/selected/hired into the right positions, have been properly trained, communicated to with regard to performance expectations, given the appropriate authority to match their responsibilities and provided the necessary tools to perform their jobs.

MergeCo will focus on four key areas to ensure that employees are fully engaged and contributing at their peak:

- Safe and healthy workplace
- Employee skill development
- Effective internal corporate communications
- Performance based culture

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.

MergeCo: Managing the Risks

Risk	Response
Synergies may not be achieved	PowerStream has a track record of meeting or exceeding its targets
Integration challenges	This is our fourth transaction in 10 years: experience counts
Unidentified expenses/liabilities	Extensive due diligence already completed, and specific contractual protection
Transaction financing in a rising interest rate environment	Bridge financing for two years is secured; flexibility to arrange capital details after closing
Regulatory uncertainty affects business plan going forward	A larger, more prominent utility will carry more weight in the industry and have a greater role in policy

MergeCo: What it will Look Like

MergeCo is interested in continuing to add value to its customers through continuous improvement and will also be seeking to grow the business through mergers and acquisition with other LDCs.

MergeCo is also focused on growing through new and related energy opportunities. It has a significant energy services business and renewable generation portfolio with a desire to pursue commercially viable, sustainable, and innovative solutions.

MergeCo will be organized around three corporate entities:

- Corporate entity that will act as a holding company.
- Utility or LDC entity that will largely manage the regulated utility business.
- Sustainability and Innovation entity that will be focused on the future growth for MergeCo in addition to the delivery of corporate services.

MergeCo Structure

Each corporate entity's office is to be located in a separate community, taking advantage of existing head office facilities. At each office, a strong local executive presence will exist. This reflects standard industry best practices for the maintains of a shared vision through the holding company, but the reality of maintaining separate corporate entities for the regulated and unregulated businesses.

The determination of location for the head office and each of operating entities was based on practical considerations for both current and future requirements.

<u>Corporate Administration</u>

The Corporate Head Office of MergeCo will be located in Mississauga at Enersource's Derry Road facility. The Mississauga location is central to MergeCo's existing business, is readily accessible by multiple highways, is nearly at equal distance from other offices which maximizes efficiency of interaction and travel, and has immediate space availability.

<u>Utility Operations</u>

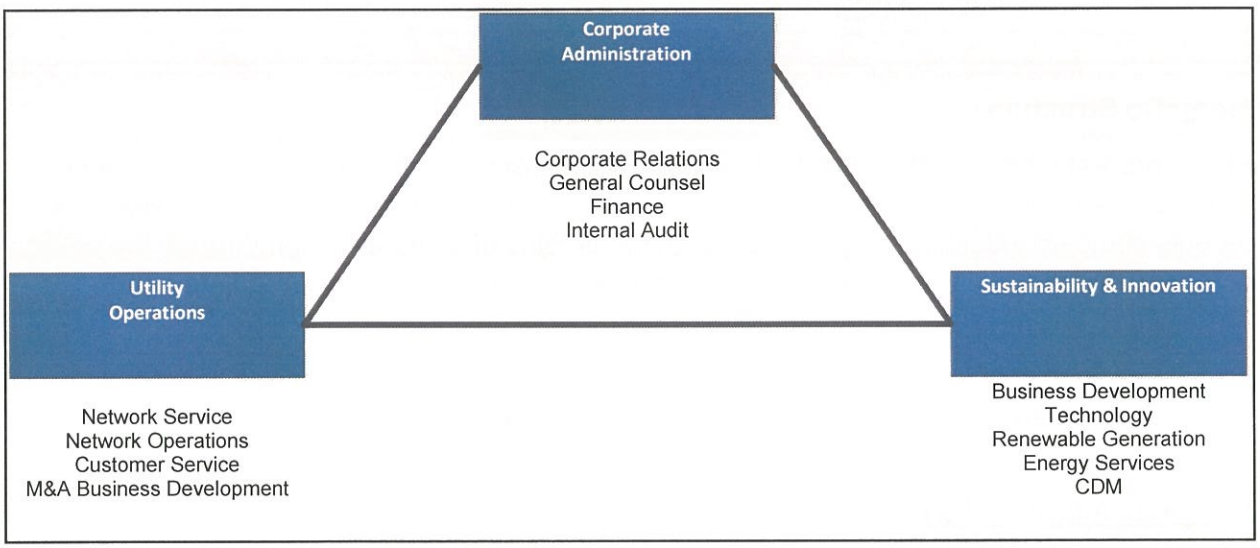
The Utility Head Office of MergeCo will be located in Hamilton at Horizon Utilities' John St. facility and will be focused on delivering operational excellence and on future LDC consolidations.

<u>Sustainability and Innovation</u>

The Sustainability and Innovation Head Office will be located in Vaughan at Powerstream's Cityview Blvd. facility and will focus on innovation in such areas as solar, smart grid and new energy services.
MergeCo will initially have three distinct operating regions that contain several non-contiguous service districts. These will be reflected in the organizational design at the operational structure at the operating level.

The following principles will underlie the final determination of which employees will work from each of the head office locations:

- Focus on fair and equitable treatment of merging communities.
- Executive Teams at offices will have substantial presence in that location.
- Management flexibility to fulfill synergy targets.
- Centralized and de-centralized functions in each community.



Head Office Locations

<u>PowerStream</u>

161 Cityview Blvd.
Vaughan ON L4H 0A9

<u>Horizon Utilities</u>

55 John St N, Hamilton,
ON L8R 3M8

<u>Enersource</u>

2185 Derry Road West,
Mississauga, ON L5N 7A6

MergeCo: Due Diligence

For the past several months PowerStream and its merger partners have established working groups, headed by the CFOs, who were tasked with the analysis and review of the merger particulars. Deloitte was engaged to provide a 3rd 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

In addition, the valuation model and Business Case model was reviewed and stress tested over 6 months by each of the following parties:

- Navigant Consulting Inc. - Representing PowerStream Shareholders
- Morrison Park Advisors Inc. – Providing advisory services to PowerStream
- PricewaterhouseCoopers LLP – Representing Enersource Shareholders
- Ernst & Young Global Limited – Representing Horizon Utilities Shareholders

Deloitte's conclusions reached through the various approaches employed produced the following results:

Relative Valuation including PowerStream Solar

(Including Un-regulated)	**Enterprise Value (EV)**	**Market Value (MV)**	**Δ (MV-EV)**
PowerStream	49.1%	47.9%	-1.2%
Enersource	29.2%	30.0%	0.8%
Horizon Utilities	21.7%	22.2%	0.5%

Relative Valuation Excluding PowerStream Solar

LDCs	**Regulated (EV)**	**Reg. & Non-Reg (EV)**
PowerStream	45.9%	46.0%
Enersource	31.6%	31.0%
Horizon Utilities	22.5%	23.0%
	100.0%	100.0%

The Parties used the following base <u>business model base case assumptions</u>:

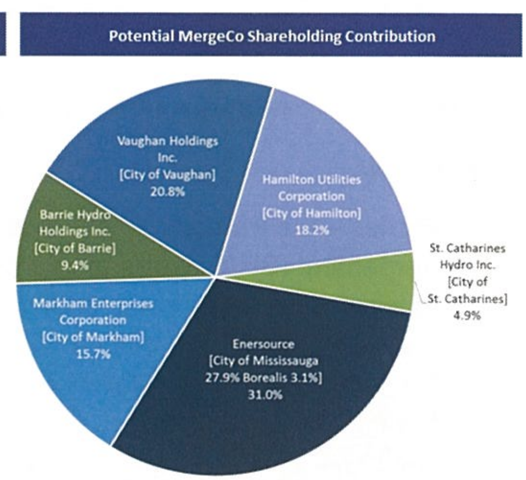
- PowerStream, Enersource, and Horizon merge on December 31, 2015
- Hydro One Brampton purchase for $607M
- PowerStream Solar excluded
- Synergies kept for 10 years

It is evident from the above that both Enterprise Value and Market Multiple approaches yield very similar results. The Parties anticipate using the EV approach as the primary approach to value.

The allocation of shareholdings in the new entity will be as follows:

Individual Shareholder Ownerships

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



The valuation results indicate that there is no single controlling interest in MergeCo.

MergeCo: What Happens Next

PowerStream will be seeking shareholder approval by its three shareholders in September-October 2015.

The terms and conditions for the proposed transaction are accomplished primarily through three key agreements:

***1-Share Purchase Agreement* (SPA) for the purchase of Hydro One Brampton**

- Purchase price – the purchase price is $607M.
- Adjustments – the Purchase price is subject to certain limited price adjustments i.e. for working capital and fixed assets.
- Closing conditions – the Agreement will provide for limited closing conditions, including approval by all Parties to the Merger Agreement, competition Board approval, and OEB approval. . All requisite Shareholder and Municipal approvals will have been obtained prior to signing the Agreement(s).
- Closing date – the target closing date is March 31, 2016.
- Indemnification – the Agreement will provide for indemnification by the Province, on certain matters, i.e. environmental, and include thresholds and cap on claims.

2-Merger Participation Agreement (MPA) to give effect to the 3-way merger

Overview

- Parties – the Parties to the Merger Participation Agreement (MPA) and the Shareholder Agreement (SHA) will be all of the municipal holding companies, their respective municipalities, the three merging companies (PowerStream Holdings Inc., a new Enersource Holdings company, and Horizon Holdings Inc.) as well as BPC Energy Corporation (Borealis/OMERS), a 10% owner of Enersource Corp.
- Shareholders – the shares of MergeCo would be held directly by each of the municipal holding companies. There will be at least one indirect shareholdings; in the case of Enersource 10% of their interest owned by Borealis Amalgamation
- The three merging companies – PowerStream Holdings Inc, Enersource Holdings, and Horizon Holdings would amalgamate with each other and continue as a new corporation ("MergeCo").
- Closing Date – the Merger would close up to 30 days prior to the closing of the purchase of the shares of Brampton.
- Representations & Warranties – the Agreement provides for customary Representations and Warranties between the Parties, with respect to; financial matters, material contracts, corporate status, condition of assets, full disclosure, environmental, and tax matters.

- Indemnification – each of the Parties agree to indemnify one another for claims, with thresholds and caps to be negotiated.
- The SPA and SHA will provide for the share purchase of Brampton. Debt financing for that purchase is being negotiated.

3-Shareholders *Agreement* (SA) to govern the rights of the shareholders in the future

Overview

- The SHA between the Parties will come into effect upon Closing of the Merger.
- The draft SHA is similar to PowerStream's existing SHA in terms of structure, and incorporates the matters agreed to in the 3-way/purchase LOI.
- The Agreement will define the "Business", governance, composition of the Board of Directors.
- The Agreement will set out the Guiding Principles, which will also help inform the initial Strategic Plan.

Regulatory Approvals

Following shareholder approval, PowerStream and its merger partners will focus on completing the Mergers, Acquisitions, Amalgamations and Divestitures, or MAADs process, for regulatory approval of the deal. The MAADs process before the OEB will be a public and highly transparent process where public interest groups will have an opportunity to ask questions about the deal and the OEB will be able to determine that no harm will come (in the way of rates or service quality) to any of the customers involved the merger.

The MAADs process is expected to unfold between October and March of 2016 (with no timing guarantees), in time for the deal to close by the end of March 2016.

NAVIGANT

Todd Williams
Managing Director

twilliams@navigant.com email
647 288 5204 direct

September 18, 2015

Mr. John Henry
Vice President, Finance and Treasurer
Vaughan Holdings Inc.
2141 Major Mackenzie Drive
Vaughan, ON L6A 1T1

Dear Mr. Henry:

Please find enclosed Navigant's final report on the proposed three-way merger between PowerStream Holdings Inc., Enersource Corporation, and Horizon Holdings Inc., and the joint acquisition of Hydro One Brampton Networks Inc.

Sincerely,

Todd Williams
Managing Director, Energy

NAVIGANT

Final Report

Decision support for the proposed three-way merger between PowerStream Holdings Inc., Enersource Corporation, and Horizon Holdings Inc., and the joint acquisition of Hydro One Brampton Networks Inc.

Prepared for

Vaughan Holdings Inc.

September 18, 2015

Navigant
333 Bay Street
Suite 1250
Toronto, ON M5H 2R2

416.777.2440

navigant.com

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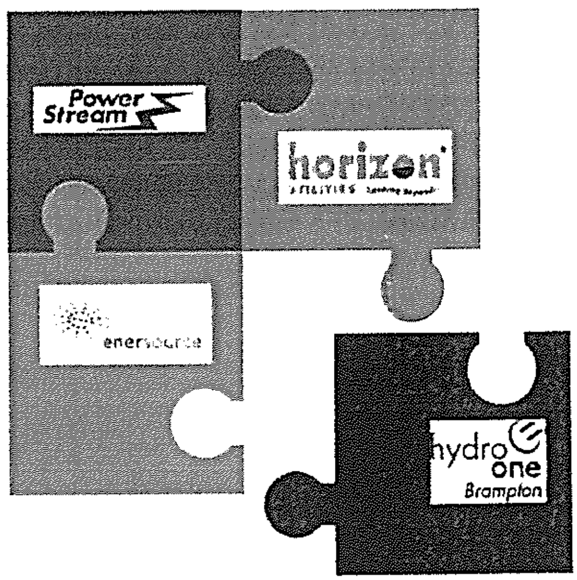
Executive summary

Proposed transaction

The three municipal shareholders of PowerStream Holdings Inc. (PowerStream) retained Navigant Consulting Ltd. (Navigant) to support their evaluation of the proposed three-way merger between PowerStream, Enersource Corporation (Enersource), and Horizon Holdings Inc. (Horizon), and the joint acquisition of Hydro One Brampton Networks Inc. (Hydro One Brampton) for $607M (the "transaction"). The transaction would create a new company ("MergeCo") which would be the second largest regulated electricity distribution utility in the province of Ontario by the number customers, nearly one million, and the third largest by regulated asset value. In addition to the regulated electricity distribution businesses, the new company would continue to operate and expand the unregulated businesses of the successor companies.

Figure ES 1: Proposed transaction



Scope and objectives

The three municipal shareholders of PowerStream (collectively the "PowerStream Shareholders"), the City of Vaughan (through Vaughan Holdings Inc.), the City of Markham (through Markham Enterprises Corporation), and the City of Barrie (through Barrie Hydro Holdings Inc.), retained Navigant's to address five critical questions.

1. Value and risks: What is the value of the transaction to the PowerStream Shareholders and what are the associated risks?

2. Cash flow: What are the expected cash flows to PowerStream Shareholders if they choose to proceed with the transaction or if they choose to maintain their current ownership of PowerStream?
3. Acquisition price: Is the price for Hydro One Brampton consistent with market value?
4. Merger relative value: Are the PowerStream Shareholders receiving an appropriate share of the equity in the new company?
5. Liquidity: What flexibility is there for PowerStream shareholders (jointly and individually) to divest their holdings and what is the associated impact of such divestment under the status quo and the proposed transaction?

High level findings

Navigant reviewed PowerStream's business case and business plan for the proposed transaction. Based on its review, Navigant expects that the proposed transaction will create value for the residents, taxpayers, and electricity customers in the City of Vaughan.

To effect the proposed transaction, the City of Vaughan will need to invest $56M (plus or minus adjustments due at closing). Navigant estimates that the transaction will create between $71 and $102M of shareholder value, approximately 30% to 80% more than the $56M initial investment.[1] The shareholder value is derived primarily from operating cost synergies realised through the merger and acquisition, which in turn result in an increase in annual dividends and retained earnings.

The expected return on investment for the PowerStream Shareholders is 7.7%, with Navigant's estimates ranging from 4.1% to 10.6%. Under the base case synergy scenario, Navigant estimates that the simple payback period for the initial investment is 10 years.

In addition to the shareholder benefit, over 25 years, Navigant expects that the transaction will create $61M of benefit for electricity customers in the City of Vaughan, equivalent to an average of approximately $40 per year per customer and $30 per year for residential customers. If electricity customer benefits are considered in conjunction with shareholder benefits, the simple payback period for the initial investment is reduced to seven years.

Navigant also analysed two alternatives to the $56M cash investment: funding the transaction through a conversion of shareholder debt for equity, and selling 10% of PowerStream in advance of the transaction and using the proceeds to effect the transaction. Under both of these scenarios the City of Vaughan mitigates some of the risk associated with the transaction. Both scenarios also improve the net cash flow to the City of Vaughan relative to funding the transaction with a cash injection.

The proposed transaction is unlike other transactions that PowerStream has brought to the City of Vaughan for consideration. Based on its independent assessment, Navigant believes that the proposed transaction has more risk and on an expected basis is likely to provide a lower return than

1 Unless otherwise noted, all future cash flows have been discounted at 5%.

investments the City of Vaughan has made to date in PowerStream. That said, Navigant does not have reason to believe that future transactions will revert to the risk-reward profile of the previous transactions. Furthermore, Navigant's analysis suggests that under certain reasonable conditions the return associated with this transaction could be higher than previous investments.

It is Navigant's view that important aspects of the proposed transaction are reasonable, such as the purchase price for Hydro One Brampton, the proposed equity ownership for the PowerStream Shareholders in the new company, and the proposed synergies and transition costs. The price for Hydro One Brampton was found to be within, but at the high end of the valuation range. The relative valuation of PowerStream was found to be within an acceptable range. Synergies were reviewed and determined to be reasonable and achievable. Through its past acquisitions, PowerStream has developed a track record of delivering on synergy targets. Navigant's assessment is that roughly half of the functional area synergies are likely conservative, such that actual synergies may be greater than represented in the business case.

The PowerStream shareholders also asked Navigant to assess the impact of the proposed transaction on the liquidity of their investment in PowerStream. It is Navigant's assessment that the proposed transaction will have a limited impact on the liquidity of the City of Vaughan's existing investment in PowerStream, and could result in a small improvement over the status quo. Note, there may be certain conditions where selling shares of the new company could result in a higher tax burden than selling shares of PowerStream to a non-municipal third party.

Revisions to business case

Navigant reviewed and analysed the business case and business plan materials provided by PowerStream and its advisors, and determined the assumptions and methodology used therein to be reasonable. Major parts of the business case were independently analysed to conclude if and where management estimates fall within the range of realistic assessments. Navigant reviewed, analysed, and tested the business case assumptions, and revised them as appropriate for its independent cash flow and valuation analysis. The base case that Navigant used to analyse the proposed transaction contains slightly more conservative assumptions in a few key areas, summarized in the figure below.

Figure ES 2: Base case assumption comparison

Category	PowerStream Business Plan	Navigant Analysis
Total customer benefit over 25 years	$450M	$440M
Annual benefit per customer	$40 - $50	- $40
Change in earnings - 10 year NPV @ 9.3%	+ $112M	+ $90M
Change in dividends - 10 year NPV @ 9.3%	+ $122M	+ $79M
Merger transition costs expensed	$43M	$69M
Merger transition costs capitalized	$53M	$28M

Transaction risks

While Navigant's analysis affirmed the business case for the transaction, Navigant identified a number of potential risks. The potential for value creation is perceived to be the greatest support for proceeding with the transaction, but is subject to the realisation of synergies and the potential for transition cost overruns. Risks from loss of control and transaction execution are the principal arguments for remaining with the status quo. The figure below summarises the top three risks, and discusses mitigating factors that currently exist with the proposed transaction.

Figure ES 3. Summary of transaction risks

Risk	Description
Synergy realisation and transition costs	The value in the proposed transaction is dependent on the successful integration of the four companies, the realisation of the projected synergies over the first 10 years, and managing the transition and transactions costs to the budgeted level. <u>Mitigating factors</u>: Navigant's assessment is that the synergy target in the majority of the functional areas are reasonable. Furthermore, through its past acquisitions, PowerStream has developed a track record of delivering on synergy targets.
Less direct control	The transaction will result in less direct control for the municipality as more decision making powers in the new company will be delegated to a majority independent (seven of 13) Board of Directors. There will be fewer items in the shareholder agreement requiring unanimous and supermajority consent, and the municipality will hold a smaller relative equity position in the new company. <u>Mitigating factor</u>: With respect to rates, the Ontario Energy Board is responsible for approving electricity distribution rates, not the Board of Directors, or the shareholders of the company. With respect to strategic and operational decisions, collectively, the PowerStream Shareholders, will appoint six of thirteen Board Members and thus will have negative control over all items that require supermajority approval of the Board of Directors. The PowerStream Shareholders will also hold 46% of the voting shares in the company and will have negative control over all items that require supermajority consent from the shareholders. It is also worth noting that the independent board members will bring skills and expertise that are likely to complement the elected officials on the Board.
Cash flow to the municipality	Assuming the transaction is funded through a cash injection, over the first ten years, the present value of the net cash to the City of Vaughan is expected to be lower than under the status quo. It is expected to be higher over the long term. <u>Mitigating factor</u>: This impact can be mitigated through alternate funding options (i.e. conversion of shareholder loans or the sale of 10% of PowerStream). While there is some uncertainty associated with the level of cash flow to the municipality from the new company, there is also uncertainty associated with the level of cash flow to the municipality under the status quo, in particular given the level of capital expenditure contemplated by the company over the next 10 years.

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1. Business case

1.1 Decision criteria

As a municipality, investments are subject to four Ontario Municipal Act, 2011 requirements:

1. Legality;
2. Preservation of principal;
3. Liquidity; and
4. Return on investment.

Navigant and the staff from the PowerStream Shareholders established four decision criteria to help guide the assessment of the proposed transaction. The four decision criteria, identified below, closely align with the municipal investment requirements.[2]

Figure 1: Decision criteria

Criteria	Observation
Preservation of principal Diversification of investments Risk of loss of principal	The proposed transaction has more risk, and is expected to provide a lower return relative to investments made to-date in PowerStream, but Navigant's sensitivity analysis suggests that the likelihood of losing the principal is low.
Liquidity Security of planned cash flow Future liquidity/ability to sell or extract value	Vaughan's existing investment in PowerStream is relatively illiquid. The proposed transaction is expected to have a limited impact on the liquidity of the existing investment. There are certain conditions where exiting from MergeCo could result in a higher tax burden than exiting from PowerStream.
Shareholder return on investment Quantum of dividends and interest payments Risk of future unplanned equity injections Long term value/investment growth	The expected return on investment for the PowerStream Shareholders is 7.7%, with Navigant's estimates ranging from 4.1% to 10.6%. The transaction is expected to have a simple payback period of 10 years. The value of Vaughan's investment is expected to increase from $56M to between $71M and $102M as a result of the transaction.
Impact on electricity customers PowerStream customer bill impact	Electricity customers in Vaughan are expected save an average of $40 per year.

Navigant's review focused largely on the financial and commercial aspects of the proposed transaction. The review relied on the legal, technical, and environmental due diligence completed by PowerStream, Horizon, and Enersource, and their advisers and legal counsel.

[2] Impact on electricity customers is not a Municipal Act requirement. The fourth criteria is legality, the proposed investment is legal. The impact on electricity customers, when considered together with shareholder return on investment constitutes the total value of the proposed transaction for the municipality and its residents and businesses.

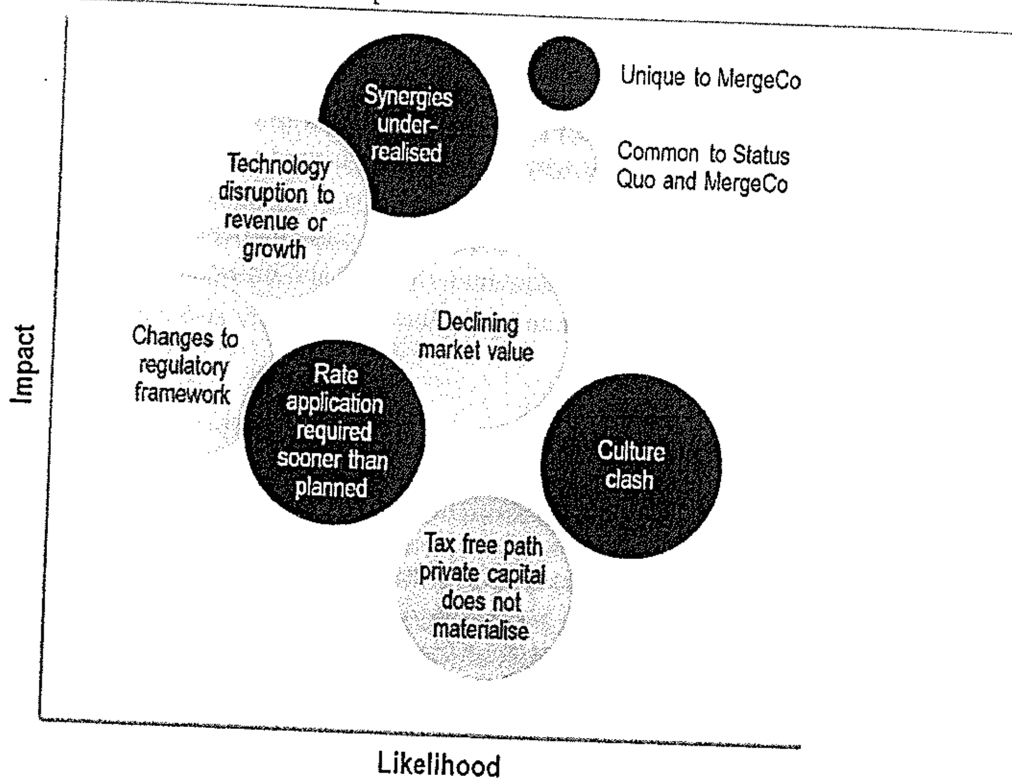
The starting point for Navigant's analysis were the inputs and assumptions developed by the independent advisor to PowerStream, Horizon and Enersource that was engaged to value the three companies and prepare the business case. Where appropriate, Navigant revised the initial assumptions and inputs to take a more conservative view of the benefits of the proposed transaction.

The following subsections of this chapter discuss Navigant's findings across each of the four decision criteria.

1.2 *Preservation of principal*

Navigant assessed the risks associated with the transaction based on (i) likelihood of occurrence and (ii) impact on value. A risk map, showing the relative likelihood and impact of seven risks that Navigant identified is provided in the figure below. Four of the risks that Navigant identified are common to both the new company that will be formed as part of the transaction and PowerStream. Three risks are unique to the transaction.

Figure 2: Transaction risk likelihood and impact



The risk associated with synergy realisation has an impact on the magnitude of the overall benefit. Fewer synergies will result in less value for shareholders and customers. More synergies will result in more value for shareholders and customers. Under the current regulatory regime, a shareholder is able to retain the benefit of operating synergies following a merger or acquisition for a period of up to

10 years. In the event that a rate application is required before 10 years, the allocation of the benefit between shareholders and customers will be affected. Finally, a culture clash between the four merged companies could impact the new company's ability to continue to innovate and grow.

Figure 3: Risks unique to the transaction

Risk	Description
Synergies under-realised	There is a risk that the projected merger synergies are not realised.
Rate application required sooner than planned	Unforeseen events could force MergeCo to seek new rates sooner than anticipated in the business case (10 years), thus transferring the benefit of operating synergies from the shareholders to customers earlier than planned
Culture clash	Each of the four companies has a unique corporate culture. To the extent the new company is not effectively able to integrate the four cultures and retain PowerStream's strong innovative culture, the ability of the company to grow could be hindered.

There are a number of risks not unique to the proposed transaction that exist for the municipality's current investment in PowerStream. Among these are technology disruption, declining market value, and revisions to regulatory regime. The risk related to disruptive technology appears to have garnered significant attention among industry analysts. Although Navigant does not expect this risk to be impactful on revenue and profitability of poles and wires utilities in Ontario over next five to ten years. The risk associated with declining market value also affects all existing investments in the regulated distribution utility space, and may be partially mitigated through the regulatory framework. Provided Vaughan does not have a pressing need for the proceeds from a sale, if market values decline Vaughan can continue to hold its investment and earn the regulated return. Furthermore, factors that cause market values to decline are also likely to cause regulated returns to increase.

Figure 4: Risks common to PowerStream and the transaction

Risk	Description
Disruptive technology	Disruptive technologies could impact existing revenue and potential for core growth; conversely, these technologies could create new market opportunities for MergeCo
Declining market value	Low interest rates and low yields are driving up transmission and distribution utility values, absent growth, utility valuations will likely remain stable or decline as interest rates normalise; Ontario's regulatory environment acts as a partial hedge, as the approved return on equity for electricity distribution utilities tracks changes in interest rates
Regulatory framework	The Ontario Energy Board has the ability to change the regulatory framework, in part or full, including the formula used to establish the approved return on equity
Path to private equity does not materialize	Currently, there is a significant tax associated with accessing private capital to fund future growth; an alternative corporate structure that would reduce the impact of this this tax was proposed, but a definitive decision from government will not be available prior to the transaction approval date

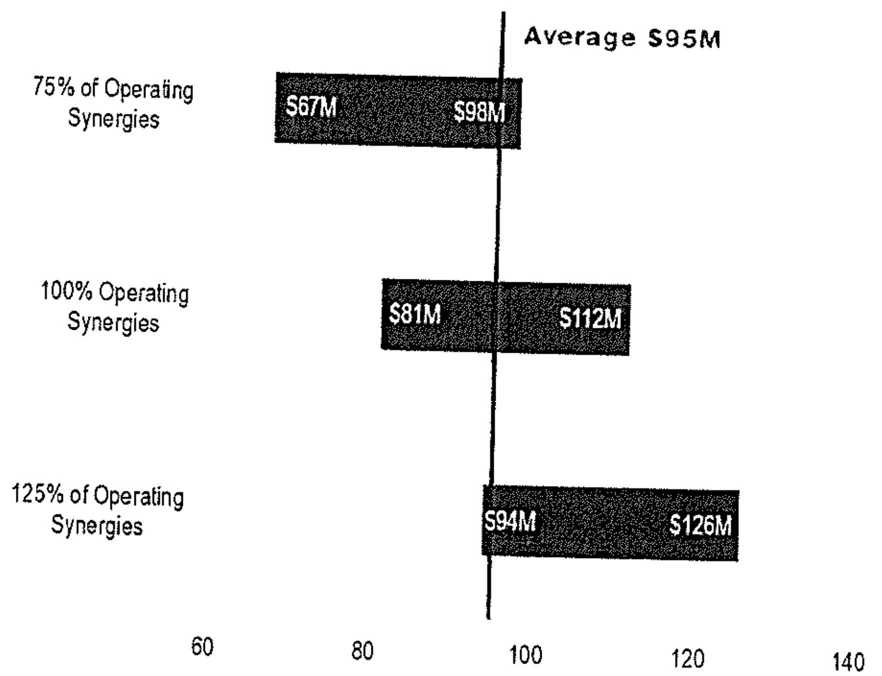
1.3 *Shareholder return on investment*

Navigant developed an independent cash flow and valuation model to assess the PowerStream Shareholders' expected return on investment for the proposed transaction. Navigant used the Free Cash Flow to Equity valuation approach to determine the value the City of Vaughan's ownership in the new company and compared it to the value of the City of Vaughan's ownership in PowerStream. Adjustments were then made to reflect the impact of the proposed transaction on the interest payments the city receives for the shareholder loans to PowerStream and the dividends it receives from previous investments in PowerStream's solar business.

1.3.1 Equity value

To effect the proposed transaction, the City of Vaughan will need to invest $56M (plus or minus adjustments due at closing). Navigant estimates that the transaction will increase the equity value of the City's investment in PowerStream by between $81 and $112M under the base case synergy scenario. Under a low synergies scenario, the equity value is estimated to increase by between $67M and $98M. Under a high synergies scenario, the equity is estimated to increase by between $94M and $126M. The range of values for each synergy scenario are based on different approaches and assumptions for the terminal value of the investment in year 25.

Figure 5: Increase in equity value



Notes:

1) Range 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

The shareholder value is derived primarily from operating cost synergies realised through the merger and acquisition, which in turn result in an increase in annual dividends and retained earnings.

As indicated, the transaction is also expected to impact:

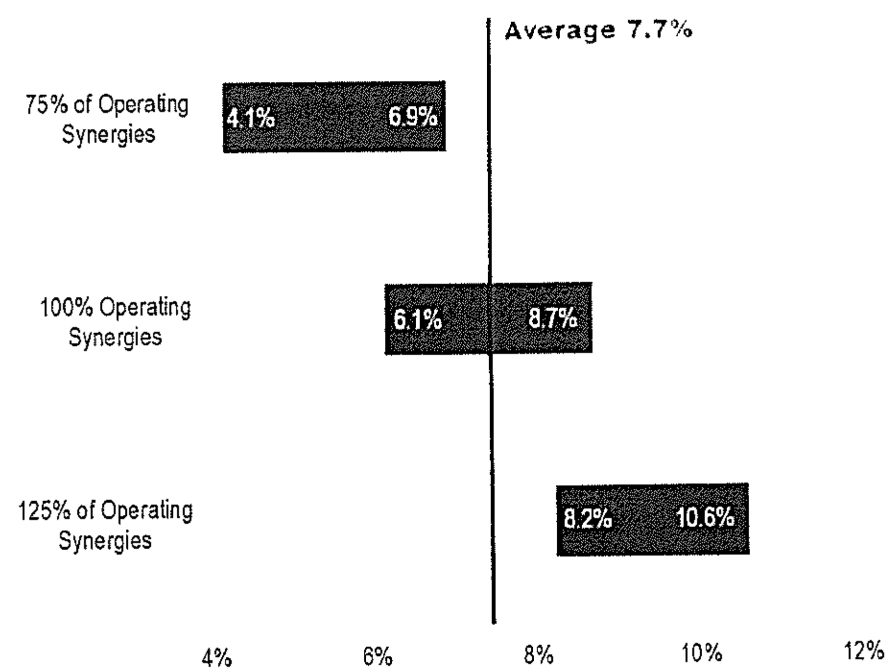
» the magnitude of the interest payments the City of Vaughan receives from its shareholder loans to PowerStream; and
» the dividends received from the PowerStream solar business.

On a present value basis, Navigant expects that the reduction in cash flow could be as high as $10M. Hence, on an adjusted basis, Navigant's analysis suggests that the shareholder value created as a result of the transaction under the based case synergy scenario will be between $71M and $102M, with an average or expected value of $85M ($95M less $10M).

1.3.2 Internal rate of return

The expected return on investment for shareholders on the Hydro One Brampton acquisition is 7.7%, with estimates ranging from 4.1% to 10.6%.

Figure 6: Expected return on investment



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

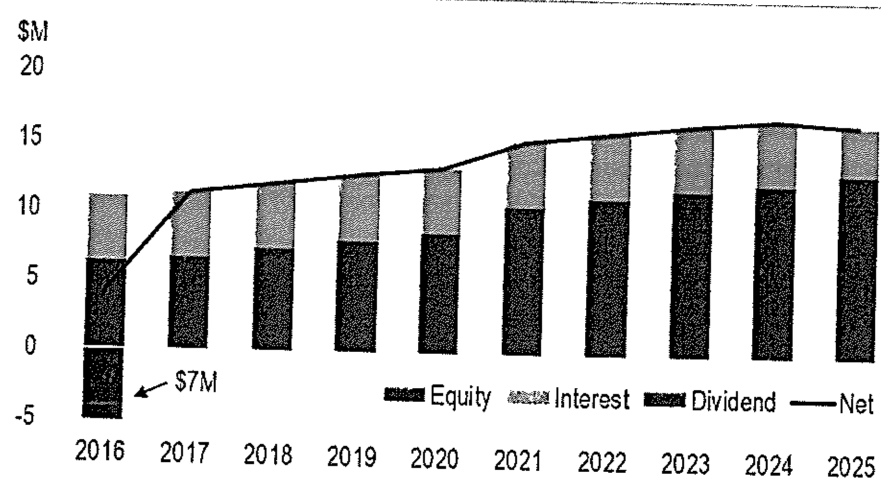
Navigant calculated the internal rate of return by comparing the net cash flows to the City of Vaughan from PowerStream (i.e. the equity injections required and the dividends and interest paid) relative to the net cash flows expected from the new company. The analysis focuses exclusively on shareholder value and does not include the customer benefits from the transaction.

1.3.3 Cash flow and funding options

Navigant analysed the cash flow implications arising from three possible ways that the City of Vaughan could fund the transaction and compared them to cash flow projections under the status quo with PowerStream. The three funding options considered were:

- An injection of cash from the municipality;
- The conversion of shareholder debt in PowerStream to equity in the new company; and
- A sale of 10% of PowerStream, the proceeds of which are reinvested in the new company.

Figure 7: Projected cash flow from PowerStream to the municipality



Several factors distinguish the three funding options, including:

- the level of investment exposure to the company and sector;
- the level of risk and uncertainty associated with the cash flows; and
- the liquidity of the investment.

Each of these are discussed in the figure below.

Figure 8: Funding option distinctions

Funding Option	Investment Exposure	Cash Flow Risk	Liquidity
Cash	Increases exposure to PowerStream and the utility sector	Maintains the risk profile associated with the cash flows to the municipality	Incremental investment is difficult to sell or liquidate
Conversion of Shareholder Loans	Maintains current level of exposure to PowerStream and utility sector	Increases risk in cash flows to the municipality	Swap liquid debt for a relatively less liquid asset
Sale of 10% of PowerStream	Maintains current level of exposure to PowerStream and the utility sector	Maintains the risk profile associated with the cash flows to the municipality	

On a short-term basis, funding the acquisition of Hydro One Brampton through cash should be preferable to converting the shareholder loans. Vaughan's investments outside of PowerStream currently earn between 2 to 4%, whereas in in the new company, the shareholder loans will likely earn between 4.0% and 4.77%, depending on the outcome of PowerStream's current rate application before the Ontario Energy Board. When the external investment market improves, a portion of the shareholder loans could be called to replace the cash taken from reserves.

As importantly, the alternative funding options impact the cash flow to the municipality. Under all three funding options the net annual cash flow[3] to the municipality over the first 10 years is expected to increase. This increase is estimated to be between $1.0M and $2.6M annually depending on the funding option. Conversion of shareholder loans or a sale of 10% of PowerStream would result in a higher net present value of total 10-year cash flow[4] to the municipality than funding the transaction with 100% cash, when the initial investment is taken into consideration.

Figure 9: Alternate funding option cash flow impacts

$M	Status Quo	100% Cash	Convertible Note	10% Sale
Equity (Cash) Investment Required in 2016	$7	$56	$0	$11
Average Increase in Annual Cash Flow (10-Years)	--	$4.3	$2.6	$3.3
Net Present Value of Total 10-Year Cash Flow	$101	$87	$126	$122
Increase / (Decrease)	--	($14)	$20	$16
Average Increase in Annual Cash Flow (25-Years)	--	$2.3	$0.5	$0.6

1.3.3.1 *Cash injection*

If the transaction is funded with cash, Navigant estimates that the net present value of the total 10-year cash flow, including the outlay for the investment, to the City of Vaughan will be $14M lower

3 "Net annual cash flow" refers to the combined annual dividend payment and interest on the shareholder loan

4 "Total 10-year cash flow" refers to the initial investment and the combined dividend payment and interest on the shareholder loan

than Status Quo. Over the first 10 years, combined dividend and interest payments are expected to increase by an average of $4.3M per year, where dividend payments increase by $5.9M and interest payments decrease by $1.6M. Over 25 years, the combined dividend and interest payments are projected to increase by an average of $2.3M per year.

Figure 10: Projected cash flow after transaction (cash injection)

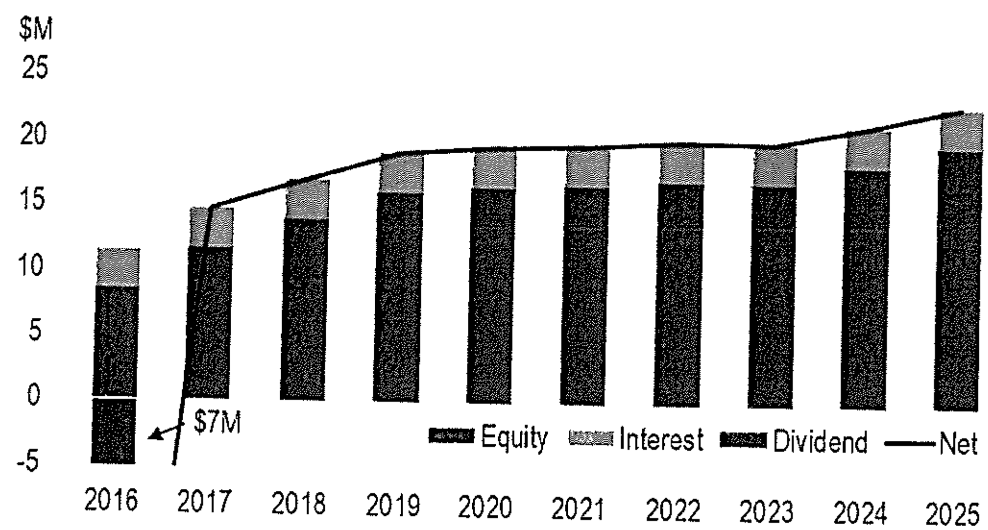
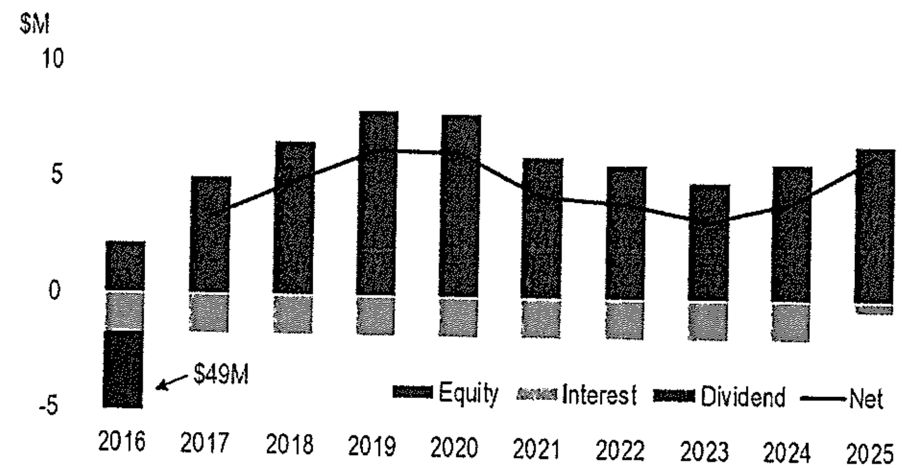


Figure 11: Projected change in cash flow (cash injection)



1.3.3.2 *Conversion of shareholder loans*

If the City of Vaughan converts its interest paying shareholder notes into dividend paying equity, the net present value of total 10-year cash flow is estimated to be $20M higher than under the status quo with PowerStream. No additional cash is required to fund the transaction, apart from closing adjustments, as $56M of shareholder debt is repaid and reinvested as equity. Over the first 10 years, the combined dividend and interest payments are expected to increase by average of $2.6M per year, where dividends increase by $5.9M and interest payments decrease by $3.3M. Over 25 years, the combined annual dividend and interest payments are projected to increase by an average of $500k.

Figure 12: Projected cash flow after transaction (conversion of notes)

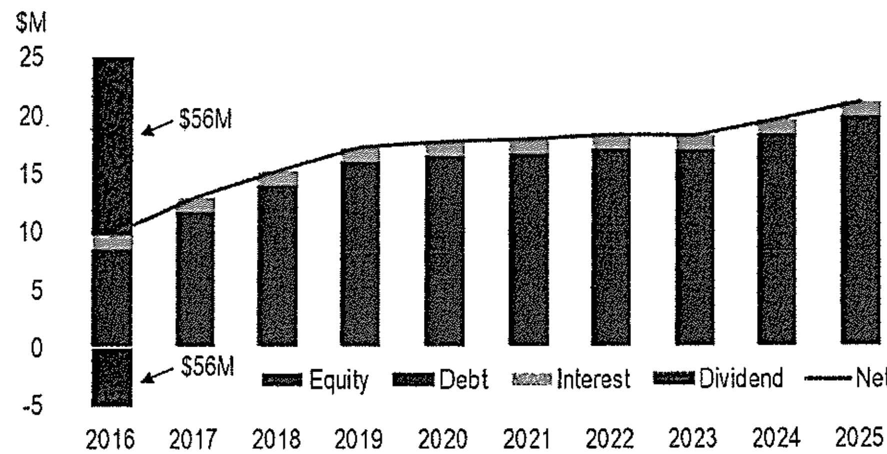
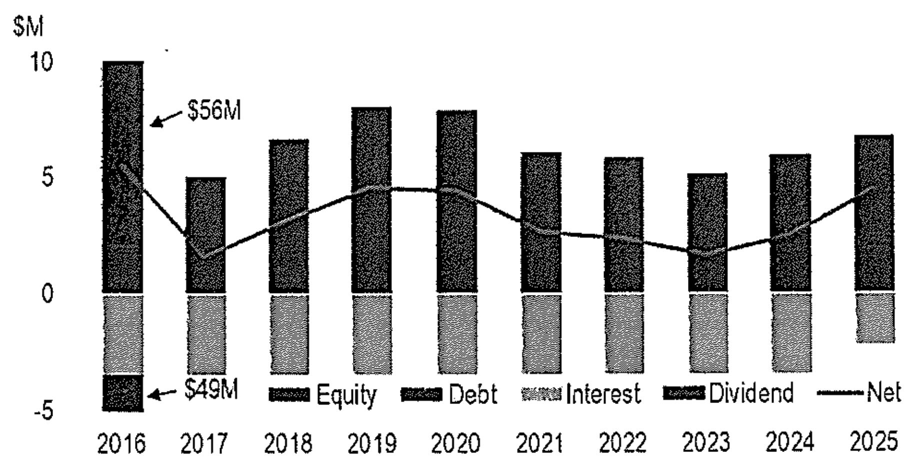


Figure 13: Projected change in cash flow (conversion of notes)



1.3.3.3 *Sale of 10% of PowerStream*

If equity in PowerStream is sold and the proceeds are reinvested, the net present value of total 10-year cash flow is estimated to be $16M higher. Approximately $11M of additional cash would be required to fund the transaction, as proceeds from the sale likely offset a majority of funding requirement. Over the first 10 years, the combined dividend and interest payments are expected to increase by average of $3.3M per year, where dividends increase by $4.4M and interest payments decrease by $1.1M. Over 25 years, combined annual dividend and interest payments increase by an average of $600k.

Figure 14: Projected cash flow after transaction (sale of 10%)

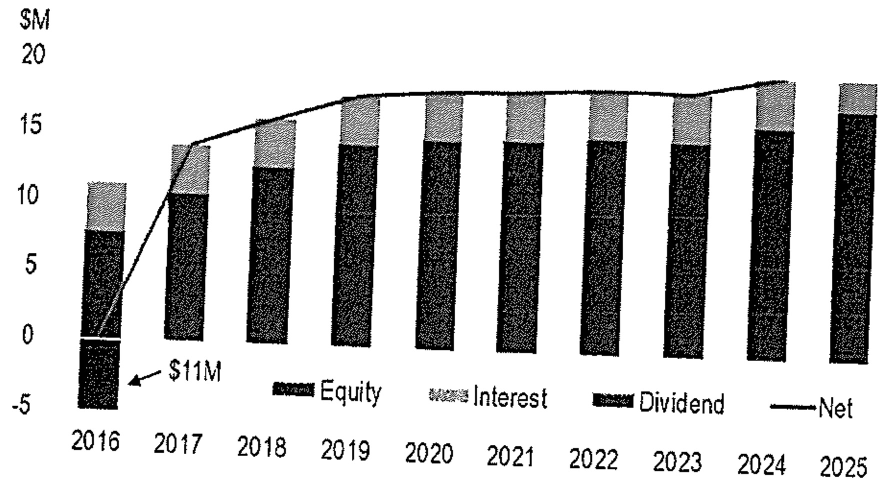
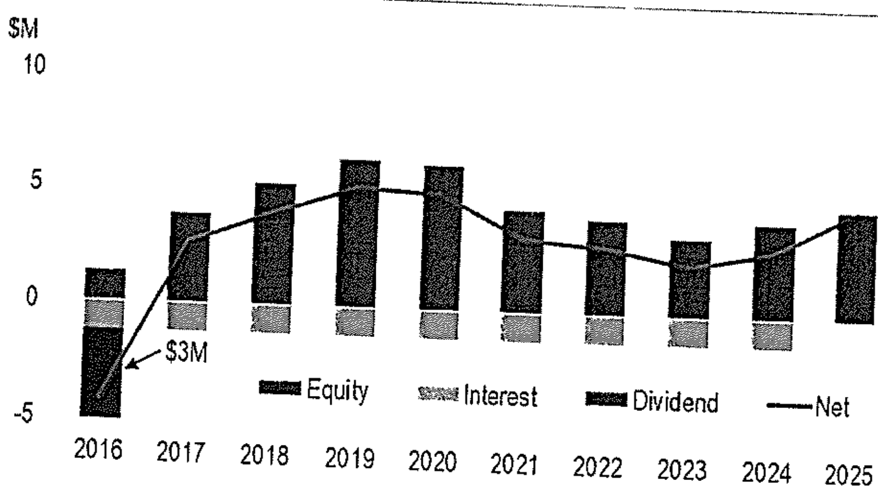


Figure 15: Projected change in cash flow (sale of 10%)



1.3.4 Summary

The proposed transaction is expected to create value for the PowerStream shareholders. For the City of Vaughan, Navigant's analysis indicates that the business case projections are reasonable. Navigant's own analysis indicates a potential increase in value of $71 and $102M from an initial $56M investment.

The return on investment is estimated to be 7.7%, and is likely a better return than PowerStream would realise if it were to acquire Hydro One Brampton or another electricity distribution utility in Ontario on a stand-alone basis in today's market environment. However, it is not as strong a return as shareholders' existing or planned investments in PowerStream's core regulated business.

Annual net cash flows are expected to increase, wherein the increased dividends from the new company are expected to offset any decline in interest payments on the shareholder loans.

1.4 Liquidity

The municipality's investment in PowerStream is relatively illiquid at present. There are substantial tax obligations that become due if a shareholder were to dispose of more than 10% of the equity in the company to a non-municipally owned third party. Navigant's view is that the proposed transaction will have a limited impact on the liquidity of the municipality's investment, and may actually result in a small improvement. This is primarily due to the negotiation of three potential mechanisms for addressing the tax implications associated with a sale of more than 10% of the new company's equity. While there are certain situations where exiting from the new company could result in a higher tax burden for the departing shareholder, Navigant's assessment is that the likelihood of these situations occurring is low and the alternative mechanisms provide a clear path forward that does not exist under the status quo.

The table below compares liquidity considerations between the status quo and the proposed transaction

Figure 16: Impact of the transaction on liquidity

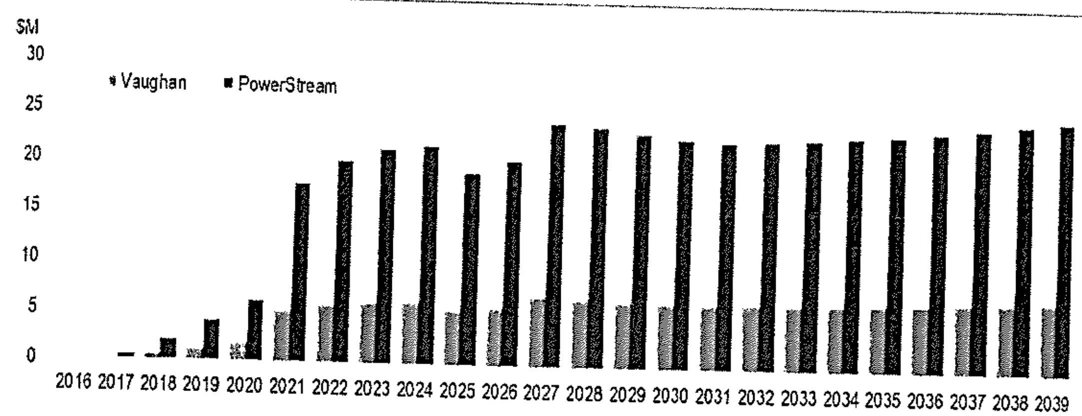
Category	Status Quo	MergeCo
Issuance of new treasury shares	Unanimous consent is required to issue new treasury shares	Supermajority consent of the shareholders is required to issue (Vaughan plus two or more, depending on whom)
Sale of existing common shares	Unanimous consent required for partial or full sale of existing shares Selling shareholders responsible for all taxes	Supermajority consent required for partial sale in excess of 10% or full sale of existing shares; sale up to 10% permitted, provided unanimous approval of buyer Selling shareholders responsible for all taxes, but remaining shareholders agree to repay their share if and when they exit
Taxes	Significant cost (i.e. departure tax and transfer tax) associated with a sale of more than 10%	Minimal / no increase in departure tax, however, transfer tax obligation will increase on sale as a result of acquisition of Hydro One Brampton
Prohibitions on sale	None	Anti-flip provisions in share purchase agreement Five year ban on selling substantially all of Hydro One Brampton Three year ban on selling more than 49% of MergeCo, except (i) to a Canadian pension fund; (ii) to a MergeCo shareholder; or (iii) with the consent of the Province "acting reasonably"
Market	Reasonable market of potential buyers	May attract slightly larger strategic and financial investors

1.5 *Impact on the electricity customer*

Navigant analysed the potential for customer benefits as result of the transaction by comparing the projected revenue for PowerStream under the status quo and the projected revenue for the PowerStream service territory under the proposed transaction. Customer benefits were then allocated to the City of Vaughan based on population across the multiple communities served by PowerStream.

Over 25 years, electricity customers in the City of Vaughan are expected to save a total of $123M as a result of the transaction. Savings for Vaughan residents and businesses average approximately $3.1M per year in the first 10 years, and $6.6M per year thereafter. Total residential taxes levied by the City of Vaughan in 2015 were $757M, and as such savings are equivalent to an initial property tax reduction of 0.4% increasing to 1.0% per year. Savings are expected to be approximately $40 per customer per year and $30 per residential customer per year.

Figure 17: Estimated annual customer benefit



Notes:

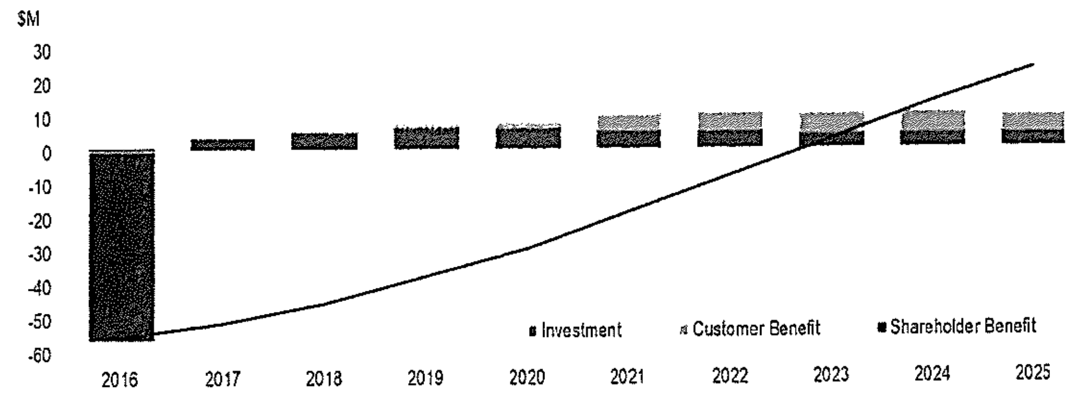
1) All values nominal

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

The total benefit to the residents and businesses in Vaughan is the combination of the shareholder and electricity customer benefits. The shareholder benefit flows back to residents and businesses in Vaughan indirectly through the municipality, whereas the customer benefits are a direct benefit. Considering these two sources of benefits together Navigant projects that the initial investment of $56M will have a simple payback period of seven years.

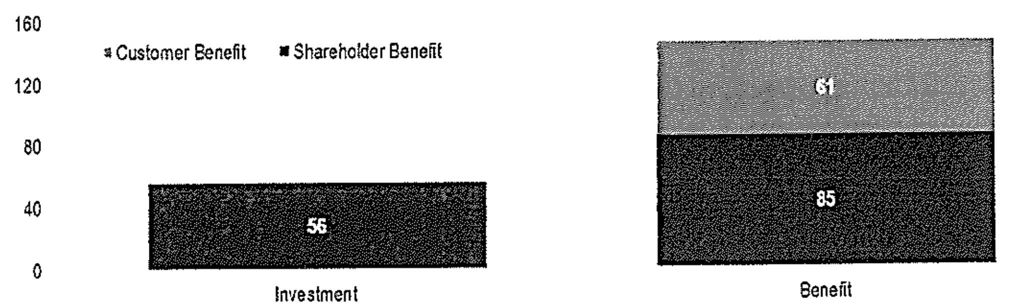
Figure 18: Combined annual shareholder and customer benefit



Notes
1) All values are nominal

The combined shareholder and customer benefit over the longer term over is substantial, with $146M of present value total benefit for $56M of investment. Of the $146M benefit, $85M is increased shareholder value, while the remaining $61M of benefit is realised through lower electricity rates to customers.

Figure 19: Present value of estimated total benefits



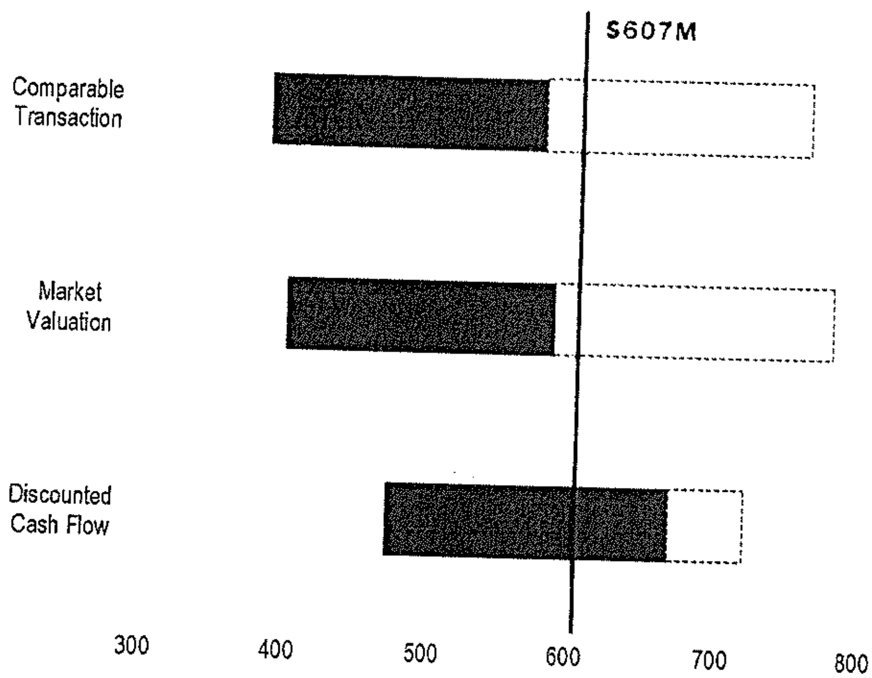
Notes
1) All values discounted at 5%

Regulatory factors impact the allocation of benefits between customer and shareholders. Navigant has been conservative in estimating the allocation to shareholders by assuming that the benefit of capital synergies are passed directly to customers. Management's assumption is that the benefit of operating synergies will be retained by the shareholder for 10 years. In the event this duration is shorter, the benefit will pass through to customers sooner than expected, shifting relatively more of the benefit to consumers, but not impacting the overall level of benefits expected.

2. Hydro One Brampton acquisition

Navigant estimates that the $607M purchase price for Hydro One Brampton is within the range of reasonable market values relative to the rate base of $405M.[5] The Hydro One Brampton valuation is in the range of comparable company and transaction valuation multiples, and slightly outside the interquartile range based on the 25th and 75th percentile of values. The purchase price also falls within the range of Navigant's enterprise valuation based on discounted cash flows.

Figure 20: Enterprise value for Hydro One Brampton



Notes:

1) Comparable transaction and market valuations based on interquartile range (25th and 75th percentiles); extended range based on 90th percentile

2) Discounted cash flow valuations based on alternative terminal value calculations, e.g., perpetuity growth rate, final year cash flow and exit multiple assuming a 7% equity discount rate: extended range based on 5% discount rate

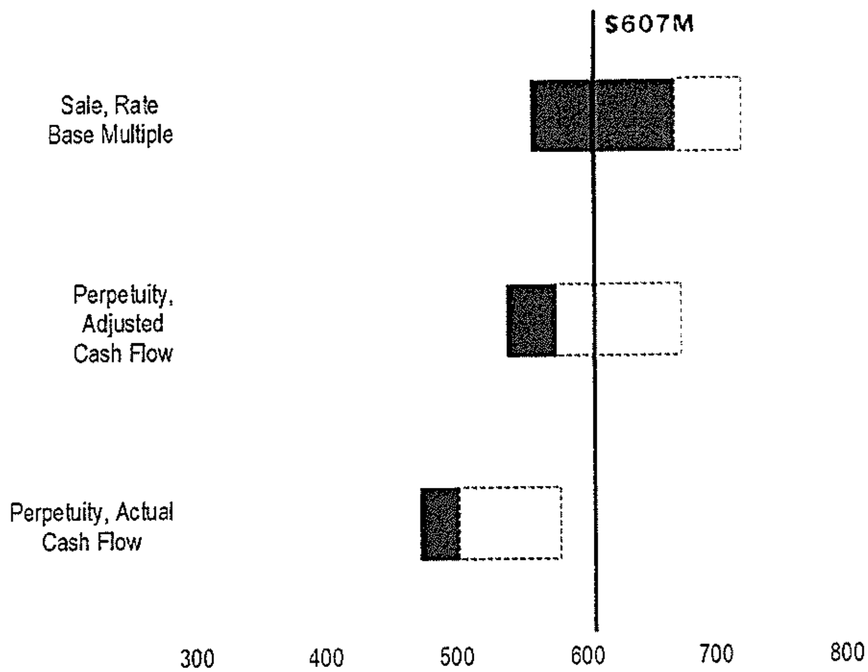
2.1 *Discounted cash flow*

The range of enterprise values resulting from Navigant discount cash flow analysis is driven largely by terminal value approach and assumptions. Assumptions required to achieve a valuation of $607M are not conservative, but they are in the range of what a buyer might reasonably use to value the company. The high end of the range for each terminal value approach is based on a high growth rate

5 Rate base is the sum of the regulated asset value and an allowance for working capital.

(i.e. 1.2%) or high rate base exit multiple (i.e. 1.5x) assumptions. The low end of the range is based on a low growth rate or low rate base exit multiple assumption.

Figure 21: Enterprise value for Hydro One Brampton based on discounted cash flow

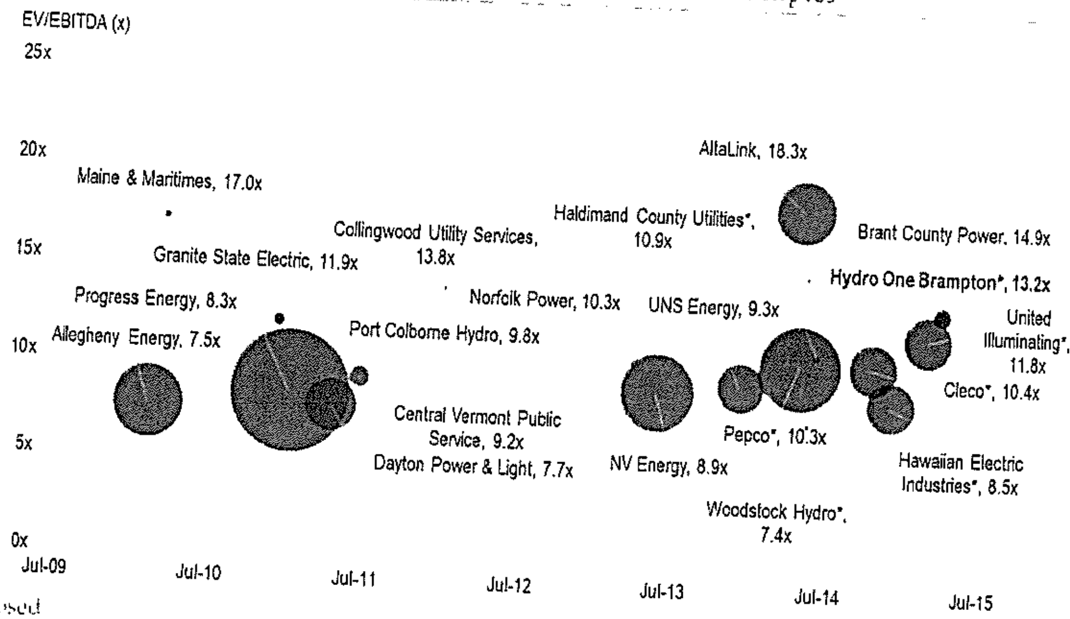


Notes:
1) Range of values based on alternative terminal value assumptions, e.g. perpetuity growth rate and exit multiple, assuming a 7% equity discount rate; extended range based on 5% equity discount rate

2.2 *Precedent transactions*

Precedent transactions over the past five years reveal a wide range of valuations based on the EV/EBITDA multiple metric. At the high end of the range are transactions like the purchase of AltaLink, an Alberta-based transmission company, by a subsidiary of Berkshire Hathaway. The interquartile range, i.e. the range established by the 25th percentile and 75th percentile value, is 8.4x to 12.6x.

Figure 22. Precedent transaction Enterprise Value to EBITDA multiples



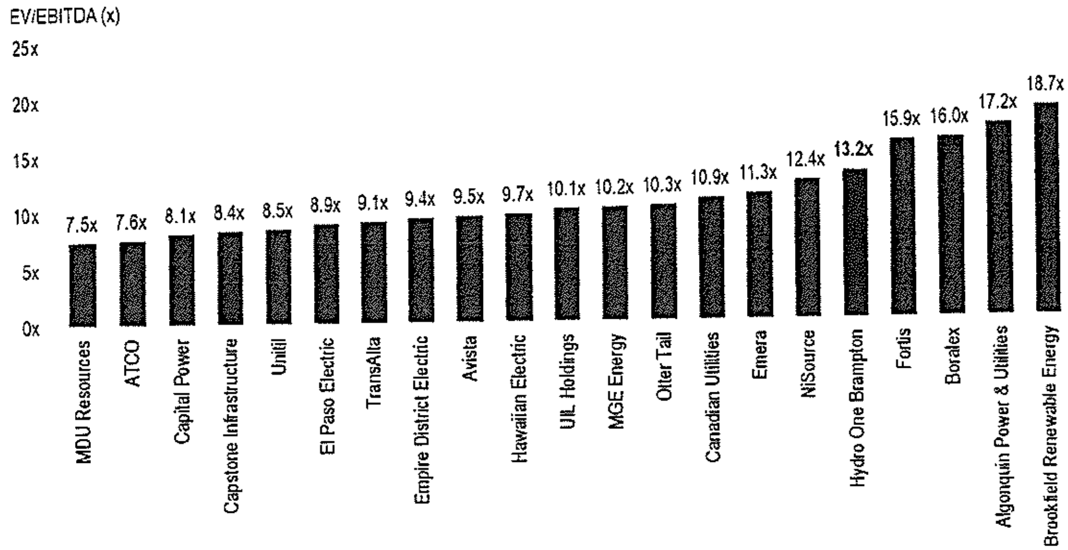
*Proposed

Source: CapIQ, Navigant

2.3 *Market valuations*

Publically listed comparable utility companies reveal a similarly wide range of valuations. The interquartile range is 8.7x to 12.8x, similar to the interquartile range of precedent transaction valuations. This wide range of enterprise value to earnings before interest, taxes, depreciation, and amortisation (EV/EBITDA) multiples highlights the importance of using a discounted cash flow approach to determine an appropriate range of valuation specific to Hydro One Brampton's unique conditions.

Figure 23: Comparable company Enterprise Value to EBITDA multiples



* U.S. companies filtered to include only those with regulated transmission and distribution assets, without merchant generation (competitive wholesale), and less than 500,000 electric customers
Source: CapIQ, SNL Energy, Navigant

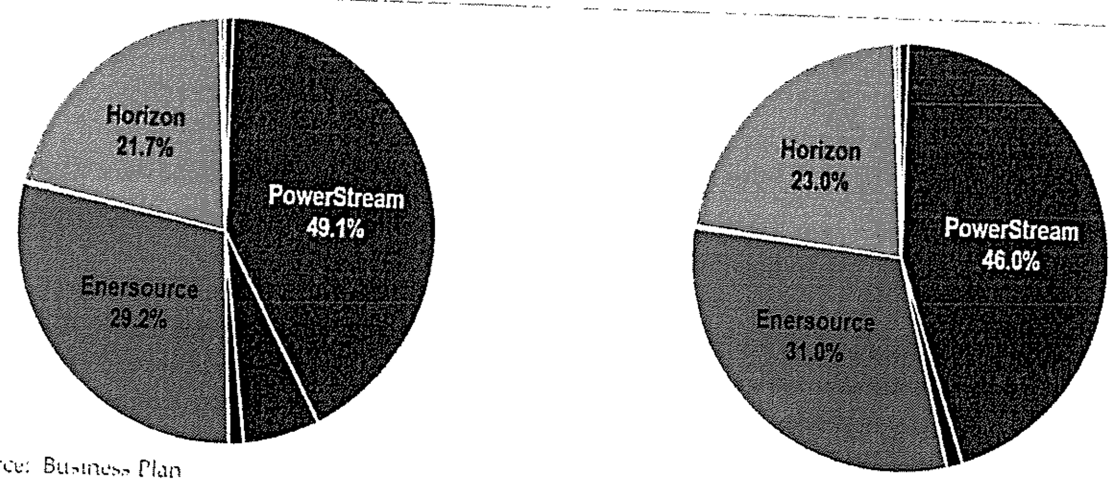
3. Relative valuation

As part of the transaction, PowerStream, Enersource, and Horizon engaged an independent advisor to provide a valuation for each company to recommend the ownership level that each of the shareholders of the predecessor companies should have in the new company. Navigant's independent analysis has confirmed that proposed ownership level for the PowerStream Shareholders is reasonable.

The independent advisor to PowerStream, Enersource, and Horizon developed a relative valuation model to calculate ownership levels for each of the companies' respective shareholders. The model calculated valuations using several different approaches. The final values used in the business case are based on enterprise value calculated using a discounted cash flow approach.

The relative valuation of PowerStream including all regulated and un-regulated businesses, including PowerStream Solar, was 49.1%. Excluding the PowerStream solar assets reduces PowerStream's relative share by roughly 3.1% to 46.0%.

Figure 24: PowerStream relative valuations

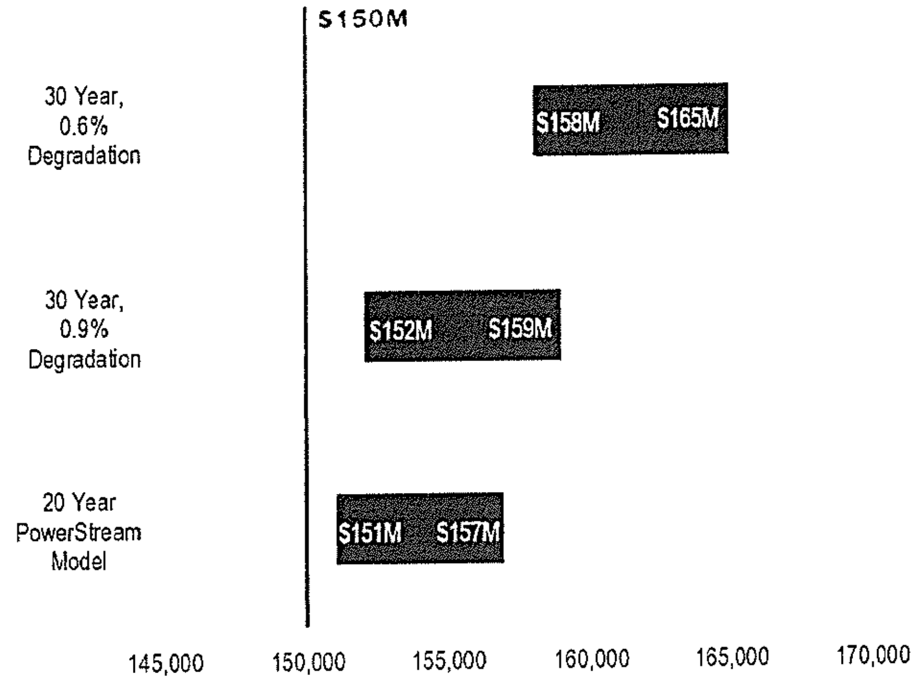


Source: Business Plan

3.1 *PowerStream Solar*

Navigant also independently reviewed the proposed valuation for PowerStream's existing solar business. Navigant's analysis of the PowerStream Solar valuation suggests that it is likely undervalued. The $150M proposed valuation of solar business is outside of the range of reasonable results produced by Navigant's independent valuation model, even under the most conservative assumptions and scenarios. In scenarios assuming longer asset lives, lower degradation rates, and longer cash flows, solar asset valuation looks significantly better.

Figure 25. Enterprise Value for PowerStream Solar

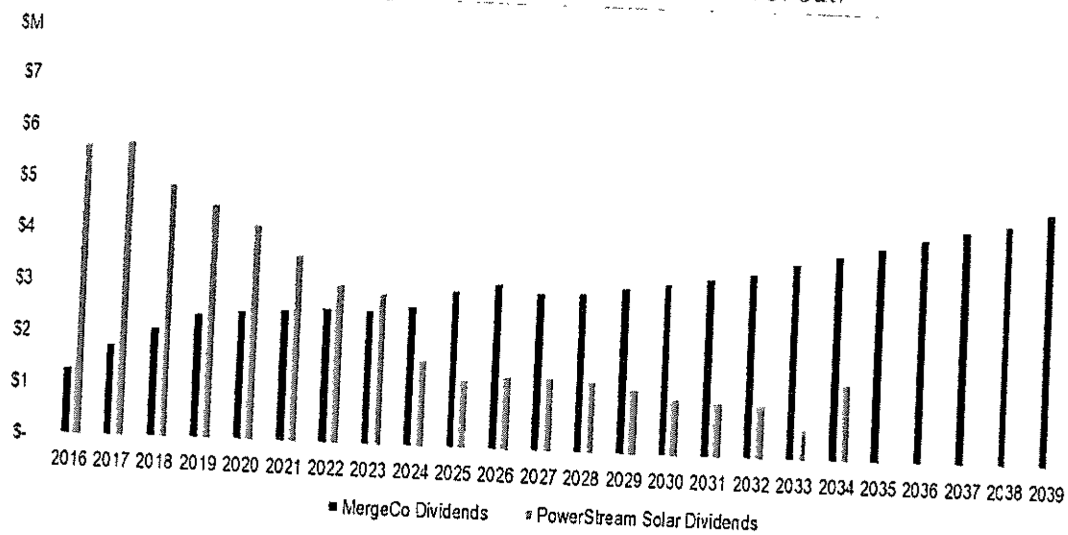


Notes:
1) Range of values based on debt ratio (70% to 90%) and weighted average cost of capital (4.0% to 6.0%)

As a result, it was Navigant's recommendation that the PowerStream Shareholders consider holding back the solar assets from the transaction or find a way to ring-fence the existing solar assets within the new company for their benefit.

As shown in the figure below, the timing of the cash flow from the solar assets is materially different and heavily weighted to the first eight years. The choice to keep the solar asset cash flows separate from the transaction results in more cash up front. This improves the present value of the future cash flows and the simple payback period associated with the transaction for the PowerStream Shareholders. It is Navigant's view that the expected cash flows from the existing PowerStream solar assets are also more secure than common dividends from the new company.

Figure 26: Comparison of incremental annual dividends (solar in or out)



In addition, holding back the solar assets or ring fencing them within the new company provides the PowerStream Shareholders with additional liquidity and flexibility, and diversity of cash flows.

A summary of Navigant's rationale for holding back or ring fencing the solar assets is provided in the figure below.

Figure 27: Rationale for excluding PowerStream Solar

Reason	Description
Low Valuation	PowerStream's solar assets are at best fairly valued and likely undervalued A number of critical assumptions in independent valuation model used to establish relative value appear to be conservative Near term revenue may not be fully considered and post-contract sales not included
Certainty of Cash Flows	Solar assets have low risk cash flow schedules that can be levered more easily than PowerStream or MergeCo cash flows Net cash flows will be higher if PowerStream Solar assets are earmarked for existing shareholders
Liquidity, Flexibility, and Diversification	Extracts more cash from the business in the first ten years Cash out gives Shareholders the option to reinvest in MergeCo (regulated or unregulated), and Shareholders maintain an option to sell the assets at a later date Provides two separate and distinct sources of cash

The option to ring fence the solar assets within the new company, as opposed to holding them and creating a new company to own and operate, has several advantages for the PowerStream Shareholders as well as the other shareholders in the new company. The ring-fence approach:

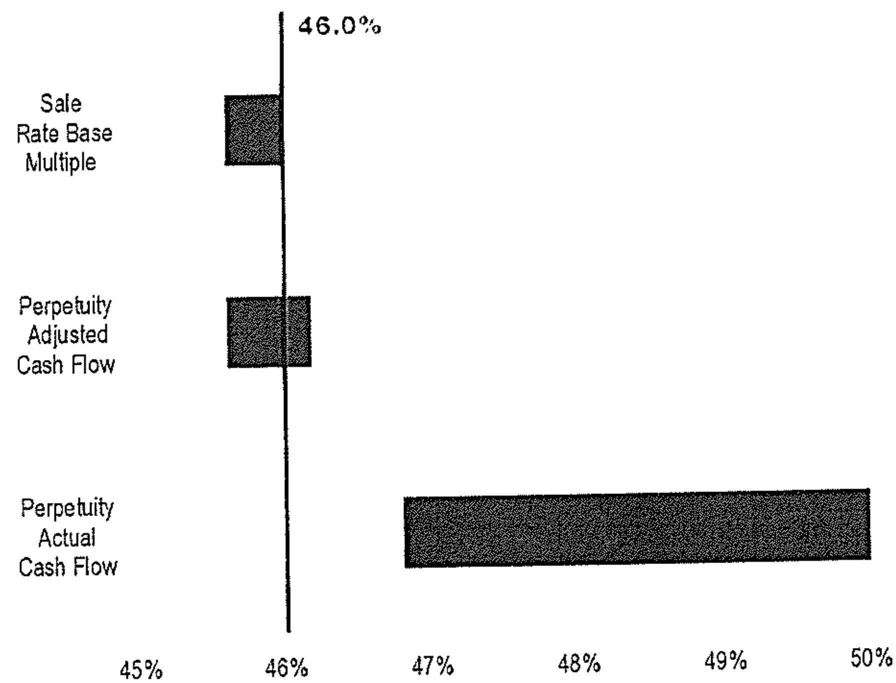
1. Avoids tax consequences from a sale or extraction of the assets from PowerStream;

2. Retains the solar development platform within the new company; and
3. Allows for economy of scale in operations and maintenance across existing and new assets that are added after the transaction.

3.2 *Relative valuation excluding PowerStream Solar*

Navigant's analysis indicates that the proposed 46.0% relative valuation, excluding PowerStream solar assets, is reasonable. The proposed ownership share is calculated using an acceptable valuation approach and reasonable input assumptions. Testing sensitivities and scenarios with varied assumptions creates a thin band around the 46.0% value. Two other possible approaches yield results slightly lower and higher than the chosen approach.

Figure 23: Relative valuation excluding PowerStream Solar



Notes:
1) Range of each terminal value approach based on alternative terminal value assumptions (growth rate in perpetuity and exit multiple) and equity discount rate (5%, 7%, and 9.3%)

4. Conclusion

Navigant reviewed PowerStream's business case and business plan for the proposed transaction. Based on its review, Navigant expects that the proposed transaction will create value for the residents, taxpayers, and electricity customers in the City of Vaughan.

To effect the proposed transaction, the City of Vaughan will need to invest $56M (plus or minus adjustments due at closing). Navigant estimates that the transaction will create between $71M and $102M of shareholder value, approximately 30% to 80% more than the $56M initial investment. The shareholder value is derived primarily from operating cost synergies realised through the merger and acquisition, which in turn result in an increase in annual dividends and retained earnings.

The expected return on investment for the PowerStream Shareholders is 7.7%, with Navigant's estimates ranging from 4.1% to 10.6%. Under the base case synergy scenario, Navigant estimates that the simple payback period for the initial investment is 10 years.

In addition to the shareholder benefit, over 25 years, Navigant expects that the transaction will create $61M of benefit for electricity customers in the City of Vaughan, equivalent to an average of approximately $40 per year per customer and $30 per year for residential customers. If electricity customer benefits are considered in conjunction with shareholder benefits, the simple payback period for the initial investment is reduced to seven years.

Navigant also analysed two alternatives to the $56M cash investment: funding the transaction through a conversion of shareholder debt for equity, and selling 10% of PowerStream in advance of the transaction and using the proceeds to effect the transaction. Under both of these scenarios the City of Vaughan mitigates some of the risk associated with the transaction. Both scenarios also improve the net cash flow to the City of Vaughan relative to funding the transaction with a cash injection.

The proposed transaction is unlike other transactions that PowerStream has brought to the City of Vaughan for consideration. Based on its independent assessment, Navigant believes that the proposed transaction has more risk and on an expected basis is likely to provide a lower return than investments the City of Vaughan has made to date in PowerStream. That said, Navigant does not have reason to believe that future transactions will achieve the risk-reward profile of the previous transactions. Furthermore, Navigant's analysis suggests that under certain reasonable conditions the return associated with this transaction could be higher than previous investments.

It is Navigant's view that important aspects of the proposed transaction are reasonable, such as the purchase price for Hydro One Brampton, the proposed equity ownership for the PowerStream Shareholders in the new company, and the proposed synergies and transition costs. The price for Hydro One Brampton was found to be within, but at the high end of the valuation range. The relative valuation of PowerStream was found to be within an acceptable range. Synergies were reviewed and determined to be reasonable and achievable. Through its past acquisitions, PowerStream has developed a track record of delivering on synergy targets. Navigant's assessment is that roughly half of the functional area synergies are likely conservative, such that actual synergies may be greater than represented in the business case.

The PowerStream shareholders also asked Navigant to assess the impact of the proposed transaction on the liquidity of their investment in PowerStream. It is Navigant's assessment that the proposed transaction will have a limited impact on the liquidity of the City of Vaughan's existing investment in PowerStream, and could result in a small improvement over the status quo. Note, there may be certain conditions where exiting from the new company could result in a higher tax burden than existing from PowerStream.

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."

CITY OF VAUGHAN

EXTRACT FROM SPECIAL COUNCIL MEETING MINUTES OF OCTOBER 7, 2015

Item 1, Report No. 33, of the Committee of the Whole (Working Session), which was adopted, as amended, by the Council of the City of Vaughan on October 7, 2015, as follows:

By approving the confidential recommendation contained in Confidential Communication C2, from the City Solicitor, the Director of Financial Planning, Analytics, Development Finance and Investments & Deputy City Treasurer, dated October 2, 2015; and

By receiving the following Communications:

C1 ***Director of Financial Planning, Analytics, Development Finance and Investments & Deputy City Treasurer, dated October 1, 2015; and***

C3 ***Confidential Communication from the City Solicitor, the Chief Financial Officer & City Treasurer and the Director of Financial Planning and Development Finance & Deputy City treasurer, dated October 6, 2015.***

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1 **POWERSTREAM MERGER AND ACQUISITION**

The Committee of the Whole (Working Session) recommends:

1) **That the recommendation contained in the following report of the Commissioner of Finance and City Treasurer and Interim Commissioner of Legal and Administrative Services and City Solicitor, dated September 22, 2015, be approved;**

2) **That the following be approved in accordance with Communication C1 from the Commissioner of Finance and City Treasurer and the Interim Commissioner of Legal and Administrative Services/City Solicitor, dated September 18, 2015:**

1. **That the City of Vaughan approve the Vaughan Holdings Inc. Board's recommendation that PowerStream Holdings Inc. ("PowerStream") enter into a three way merger with Enersource Corporation ("Enersources") and Horizon Holdings Inc. ("Horizon") and then proceed to acquire Hydro One Brampton Networks Inc. ("Hydro One Brampton"), subject to the identical conditions set out by Vaughan Holdings Inc. as further described in this communication;**

2. **That the City of Vaughan agree to subscribe for equity common shares in Vaughan Holdings Inc. in the maximum amount of $45,600,000 to partially fund Vaughan Holdings Inc.'s portion of the acquisition of Hydro One Brampton;**

3. **That the City of Vaughan's investment in such common shares be made consistent with the timing and amounts deemed necessary by Vaughan Holdings Inc. in order to complete the merger and acquisition transaction;**

4. **That the City of Vaughan authorize Vaughan Holdings Inc. to pursue a sale from treasury of up to 10% of its shares related to its PowerStream interests to substantially recover the City's portion of the required equity investment and that a report on the process and recommendations be provided prior to completing the merger;**

5. **That the Mayor, together with the City Clerk, are hereby authorized to execute all documents and agreements on behalf of the City with respect to the proposed merger and acquisition, in a form satisfactory to the City Solicitor, and that City staff be authorized to take such steps as may be**

necessary (and substantially in accordance with the terms set out in this communication and its related report) to give effect to the proposed merger and acquisition;

6. **That staff report to Council if it appears that transaction negotiations could result in agreements which deviate substantially from the principles set out in this communication and its related report; and**

7. **That, within 60 days of executing the agreements and documents required to finalize the merger and acquisition, staff provide Council with an update; and**

3) **That the following deputations and Communications be received:**

1. **Mr. Brian Bentz, President and Chief Executive Officer, Powerstream, Cityview Boulevard, Vaughan, and Communication C2, dated September 22, 2015;**
2. **Mr. Todd Williams, Managing Director, Navigant Consulting Inc., Bay Street, Toronto, and Communication C3, entitled *"PowerStream Merger and Acquisition: Decision Support",* dated September 22, 2015; and**
3. **Mr. Paul H. Harricks, Legal Counsel, Gowlings LLP, King Street West, Toronto.**

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

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$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.

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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.

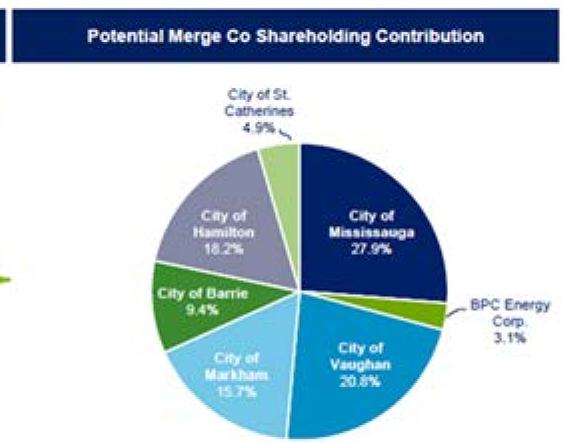
The Transaction will create the second largest electricity distribution company in Ontario with almost 1 million customers, 2.7 billion in assets, and 2.5 billion rate base. In total, MergeCo is expected to deliver approximately **$427M of net cash savings (pre-tax) through synergies** in the first 10 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%



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

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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.

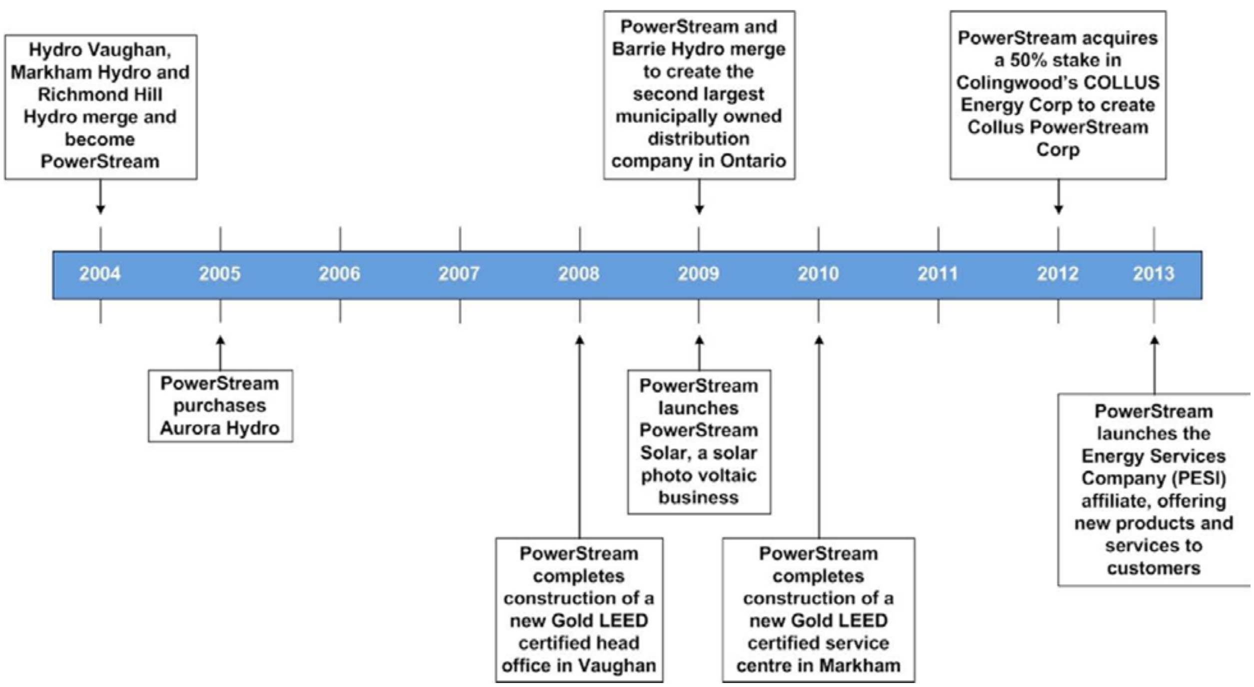
PowerStream encompasses an 854 sq. km service territory and delivers over 8,384 GWh of electricity to customers annually.

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.

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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.

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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.

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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

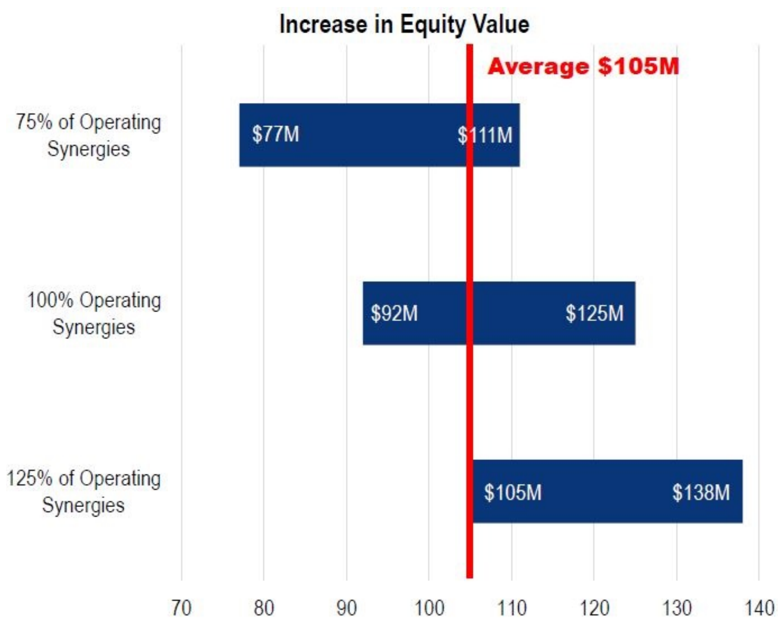
The proposed transaction is expected to increase equity value and provide a steady and growing dividend stream to shareholders

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.

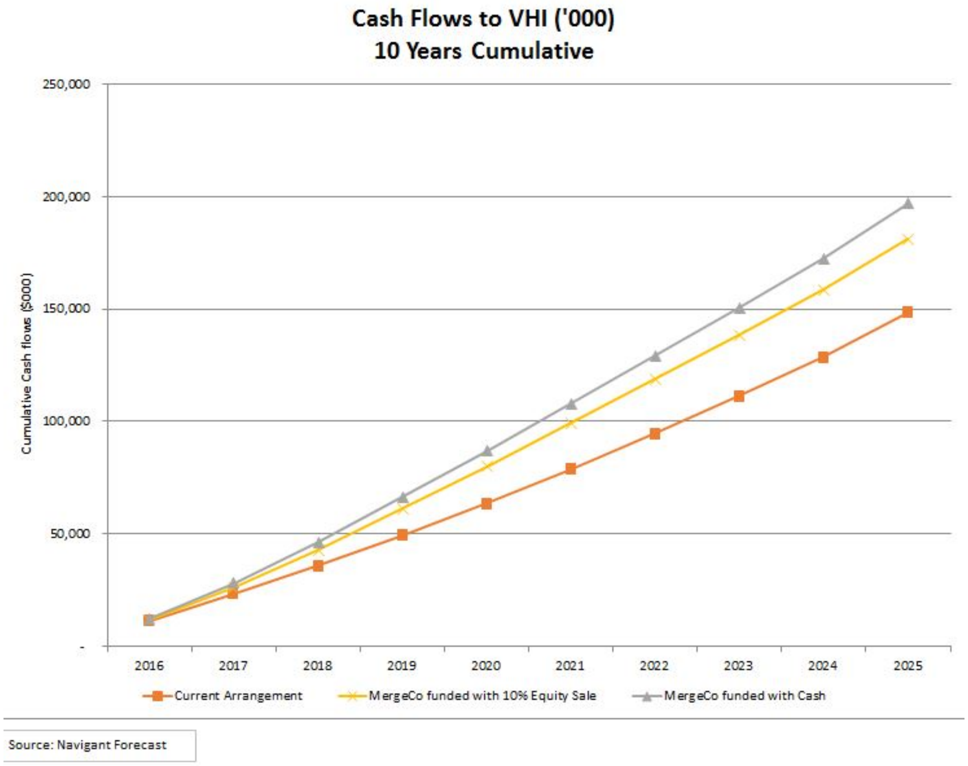
Figure 4 – Growth of equity value



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

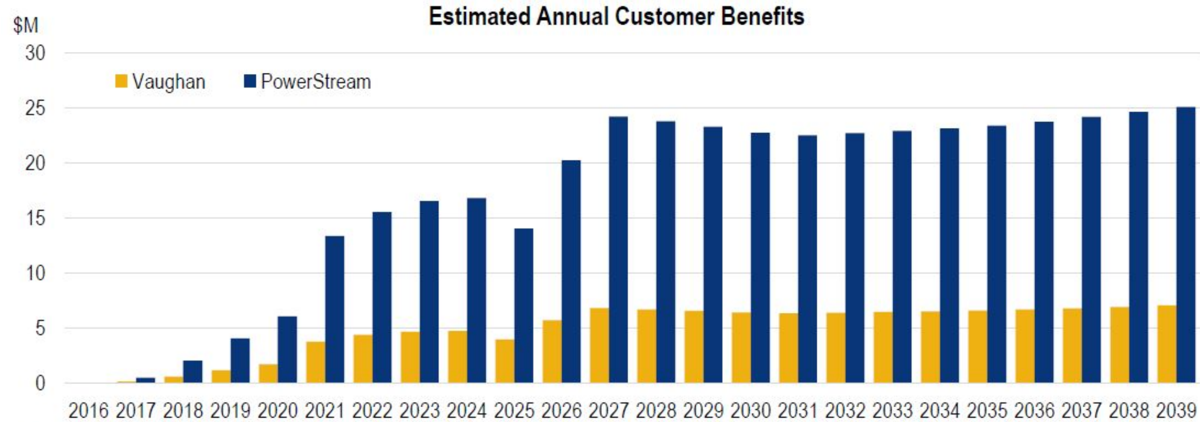
- Increase in the Net Present Value (NPV) of earnings of approximately $276M from $1,154M to $1,430M from 2016 to 2036 relative to the current arrangement, a 24% increase.
- Rates of return begin to normalize post 10 years, however projections beyond 10 years become less predictable given several uncertainties.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

Regional Implications

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.

Conclusion

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 upon receipt)
2. MergeCo Business Case from PowerStream Inc. (available at the Office of the City Clerk for viewing upon receipt)
3. Navigant Consulting Ltd. written analysis of Business Case (available at the Office of the City Clerk for viewing upon receipt)
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

(A copy of the attachments referred to in the foregoing have been forwarded to each Member of Council and a copy thereof is also on file in the office of the City Clerk.)

MUN-CCC-12

Reference(s):

Preamble:

Have each of the relevant municipalities approved the transactions based on the "no harm" test? If not, what were each of the approvals based on? Please provide evidence to support the answer. Have each of the municipalities approved the merger on the basis of increased dividends or on the basis of benefits to LDC ratepayers?

Response:

The municipalities approved the transactions based on their own decision making criteria to which the Applicants are not privy.

MUN-CCC-13

Reference(s):

Preamble:

For each of the relevant municipalities please provide a list setting out the dividend payments received in 2015. In the materials provided to the City of Vaughan it estimated the payment to be $16 million. It also states that Vaughan can expect dividends to increase in the first 10 years, post transaction, by $62 million. What were the assumptions used to develop this forecast. What is the estimated increase in dividends expected for each of the relevant municipalities? Please include all assumptions.

Response:

The following Table 1 identifies the dividend payments received, by shareholder, in 2015.

Table 1 – 2015 Dividend Payments by Shareholder

Dividend Payments ($MM)		**2015 Actuals**
City of Vaughan	**$**	**12.7**
City of Markham	$	9.6
City of Barrie	$	5.8
Total PowerStream	**$**	**28.1**
City of Mississauga	$	14.4
BPC Energy Corporation	$	1.6
Total Enersource	**$**	**16.0**
City of Hamilton	$	9.6
City of St. Catharines	$	2.6
Total Horizon Utilities	**$**	**12.2**
Total Applicants	**$**	**56.3**

Following the merger transaction, the City of Vaughan's dividends are forecast to increase by approximately $62.8MM in the first ten years. This assumes that in the *status quo*, PowerStream would continue to pay 50% of net income as dividends for the regulated business, as well as rate retesting in each year. The dividend forecast for the unregulated business includes both PowerStream Solar and PowerStream Energy Services Inc. ("PESI").

The forecast dividends for each shareholder for the *status quo* scenario are identified in Table 2 below.

Table 2 – Forecast Dividend Payments by Shareholder 2016 – 2026 (*Status Quo* Scenario)

Status Quo Dividends ($MM)		**Total**
City of Vaughan	$	147.0
City of Markham	$	110.9
City of Barrie	$	66.5
City of Mississauga	$	176.5
BPC Energy Corporation	$	19.6
City of Hamilton	$	114.1
City of St. Catharines	$	30.5
Total	**$**	**665.0**

LDC Co dividends are based on 60% of net income, excluding the PowerStream Solar business net income. The PowerStream Shareholders (Vaughan, Markham, and Barrie) will continue to receive dividends generated by the PowerStream Solar business. Net operating synergies and ICM revenues are incorporated into the dividend forecast. Considering these effects, the total dividends expected to be paid to LDC Co Shareholders over a ten year period are identified in Table 3 below.

Table 3 – Forecast Dividend Payments by Shareholder 2016 – 2026 (LDC Co)

LDC Co Dividends ($MM)		**Total**
City of Vaughan	$	209.8
City of Markham	$	158.3
City of Barrie	$	94.9
City of Mississauga	$	238.3
BPC Energy Corporation	$	26.5
City of Hamilton	$	155.0
City of St. Catharines	$	41.4
Total	**$**	**924.2**

The corresponding increase of dividends to each Shareholder is identified in Table 4 below.

Table 4 – Forecast Dividend Increase by Shareholder 2016 - 2026 (LDC Co)

LDC Co Dividend Increase ($MM)	Total
City of Vaughan	$ 62.8
City of Markham	$ 47.4
City of Barrie	$ 28.4
City of Mississauga	$ 61.8
BPC Energy Corporation	$ 6.9
City of Hamilton	$ 41.0
City of St. Catharines	$ 10.9
Total	**$ 259.2**

B-CCC-14

Reference(s): B/T2/S1/p. 9

Preamble:

The Applicants have confirmed that they have chosen to defer LDC Co's rebasing from the date of the closing the last of the proposed transactions. What specific relief are the Applicants seeking with respect to this proposal? Under what circumstances could this change and the Applicants seek an earlier rebasing?

Response:

a) The Applicants have identified that they will defer LDC Co's rebasing for ten years from the date of closing the last of the proposed transactions, as identified on page 9 of Exhibit B, Tab 2, Schedule 1. There are no circumstances contemplated currently under which this could change. The ten year rebasing deferral period is consistent with the Ontario Energy Board's March 26, 2015 *Report on Rate-Making Associated with Distributor Consolidation* (the "Consolidation Policy") and with the *Handbook to Electricity Distributor and Transmitter Consolidations*.

B-CCC-15

Reference(s): Ex. B/T2/S1/p. 10

Preamble:

The evidence states that, "Pursuant to the Handbook, issues related to rate making for LDC Co's service area, including the treatment of any ESM, Capital Variance and/or Efficiency Adjustments, are matters for future rate applications and are not in scope for this Application, subject to the comments below regarding the treatment of existing rate orders an rate riders". Please explain:

a) Why these issues are not within scope of this proceeding;

b) How during the rebasing deferral period the ESM, Capital Variance Account and the Efficiency Adjustment embodied in the Horizon Settlement Agreement will be dealt with; and

c) Why it is appropriate to discontinue rate riders that reduce the revenue requirement during the rebasing deferral period, while maintaining rates that are recovering costs that are no longer relevant in providing service to customers of the combined entity. How are these two proposals consistent?

Response:

a) The items identified in the extract from the evidence above, i.e., ESM, Capital Variance and Efficiency Adjustments, are all related to rate-setting and are addressed within rate applications. On page 11 of the *OEB's Handbook to Electricity Distributor and Transmitter Consolidations* it states that:

> "Rate-setting following a consolidation will not be addressed in an application for approval of a consolidation unless there is a rate proposal that is an integral aspect of the consolidation e.g. a temporary rate reduction. Rate-setting for the consolidated entity will be addressed in a separate rate application, in accordance with the rate setting policies established by the OEB."

Consequently, the Applicants have identified that these items are not within the scope of this application for the consolidation of Enersource, Horizon Utilities, PowerStream and HOBNI.

b) The Applicants will deal with the Horizon Utilities ESM, Capital Investment Variance Account and the Efficiency Adjustment in the 2018 and 2019 Annual Filing applications and the 2020 and 2021 IRM applications. Please also see the Applicants' response to Interrogatory B-EP-1b).

c) The Applicants are not proposing to discontinue rate riders that reduce the revenue requirement during the rebasing deferral period. Further, the Applicants are not proposing an extension to rate riders (whether they are credits or debits to customers). The Applicants are proposing that all riders with an expiry date come to an end at their normal sunset date, as identified in the Applicants' response to Interrogatory B-EP-3. Please refer to Table 1 in the Applicants' response to Interrogatory B-EP-3 for a classification of all existing rate riders.

The Applicants believe the example to which CCC is referring is on page 11 of Exhibit B, Tab 2, Schedule 1. The Applicants have provided an explanation related to this item in the response to Interrogatory B-Staff-12.

B-CCC-16

Reference(s): Ex. B/T5/S2/p. 1

Preamble:

Please provide all assumptions used to create Figure 22 – Comparison of Status Quo v. Post Consolidation OM&A.

Response:

a) Please see the Applicants' response to Interrogatory B-EP-7 for the assumptions used for Figure 22.

PD-CCC-17

Reference(s): OEB Presentation Day – PowerPoint (Slide 21)

Preamble:

a) The slide states that LDC Co will have total net operating savings, relative to the status quo of approximately $ 426 MM by year 10. Please explain how all of these numbers were derived. Please include all assumptions;

b) Are "Gross Synergies" costs savings or reductions in revenue requirement?;

c) In 2016 the Gross Synergies related to Capital are projected to be $23 million. What are these savings attributable to?;

d) If net savings are achieved in Year 2, why are these savings not going to be shared with the ratepayers?;

e) What is the total projected net savings/synergies flowing to the shareholders by the end of Year 5?

Response:

a) The Applicants observe that the preamble provided above indicates that total net operating savings relative to the status quo are $426MM by year ten. The total net operating savings as identified on Slide 21 of the OEB Presentation Day are $311.6MM. Please see the Applicants' response to Interrogatory B-Staff-7a) for the breakdown of gross operating synergies and Interrogatory B-BOMA–10a) for the breakdown of operating transition costs.

b) The "Gross Synergies" on Slide 21 are cost savings.

c) Please see the Applicants' response to Interrogatory B-AMPCO–4b) for the breakdown of capital synergies for 2016.

d) The merger was approved by the shareholders on the basis of a ten year rebasing deferral period. Please see the Applicants' response to Interrogatory B-CCC-7.

e) The total net savings/synergies flowing to the shareholders by the end of year five is $173.4MM.

B-CCC-18

Reference(s): Ex. B/T6/S1/p. 4

Preamble:

Please provide all assumptions used to create the Table "Customer Benefits Distribution Revenue Trends".

Response:

The principle assumptions used to create the Table "Customer Benefits Distribution Revenue Trends" are provided below:

Status Quo

Successive Custom IR Applications

The Applicants have provided the rate-making assumptions for the *status quo* in the response to Interrogatory B-STAFF-22a).

Under the s*tatus quo* scenario, each utility is assumed to file successive Custom IR applications at the first opportunity to do so. This effectively results in each predecessor utility adjusting its revenue requirement each year under the s*tatus quo* other than Enersource, which would commence doing so in 2017.

Horizon Utilities is currently within a Custom IR term expiring at the end of 2019. The rate revenue forecasts are based on the outcome of that OEB Decision through 2019. Thereafter, the model effectively assumes an annual re-basing under Custom IR based on forecast projections of Capital Expenditure ("CapEx") and Operating, Maintenance, and Administrative costs ("OM&A").

PowerStream filed a five-year Custom IR for rates effective January 1, 2016. The rate revenue forecasts are based on the anticipated outcome of that application, that is, that PowerStream rates for January 1, 2016 to December 31, 2020 are equal to what was filed in its application.

Thereafter, the model effectively assumes an annual re-basing under Custom IR based on forecast projections of CapEx and OM&A costs.

Merged

Cost Structure

1. The projected regulated cost structures and balance sheets (including regulated Working Capital Allowance and Fixed Assets) of the individual un-merged utilities (OM&A and CapEx) are aggregated for the forecast period from the modeled date of consolidation 2016 through to 2039. These individual cost structures are the same as those under the *status quo* scenario.

2. The synergies savings are deducted from the above determined aggregate cost structure as follows:

   - OM&A synergies provided in Figure 27 of Exhibit B, Tab 6, Schedule 2, Page 2 (refer to "Total OPEX Savings" line) are deducted from the merged OM&A cost structure;

   - CapEx synergies provided in Figure 27 of Exhibit B, Tab 6, Schedule 2, Page 2 (refer to "Total CapEx Savings" line) are deducted from the merged CapEx cost structure.

The merged regulated Fixed Asset Continuity and Working Capital is determined based on 1. and 2. The merged regulated cost structure is thus determined in the above manner.

Incentive Rate-Making

a) Horizon Utilities rate zone is on Price Cap IR forward from 2020 to 2025 based on its pre-merger cost structure without any deduction for consolidation synergies/savings;

b) PowerStream rate zone is on Price Cap IR forward from 2021 to 2025 based on its pre-merger cost structure without any deduction for consolidation synergies/savings;

c) Enersource rate zone is on Price Cap IR forward from the merger date to 2025 based on its pre-merger cost structure without any deduction for consolidation synergies/savings;

d) HOBNI rate zone is on Price Cap IR forward from the date of consolidation to 2025 based on its pre-consolidation cost structure without any deduction for consolidation synergies/savings.

Additionally, LDC Co will file for ICM for each rate zone, as and when the conditions for ICM are met based on OEB policy, from the consolidation date through to 2025.

Distribution Revenue Trend Line - Merged

Re-Basing Deferral Period – 2016-2025

The merged trend line in the IR reference is based on an aggregate of a) through d) and ICM revenue through that period.

Post Re-Basing Deferral Period – 2026-2039

The merged trend line is computed as follows:

- Based on Board rate-making policy assuming annual rate adjustments consistent with successive Custom IR applications;

- Based on the merged cost structure which incorporates and effectively re-bases the synergies/savings for the benefit of customers forward from 2026. No consolidation costs are included in the merged cost structure forward from 2026.

B-CCC-19

Reference(s): Ex. B/T6/S2/p. 1

Preamble:

The aggregate consolidation costs are estimated to be $96.3 million.

a) Please set out a schedule that provides all of the details of these cost estimates.

b) Please include all assumptions.

c) Please explain how all of these costs have been recovered or will be recovered over the deferral rebasing period.

d) Please indicate the process being proposed as to how the OEB will determine the prudence of these costs.

Response:

a) Please refer to the Applicants' response to Interrogatory B-Staff-9a) for a breakdown of the $96.3MM transition costs.

b) Please see the Applicants' response to Interrogatory B-BOMA-10a), c) and d).

c) Please see the Applicants' response to Interrogatory B-EP-10a).

d) Transition costs are borne by the Shareholder and not subject to a prudence review. The Applicants will not be providing a process as requested above, as it is beyond the scope of this Application.

B-CCC-20

Reference(s): Ex. B/T6/S5/p. 5

Preamble:

The Applicants assume a 4% debt cost of financing for the HOBNI acquisition. Do the Applicants have access to financing from Infrastructure Ontario? Why have the applicants used 4%.? What is the current debt cost available to the LDCs?

Response:

Currently, only PowerStream Solar is financed through Infrastructure Ontario. Post consolidation, this debt will have to be repaid, since Infrastructure Ontario can provide funds only to eligible public sector clients, in particular, 100% municipally-owned entities. Borealis owns 10% of Enersource Corp.; post consolidation, the Applicants will not have access to Infrastructure Ontario financing.

With respect to the assumption of a 4% debt cost of financing for the HOBNI acquisition and the current debt cost available to the Applicants, please refer to the Applicants' response to Interrogatory B-Staff-26.

B-CCC-21

Reference(s): Ex. B/T7/S1

Preamble:

The evidence states that during the rebasing deferral period LDC Co may apply for rate adjustments using the Board's ICM (Incremental Capital Module) as may be necessary an in accordance with applicable Board policies with respect to eligibility for, and the use of the ICM.

a) Please explain how the ICM would work given the new entity would not be keeping separate accounting records for each of the previous LDCs. How would the materiality thresholds be calculated?;

b) Would LDC Co potentially apply for an Enersource Rate Zone ICM, for example, even if there were capital savings in other areas of the merged entity? In that case why would an ICM be required? Why would this be fair to ratepayers in the Enersource Rate Zone when savings from LDC Co as a whole could fund the incremental capital requirements?; and

c) Would LDC Co apply for an ICM for any of its rate zones if it was earning returns above the Board allowed level?

Response:

Question 13 on page 5 of the Interrogatory Submission from Consumers Council of Canada is a duplicate question number. It has been renamed to Question 21.

a) Please see the Applicants' responses to Interrogatories B-Staff-29 and ATTACH2-VECC-8.

b) Please see the Applicants' responses to Interrogatories B-Staff-29 and B-EP-14.

c) Please see the Applicants' response to Interrogatory B-CCC-22e).

B-CCC-22

Reference(s):

Ex. B/T7/S2

Preamble:

The Applicants are proposing an ESM that would apply in Year 6. Earnings in excess of 300 basis points above the Board's established regulatory entity would be divided on a 50/50 basis between LDC Co and its ratepayers. The Handbook to Electricity Distributor and Transmitter Consolidations states that the ESM as set out in the March 2015 Report may not achieve the intended objective of consumer protection for all types of consolidation proposals. For these cases, applicants are invited to propose an ESM that better achieves the objective of protecting consumer interests during the deferred rebasing period.

a) **Would the Applicants support the implementation of an ESM earlier, during the rebasing deferral period, in order to share any benefits realized in Years 1-5 with the ratepayers? If not, why not?;**

b) **Given the forecast costs and revenues presented in the Application for each year during the deferred rebasing period what would be the value of 300 basis points of ROE for LDC Co?;**

c) **Would the applicants be supportive of an ESM that shares the first dollar with its ratepayers above the allowed ROE? If not, why not? Would this not result in a better balance between the interests of the ratepayers and the municipal shareholders with respect to the merger? If not, why not?**

d) **Would the Applicants be supportive of an ESM that gives back all earnings above the allowed ROE to the ratepayers once the transition costs are recovered? If not, why not?;**

e) **Does the Applicants' proposal allow for a scenario whereby LDC Co's returns overall are exceeding the Board approved levels, but an application is made for ICM relief in on of the rates zones? If yes, please explain how this would operate. Please explain why this would be fair to the customers required to pay the cost of the incremental capital; and**

f) **Have the Applicants undertaken any consumer engagement or customer research specifically related to the proposed ESM? If not, why not?**

Response:

Question 14 on page 5 of the Interrogatory Submission from Consumers Council of Canada is a duplicate question number. It has been renamed to Question 22.

General Comments:

The Applicants will not deviate from the ESM as provided in the Application. The ESM is consistent with OEB policy that recognizes the need for shareholder incentives to motivate consolidation transactions, and OEB policy has considered what is appropriate and "just and reasonable" for that purpose. On this basis, the Applicants' approach is consistent with OEB policy and, by implication, just and reasonable with respect to the treatment of ratepayers.

Further, shareholders accepted the transactions on the basis of the economics within the Business Plan. There is no other transaction contemplated.

The incremental cash flows are necessary to support the rating of LDC Co during the rebasing deferral period i.e., accelerating ESM or giving earnings above the regulated ROE impairs AFFO during this period.

Consistent with OEB policy, LDC Co would not share earnings above the regulated ROE with customers during years one through five of the rebasing deferral period. This defeats the shareholder motivation to enter into the transaction. LDC Co will share eligible earnings above the deadband with customers during years six through ten.

a) The Applicants would not support the implementation of an ESM earlier, during the rebasing deferral period, in order to share any benefits realized in years one to five with the ratepayers. The Applicants have followed the OEB's *Report of the Board: Rate-Making Associated with Distributor Consolidation* (the "Report") dated March 26, 2015, which states at page 6 that:

> *"The ESM would operate during the term of the extended deferred rebasing period (i.e., - for any extended periods beyond the initial five year deferral term)."*

The Report goes on to state at page 7 that:

> *"This sharing provides for the shareholders to continue to recover transaction costs while ensuring customers of the consolidated entity will benefit from efficiencies and savings the new distributor has achieved."*

Further, the ESM, as identified by the Applicants in Exhibit B, Tab 7, Schedule 2 of the Application, is consistent with the description of the ESM provided by the OEB on page 16 of the *Handbook to Electricity Distributor and Transmitter Consolidations* (the "Handbook").

b) Please see the calculation in Table 1 below.

Table 1 – Estimated ROE for Rebasing Deferral Period

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Forecast Rate Base in Model, $MMs (A)	$ 2,696.7	$ 2,851.0	$ 2,984.2	$ 3,117.9	$ 3,260.7	$ 3,419.5	$ 3,586.5	$ 3,732.8	$ 3,858.0	$ 3,990.2
Deemed Equity % (B)	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%
Forecast Deemed Equity, $MMs (C)=(A)*(B)	$ 1,078.7	$ 1,140.4	$ 1,193.7	$ 1,247.2	$ 1,304.3	$ 1,367.8	$ 1,434.6	$ 1,493.1	$ 1,543.2	$ 1,596.1
Value of 300bps ROE on Forecast Deemed Equity, $MMs 3%*(C)	$ 32.4	$ 34.2	$ 35.8	$ 37.4	$ 39.1	$ 41.0	$ 43.0	$ 44.8	$ 46.3	$ 47.9

c) The Applicants would not be supportive of an ESM that shares the first dollar with its ratepayers above the allowed ROE. The ESM provided in the Application is consistent with and achieves the purpose stated in the Report. Please see the Applicants' response to Interrogatory B-CCC-22a), above.

d) The Applicants would not be supportive of an ESM that gives back all earnings above the allowed ROE to the ratepayers once the transition costs are recovered. The ESM provided in the Application is consistent with and achieves the purpose stated in the Report. Please see the Applicants' response to Interrogatory B-CCC-22a), above.

e) The Business Case Model assumes LDC Co will file successive applications for ICM within the rebasing deferral period, during which time actual ROEs may exceed OEB approved ROEs assumed in the Business Case Model.

f) Please see the Applicants' response to Interrogatory B-CCC-4a).

CCC-23

Preamble:

Please explain why the LDC Co's customers should support the proposals embodied in the Application, rather than alternative proposals that flow through merger savings to those customers during the deferred rebasing period.

Response:

a) The OEB has issued its *Handbook to Electricity Distributor and Transmitter Consolidations* (the "Handbook"), which recognizes a growing interest in and support for consolidation (page 1). The Applicants are seeking approval of consolidation transactions that meet the tests set out in the Handbook and other OEB documents providing guidance for electricity distributor consolidation. Further, in their selection of a ten-year rebasing deferral period, the Applicants will be subject to an earnings sharing mechanism ("ESM") during years six to ten, the purpose of which is to benefit ratepayers.

CCC-24

Preamble:

Do the Applicants believe it is more appropriate to take the savings that result from the merger and flow those savings to the municipalities for other purposes outside the electricity sector, rather than flowing those savings back to the electricity sector and the electricity ratepayers? If so, please explain why.

Response:

Please see the Applicants' response to Interrogatory B-CCC-23.