Project Titan / Aura

EB-2016-0025 – PUBLIC REDACTED VERSION PROVIDED IN RESPONSE TO SEPTEMBER 2, 2016 OEB DECISION ON CONFIDENTIALITY REQUESTS. REMAINING REDACTIONS RELATE TO SOLICITOR-CLIENT PRIVILEGED MATTERS.

Business Plan

Enersource Corporation
Horizon Utilities
PowerStream Inc.

Aug 27, 2015

Contents

1.0 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 between Enersource Corporation, Horizon Holdings Inc. and PowerStream Holdings Inc. (MergeCo), and acquisition of Hydro One Brampton Networks Inc., would allow a new, larger company to use its collective resources to deliver a favourable impact on distribution rates, more efficient services and innovative technologies for customers while also providing significant benefits for communities and shareholders.

Since 1998, various provincial governments have sought to increase the efficiencies in the electricity distribution sector and have considered different approaches to dealing with consolidation and government ownership of Hydro One Networks. The 2012 Distribution Sector Review Panel and the 2015 Premier's Advisory Committee on Government Assets made recommendations that are consistent and supportive of the proposed transaction.

The creation of MergeCo as outlined in this Business Plan must be approved by all shareholders and is subject to regulatory approvals. The Executive Summary is a synopsis of the detailed information contained in the Business Plan, which articulates the intended course of action for MergeCo.

The proposed merger transaction (Transaction) comprises the following:

- A merger of the regulated and non-regulated business activities of: PowerStream Holdings Inc. (PS or PowerStream), Enersource Corporation (EC or Enersource), and Horizon Holdings Inc. (HHI or 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 $607MM net of any purchase price adjustments as defined in the corresponding Share Purchase Agreement.

The Transaction has been dubbed "Titan" by some parties and "Aura" by others. Where these terms are used in the accompanying documents they are interchangeable and synonymous with MergeCo.

1.1 Customer Benefits

Customers will benefit from lower rates as compared to the rates that would have existed if the merger transaction had not occurred. The overall relative benefit to customers under the Merged versus Status Quo scenarios is illustrated in the chart below.

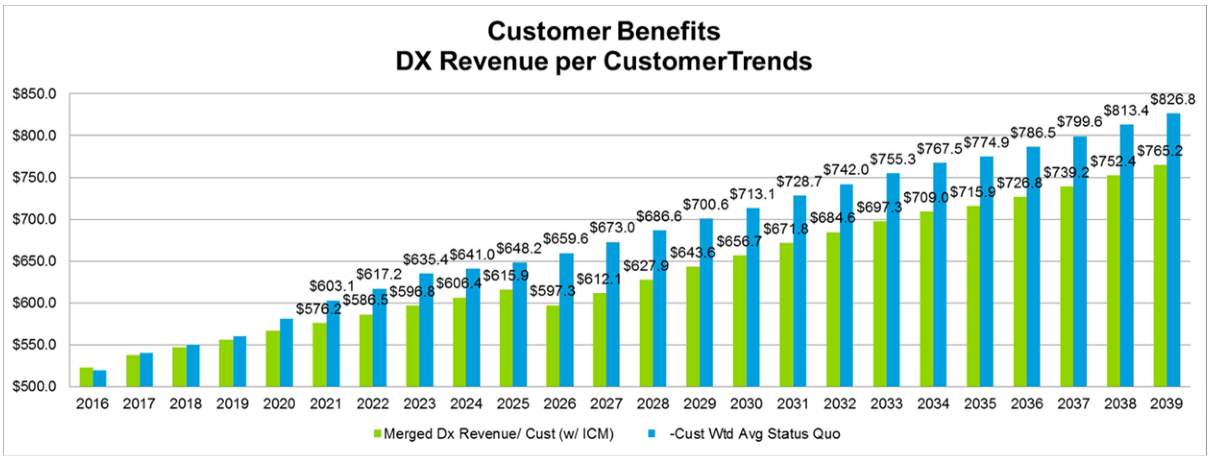

Figure 1. 1 - Distribution Revenue per Customer Trends

Overall, the Transaction is also expected to deliver lower distribution costs to MergeCo customers averaging an aggregate of:

- $48.6MM per year, or 5.9%, through the entire Forecast Period (2016 - 2039).
- $19.5MM per year, or 3.3%, through the Re-basing Deferral Period (2016 – 2025).
- $69.3MM per year, or 8.0%, following a transfer of merger benefits to customers in 2026.

According to Ontario Energy Board (OEB) policy, all of the savings corresponding to 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 postpone re-basing is no later than 10 years. The period prior to such first re-basing is defined as the Re-basing Deferral Period.

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

In the absence of the Transaction, the Parties and HOBNI would continue to regularly re-base their rates, through successive Custom IR applications in order to recover ongoing increases in their costs. Under the merger, no such re-basing occurs in the Re-basing Deferral Period, during which time the savings accrue to shareholders. Consequently, as a result of the Transaction, customers benefit from lower rates during the Re-basing Deferral period.

Since each individual Party's cost structure prior to merging is different, the parties have agreed to maintain separate community rate zones and will consider harmonization when rate differences are immaterial so as not to result in material adverse impacts to customers. In this manner, the merger benefits are allocated equitably among the Parties.

1.2 Shareholder Benefits

Subject to assumptions and risks further described herein, MergeCo is expected to deliver meaningful shareholder benefits summarized as follows:

MergeCo

- Increase in the Net Present Value (NPV) of earnings of approximately $276MM from $1,154MM to $1,430MM from 2016 to 2039 (the Forecast Period) relative to the status quo, a 24% increase.

To the benefit of PowerStream Holdings Inc. shareholders:

- Increase in the NPV of allocated shared earnings of approximately $112MM from $545MM to $657MM through the Forecast Period relative to the status quo, a 21% increase;
- Increase in the NPV of allocated shared dividends of approximately $121.7MM from $273MM to $394MM through the Forecast Period relative to the status quo, a 45% increase (the PS dividend policy rate on earnings rises from 50% under its status quo to 60% under the merger);
- Average increase in annual dividends across the Forecast Period of $12.8MM.

To the benefit of Enersource Corporation shareholders:

- Increase in the NPV of allocated shared earnings of approximately $91MM from $352MM to $443MM through the Forecast Period relative to the status quo, a 26% increase;
- Increase in the NPV of allocated shared dividends of approximately $55MM from $211MM to $266MM through the Forecast Period relative to the status quo, a 26% increase;
- Average increase in annual dividends across the Forecast Period of $5.5MM.

To the benefit of Horizon Holdings Inc. shareholders:

- Increase in the NPV of allocated shared earnings of approximately $73MM from $256MM to $329MM through the Forecast Period relative to the status quo, a 29% increase;
- Increase in the NPV of allocated shared dividends of approximately $44MM from $154MM to $197MM through the Forecast Period relative to the status quo, a 29% increase;
- Average increase in annual dividends across the Forecast Period of $4.8MM.

MergeCo expects to adopt a dividend policy with dividends computed on shared earnings determined in a manner consistent with that used by the OEB for purposes of its distribution rate-making policies. Such basis is commonly referred to as Modified International Financial Reporting Standards (MIFRS). MIFRS is a modified basis of International Financial Reporting Standards (IFRS) used by Canadian corporations for financial statement purposes. It is proposed that MergeCo's dividend policy will have a target dividend payout of up to 60% of earnings.

A separate dividend policy will be developed for the PowerStream Solar (PS Solar) business that is appropriate to that business for the benefit of the Class S Shareholders.

1.3 Shareholder Community Perspectives

The shareholder community perspective is important to consider as part of the overall merger plan.

The Parties undertook a principled approach in the design of an effective organization plan using the following principles:

- Customer service levels in responsiveness to be improved but be no less than service levels prior to merging in each community.
- Each community to maintain a strong local presence post-merger.
- All communities share the benefits and reductions.
- All communities are treated fairly and equitably.
- Centralized and de-centralized functions would continue in each community.
- MergeCo to retain management flexibility to fulfill synergy targets.

MergeCo recognizes that to achieve the desired customer and financial outcomes, operational processes and skilled employees must be in place to support and deliver on results.

1.3.1 Organization Structure and Facilities

MergeCo has been designed with two principal strategies in mind. First, the safe, reliable and cost effective delivery of services to its customers while at the same time providing value to its customers through continuous improvement. Secondly, MergeCo is interested in growing the business through mergers and acquisition with other LDCs and focusing on growing through new and related energy opportunities. MergeCo has a significant energy services 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.
- LDC 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 and will be led by a CEO (for HoldCo) or President (in each of the Operating Companies). At each head office, a strong local executive presence will exist.

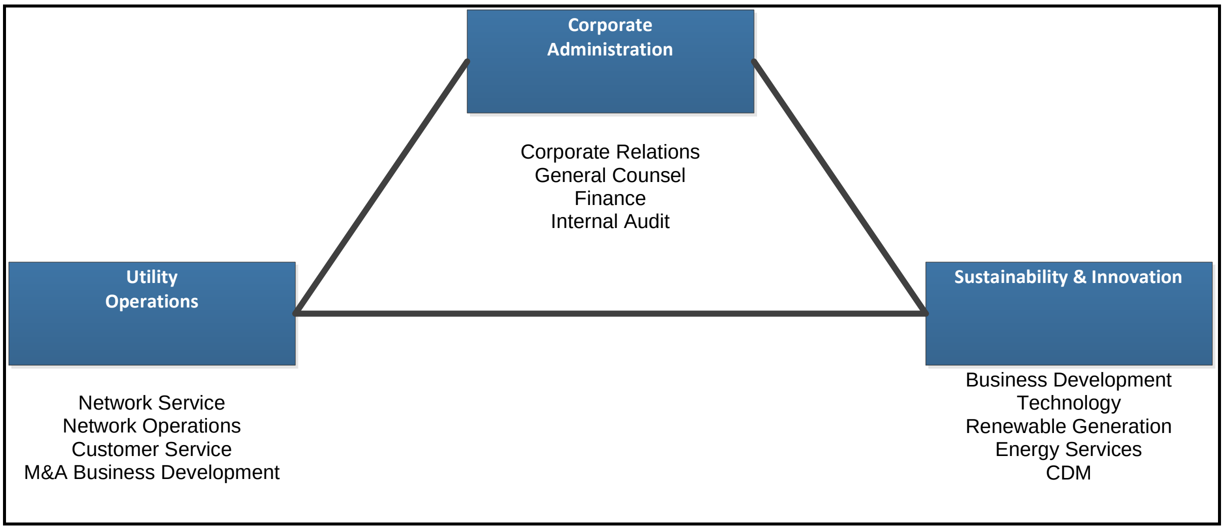

Figure 1. 2 - MergeCo Entity Level Organizational Structure

1.3.2 Service Levels

In merging Enersource, Horizon and PowerStream and in acquiring HOBNI there will be role redundancies, given the four utilities have similar business purposes and functions. While all four LDCs are leaders in efficiency, opportunities for further cost efficiencies will exist.

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 operating level.

Operating Regions:

Western Region:	Horizon service territories
Central Region:	HOBNI and Enersource service territories
Eastern Region:	PowerStream service territories

In developing MergeCo's operational organizational structure, primary considerations were efficiency, effectiveness and service levels. Not all job functions within the utility are directly tied to the regions they serve. In fact, several services can be performed centrally; that is, outside of the region without undesired impacts. Centralizing appropriate functions may create scale and lower costs which is a fundamental objective of MergeCo.

De-centralized (Asset Related Services)

For MergeCo, regionalized functions tend to be categorized as those focused on the delivery of service at the asset level. Opportunities exist for reduction and rationalization of Asset Related Services with the adoption of best practices in job planning, resource planning/allocation methodologies and task productivity improvements. However, the overall optimization function recognizes the inherent regionalized aspect of these tasks as they are intrinsically linked to geographic assets. Centralizing these functions would affect commuting time, costs, response time and overall productivity.

Centralized (Transactional/Informational Services)

In contrast to Asset Related Services, Transactional/Informational Services are technology focused. The definition of technology includes business processes. These functions utilize technology as leverage for productivity. Focus is typically on standardization and repeatability.

Categorizations have been based on broad assumptions that reflect the primary focus and nature of the tasks involved in carrying out the functions. In certain areas a hybrid approach between centralized and de-centralized is desirable, and therefore will be employed.

Service Centres

MergeCo will utilize existing service centres for de-centralized functions such as construction and maintenance, trouble response, logistics, fleet services and metering. There are six service centres located within the three regions:

- Western Region
    - Hamilton and St. Catharines

- Central Region
    - Mississauga and Brampton

- Eastern Region
    - Markham and Barrie

From a service standpoint, very little if anything, is changing with regard to service centres and the employees located at these locations. The implication being that no reduction of service levels will happen as a result of the MergeCo transaction.

1.3.3 Employment – Human Resources

MergeCo will benefit from $270MM (net of transition costs) in savings over the first 10 years from payroll reductions due to redundant positions. These redundant positions primarily result from:

- Duplicate roles in centralized and back office functions
- Systems convergence / integration.
- Consolidation of Call Centres and Control Rooms.

The following is a summary of the employment levels for each Party:

Enersource Corporation:

- 421 employee complement
- 161 non-unionized employees
- 260 unionized employees represented by IBEW Local 636

Horizon Utilities Corporation:

- 415 employee complement
- 137 non-unionized employees
- 278 unionized employees represented by IBEW Local 636

Hydro One Brampton:

- 243 employee complement
- 77 non-unionized employees
- 46 unionized employees represented by IBEW Local 636 (inside workers)
- 120 unionized employees represented by Unifor Local 1285 (outside workers)

PowerStream Inc.:

- 554 employee complement
- 212 non-unionized employees
- 342 unionized employees represented by PWU

Adopting best practices and finding efficiencies while maintaining or improving customer service and shareholder value is critical and will require sensitive and appropriate human resource programs to deal with staffing and redundancies.

<u>Recognition of Existing Collective Agreements</u>

MergeCo recognizes the representative rights and collective agreements of each respective bargaining unit and its members. As such those rights and agreements will be maintained and respected until such time as a final determination, if any, is made under the Labour Relations Act of Ontario.

MergeCo will continue to recognize each local as the sole bargaining agent for its respective members and work within each collective agreement's rights and responsibilities as they relate to union and management direction.

Voluntary Separations

Workforce reductions will be managed in a manner to minimize disruption, be fair as well as 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.

1.4 Summary of Proposed Transaction

This section is a quick overview of the Transaction including the following areas which provide the financial framework of MergeCo.

Corporate Structure

The corporate structure has been designed with the following objectives:

- Direct shareholding in MergeCo to the maximum extent possible.
- Financial flexibility to support ongoing sustainment-based investment in electricity distribution and business growth.
- Tax efficiency.

The proposed final structure is provided below:

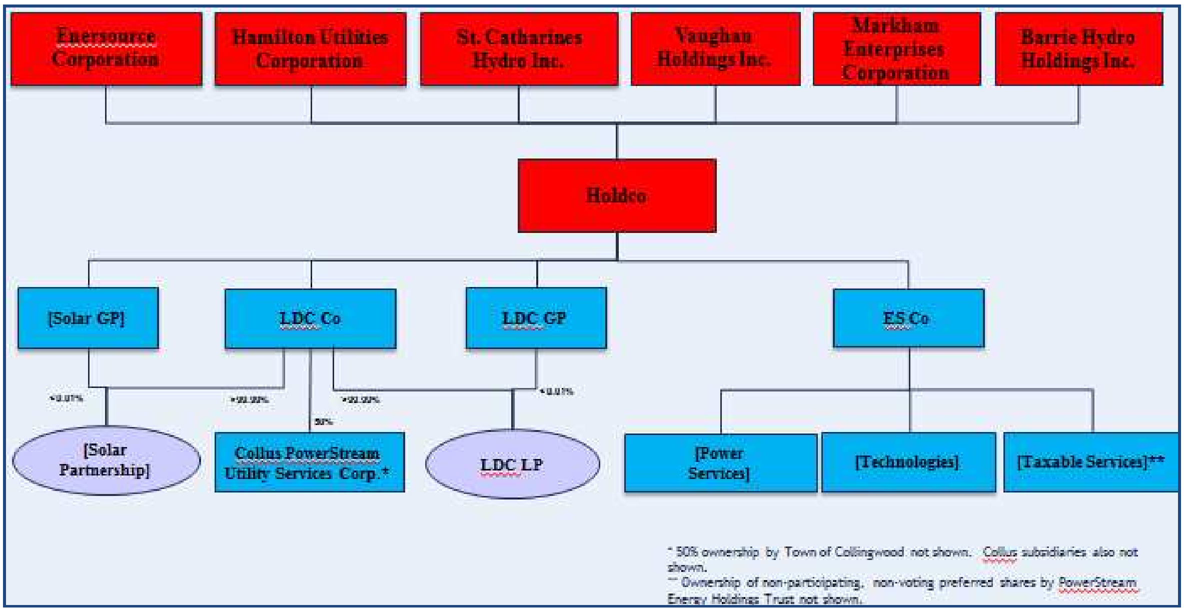

Figure 1. 3 - Proposed (Legal) Corporate Structure

HoldCo is effectively a holding company for all of the businesses of MergeCo and will warehouse corporate functions including the CEO, legal, finance, corporate relations, and internal audit.

The ‘LDC Co’ holds the LDC business and assets as well as the solar generation assets.

The Energy Services Company or ‘ES Co’ holds all other non-regulated business interests.

The businesses of PS, EC, and HHI are effectively merged in LDC Co and ES Co. HOBNI is thereafter effectively acquired by LDC Co.

With the exception of the shareholders of EC, MergeCo is held directly by municipal holding companies (HoldCos) that, in turn, are held directly by respective municipalities as follows:

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

BPC Energy Corporation (BPC; a wholly owned subsidiary of OMERS) and the City of Mississauga continue to hold their respective shareholder interests in MergeCo through EC. This is necessary, as direct interest of BPC in MergeCo will trigger significant tax consequences for MergeCo. BPC owns 10% of EC’s shares and the City of Mississauga the remaining 90%.

MergeCo will require financial flexibility and outside investment to support its growth objectives. Otherwise, MergeCo growth is effectively limited to its ability to issue debt. In order to provide this financial flexibility, MergeCo expects to adopt a partnership structure for each of its electricity distribution and electricity generation businesses (further elaborated herein). The use of a partnership is expected to permit additional private investment in a tax efficient manner not available to more traditional corporate structures.

The partnership structure (LDC LP) is expected to be adopted subject to:

- Receipt of appropriate and favourable tax rulings and interpretations.
- Regulatory (OEB) approval.

Assuming the partnership structure is adopted, the LDC assets of MergeCo would be transferred to LDC LP on a tax deferred basis. The solar generating assets of MergeCo could be similarly transferred to a separate Solar Partnership to provide similar financial flexibility benefits.

<u>Valuation</u>

The Parties engaged Deloitte LLP (Deloitte) to perform a relative (as opposed to absolute) valuation of each Party for purposes of allocating MergeCo shareholdings to the respective shareholders of each Party.

The Parties requested a relative valuation of income generating assets on the basis that each would contribute a common capital structure (i.e. debt and equity) to MergeCo. The common capital structure adopted for purposes of valuation is comprised of 60% debt and 40% equity relative to contributed assets.

The principal business of each Party is regulated electricity distribution. The Rate Base or asset value of the regulated and total business (regulated and non-regulated) of each Party is as follows (2014):

Rate Base - Regulated Business ($M)		
	2014	%
PowerStream	$929.5	45.1%
Enersource	$654.1	31.7%
Horizon Utilities	$477.6	23.2%
	$2,061.2	
Rate Base - Regulated and Non-Regulated Businesses ($M)		
	2014	%
PowerStream	$952.6	45.5%
Enersource	$657.2	31.4%
Horizon Utilities	$483.8	23.1%
	$2,093.6	

Figure 1. 4 - MergeCo Rate Base Calculation

Note: the calculation of Rate Base is based on the information from 2014 Financial Statements only and does not include any adjustments for non-distribution assets

Each Party has non-regulated businesses as follows:

- PS – PS Solar, sub-metering, and other energy businesses.
- EC – street light maintenance, high voltage design and maintenance.
- HHI – solar generation, meter servicing, and water billing.

The PS Solar will assets will reside in MergeCo and be managed and operated through a management services agreement (PS Solar Hybrid Structure). The PS common shareholders will continue to benefit from the economics of the underlying solar assets and contracts existing as of the merger date and as a result have not been included in the relative valuation of the Parties. The arrangement will be managed subject to the following conditions:

PS Solar assets, liabilities, and other undertakings and attributes accrue to PS common Shareholders subject to not otherwise creating any adverse implication to the shared interests of the MergeCo Shareholders.

- Similar to the structure for PS Solar within PowerStream, this business 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. Financial interactions between the LDC interests of MergeCo and PS Solar, such as management support, will be subject to an affiliate services arrangement that is compliant with the *Affiliate Relationships Code for Transmitters and Distributors* as applicable.

- MergeCo will be made whole financially for all associated costs such that any residual risks that the business is assuming are adequately compensated for.

Deloitte employed leading valuation principles in its determination of relative value as follows:

- Enterprise Value (EV), which uses discounted cash flow analysis to arrive at the value of each Party;

- Market Multiple (MM), which effectively determines a multiple of the asset value that a prospective purchaser might be willing to pay on the basis that it continues to earn a regulated rate of return on the regulated assets of each Party after consideration for merger costs and savings.

The high level results of the relative valuation by Party are as follows:

	Enterprise Value	Market Value	Difference (MM-EV)
PowerStream	46.0%	45.2%	-0.7%
Enersource	31.0%	31.5%	0.5%
Horizon	23.0%	23.3%	0.3%

Figure 1. 5 - Participant Value Calculations

The Parties anticipate using the EV approach as the primary approach to value on the basis that this is a more pure analytical approach for purposes of relative valuation. A valuation based on market multiples is a relevant test of the reasonability of the relative values reached through the EV approach.

The allocation of shareholdings under the EV approach is as follows:

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

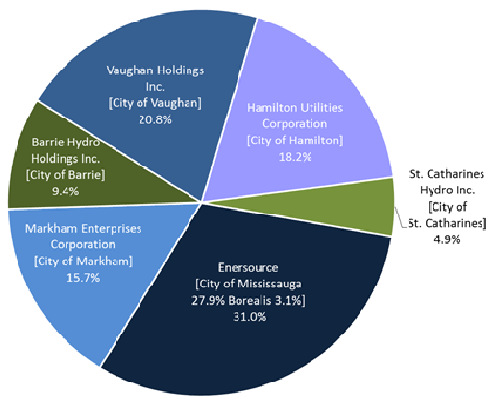

Figure 1. 6 - Individual Shareholder Ownerships

The valuation results indicate that there is no single controlling interest in MergeCo such that the shareholdings are well distributed with the Enersource Corporation having the largest interest at 31.0% and St. Catharines Hydro Inc. having the smallest interest at 4.9%.

<u>Tax Environment</u>

Under the Income Tax Act (Canada) MergeCo is tax exempt. It does make payments in lieu of taxes (PILS) to the Province but from an ITA perspective it is a tax exempt entity. PILS paid to the Province are credited towards the Provincial Transfer Tax.

In order for MergeCo to remain tax-exempt under subsection 149(1) of the *Income Tax Act*:

- Each municipal HoldCo which owns shares in MergeCo must remain at least 90% owned by a municipality and

- MergeCo must remain 100% owned by one or a combination of municipalities or HoldCos.

Consequences of Municipal Hold Cos selling over-10% of Shares

If more than 10% of the shares of any municipal HoldCo are issued or transferred to a non-exempt person under the ITA:

- Municipal HoldCos would cease to be tax-exempt and trigger departure tax through a deemed disposition of all its property at fair market value (FMV).

- Municipal HoldCos' loss of tax-exempt status would have a cascading effect on all entities below it, causing MergeCo to lose its tax-exempt status with a corresponding departure tax impact.

Consequences of MergeCo ceasing to be wholly owned by either Municipal HoldCos or Municipalities

If a single share or greater of MergeCo is issued or transferred to a non-exempt person under the ITA:

- MergeCo would cease to be tax exempt and trigger departure tax through a deemed disposition of all its property at FMV.

Once a corporation loses tax-exempt status and departure tax becomes payable, subsequent sales of shares of the corporation would not trigger departure tax. Thus, the first shareholder to sell shares that result in a loss of tax-exempt status and liability for departure tax bears the cost of the departure tax for the entire consortium.

The remaining shareholders would benefit by virtue of being able to subsequently sell shares without having to fund, or leave behind cash to fund, the departure tax.

The value of departure tax for MergeCo is estimated to be $268MM based on current values. Payment is to the account of the Province treated as PILS payments.

Transfer tax would also be payable to the Province on any conveyance of electricity property of the regulated utility assets of MergeCo (the LDC). Transfer Tax is set at 33% of FMV of property transferred. Recently, the Province has communicated a reduction of Transfer Tax that will take effect between Jan. 1 2016 and Dec. 31, 2018. The Province has reduced the TT from 33% to 22%. Former PILS payments can be accumulated since incorporation and can be used as a credit to shield the amount of Transfer Tax to be paid on a transfer of interest to a non-exempt (ITA) person.

As previously discussed, BPC cannot be a direct shareholder of MergeCo since this would create a situation whereby MergeCo is no longer wholly owned by the municipal HoldCos. As a result, BPC must continue to own its shares in MergeCo indirectly through EC.

As explained previously, the municipal holding companies are the only companies that could sell up to 10% of their shares without triggering any unmitigated tax consequences.

Corporate Finance

MergeCo will require ongoing access to financial capital to address the following investment objectives:

- Ongoing sustainment of the electricity distribution business
- Acquisition of HOBNI.
- Growth through mergers and acquisitions or logical extensions of the existing business.
- Shareholder preferences for monetizing their respective investment interests in MergeCo.

The regulated utility sector in Canada and much of the United States is generally in an A-range credit rating for utilities that do not have significant commodity-based exposures. In Canada, 20 of 33 utilities are in the Standard and Poor's A-range credit rating. Consequently, a long-term "A" range outlook is an appropriate target for MergeCo at this time and considering the nature of its combined business.

Sustainment-Based Investment

The financial plan is modeled on the basis that the ongoing sustainment and growth requirements of the electricity distribution system in MergeCo are provided for in a manner consistent with the long-term forecasts of the entities on a stand-alone basis. In other words, the merger will not alter the capital requirements for the renewal of assets and meeting the natural growth within each community, as each party had planned for prior to entering into these merger discussions.

Each entity has long-term capital plans based on detailed asset condition assessments, growth estimates, and sound engineering principles.

Rate-making policy establishes capital structure for Ontario LDCs. This structure comprises 60% debt and 40% equity in support of the regulated assets or Rate Base of an LDC. At these levels of debt and equity and corresponding rate-recovery of financial capital, rate-making policy effectively supports an A-range credit rating.

MergeCo anticipates maintaining a financial capital structure of around 60% debt as a result of the acquisition of HOBNI. MergeCo will manage its business to continue to support an A-range rating.

i. Acquisition of HOBNI

Acquisition Financing

HOBNI is effectively being acquired by MergeCo without the assumption of any debt, other than certain debt-like obligations not severable from the business. Such debt-like obligations include customer deposits, regulatory liabilities, and employee benefit liabilities.

On this basis, the acquisition of HOBNI is to be financed by:

- Borrowing against the HOBNI Rate Base to the extent such borrowing supports an A-range rating overall for MergeCo;
- Contributions of borrowing capacity and/or new equity capital by each Party in proportion to its relative shareholding in MergeCo.

The level of borrowing to support the transaction has been set in a range of 70-75% of the HOBNI purchase price to optimize the cost of financial capital for MergeCo, while also providing sufficient ongoing liquidity to support its sustainment-based investment requirements at a target A-range credit rating.

The amount of borrowing and capital contribution by source is articulated in this Business Plan. The following table assumes an overall 70% level of debt financing to finance the HOBNI purchase price.

($MMs)	**Debt Capacity**	**New Equity**	**Total**
HOBNI	201.6	-	201.6
PS	61.6	124.7	186.3
EC	61.1	64.6	125.7
HHI	100.6	($7.2)	93.4
Total	424.9	182.1	607.0

The acquisition of HOBNI represents a long-term investment by MergeCo. Such investment is financed by corresponding long-term financial instruments such as long-term debt and/or new shareholder equity.

It would be impractical for MergeCo to issue $424.9MM of long-term debt, such as a bond / debenture, contemporaneously with the acquisition of HOBNI. Consequently, MergeCo requires a short-term source of debt financing to acquire HOBNI as of the acquisition closing date; anticipated to be within 30 days of the merger closing date.

The Parties have arranged a commitment from two financial institutions for a $625MM non-revolving term loan to provide a source of short-term financing for the HOBNI acquisition (Acquisition Facility). The Parties will work diligently to establish a new MergeCo Trust Indenture to provide for a long-term debt issuance to take out the Acquisition Facility as soon as is practical following the acquisition of HOBNI.

There is a significant period of time between the execution of the HOBNI Share Purchase Agreement and the closing of the acquisition. The Execution Date is expected to occur in September. The Closing Date is not anticipated until March 2016 and is subject to: i) closing of the merger, ii) approval of the OEB of the merger and acquisition, and iii) Competition Bureau approval of the transaction. While these conditions are expected to be fulfilled subsequent to the Execution Date, the timing of each (most particularly ‘ii)’ is uncertain, which further creates uncertainty regarding the actual Closing Date.

The price being paid for HOBNI is fixed, subject to certain purchase price adjustments. However, the associated acquisition financing will not be in place until closing.

Consequently, the value of and ongoing HOBNI net earnings stream is subject to interest rate risk between signing and closing. This interest rate risk continues post-closing until MergeCo is able to take out the Acquisition Facility with fixed-rate long-term debt.

The prevalence of interest-rate risk also creates urgency to issue fixed-rate debt as soon as possible post-closing.

The Business Plan modeling assumes a 4% debt cost of financing for the HOBNI acquisition which is reasonable relative to recent bond forecasts. This suggests that MergeCo may be able to achieve or modestly outperform the debt cost assumption in the model if it were to issue fixed-rate debt within the first two quarters of 2016.

ii. Growth Investment

As a result of the tax regimes within which LDCs operate, growth capital is limited to an ability to raise new debt capital.

Following the acquisition of HOBNI, and with consideration for its ongoing sustainment investment requirements, MergeCo will not have sufficient borrowing capacity to achieve its strategic growth objectives. Consequently, a structured approach is required to manage PILs and Transfer Tax to allow new capital to enter MergeCo for future growth opportunities.

The structure provided for within the Corporate Structure summary section, represents such a structured approach to managing these taxes. Specifically, the structure contemplates the use of partnerships to permit the issuance of treasury units for cash to private interests in a manner that is not expected to result in either Transfer Tax or Departure Tax. The structure also permits some level of Transfer Tax paid on monetization of shareholder interests without the risk of triggering Departure Tax.

The Parties are seeking rulings and technical interpretations from the Ministry of Finance (Ontario) with respect to the partnership structure given the materiality of potential growth-capital transactions contemplated for MergeCo. Assuming that such rulings/interpretations are favourable, MergeCo should have considerable access to private equity capital to finance its strategic growth objectives.

The contemplated use of the partnership structure is consistent with existing tax regimes imposed on LDCs and does not result in any tax leakage to the taxing authorities with respect to the tax basis of MergeCo investment interests. Consequently, the Parties expect that the structure should be acceptable to the tax authorities.

Other options to financing growth are limited within the context of the current tax regimes governing municipally-owned LDCs. Such options are either significantly less cost effective or significantly limit the amount of private financial growth capital that can be accessed without resulting in material tax consequences.

iii. Shareholder Monetization

Under the present corporate structures for each of EC, HHI and PS, it is difficult to monetize more than 10% of the fair value of shareholder interests without the incurrence of a very material PILs Departure Tax liability. This 'all-or-nothing' tax effectively results in the taxation of accrued capital and recapture gains on 100% of the value of a Municipal Electricity Utility (MEU) corporation and all of its downstream MEU investment interests at the time that an MEU corporation loses its tax exempt status under the Tax Acts.

There are significant tax constraints on shareholder monetization under the current corporate structures utilized by most MEUs. However, under the proposed partnership structure there is far more shareholder monetization flexibility and opportunity.

Merger Synergy Savings

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 $355MM 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 (CapEx) savings of $168MM over the first 10 years, thereafter continuing at a sustained level of $8MM annually.

MergeCo will incur approximately $93MM of the $96MM in transition costs in the first three years with respect to systems and process integration and human resource costs.

In total, MergeCo will deliver approximately $426MM of net cash savings (pre-tax) in the first 10 years following the merger thereafter sustained at approximately $51MM per year.

The very meaningful shareholder and customer benefits described herein are made available by the operating synergies and savings previously described and summarized as follows ($MMs):

($MMs)	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total
Gross Synergies											
Operating	7.2	20.1	31.7	40.6	42.5	42.5	42.5	42.5	42.5	42.5	354.6
Capital	23.0	22.6	28.8	23.2	30.0	8.0	8.0	8.0	8.0	8.0	167.6
Total Synergies	30.2	42.7	60.5	63.8	72.5	50.5	50.5	50.5	50.5	50.5	522.2
Transition Costs											
Charged to Operating	20.9	11.1	8.2	2.3	0.5	-	-	-	-	-	43.0
Charged to Capital	33.7	15.2	4.4	-	-	-	-	-	-	-	53.3
Total Transition Costs	54.6	26.3	12.6	2.3	0.5	-	-	-	-	-	96.3
Net Synergies											
Operating	(13.7)	9.0	23.5	38.3	42.0	42.5	42.5	42.5	42.5	42.5	311.6
Capital	(10.7)	7.4	24.4	23.2	30.0	8.0	8.0	8.0	8.0	8.0	114.3
Total Net Synergies	(24.4)	16.4	47.9	61.5	72.0	50.5	50.5	50.5	50.5	50.5	425.9

Figure 1. 7 - Total Net Synergies

The 2025 annual operating and capital savings are expected to be sustainable thereafter.

Based on OEB policy for distributor consolidation, the cost savings and synergies resulting from a merger may be retained by shareholders and customers of LDCs as follows:

- Savings net of transaction and transition costs may be retained by shareholders until the next LDC rate re-basing, which must occur no later than the beginning of the 11th year following the merger. Consequently, LDC shareholders may retain merger benefits for a maximum ten-year period subsequent to a merger. The benefits retained in the second five-year period are subject to an earnings sharing mechanism on a 50:50 basis if the benefits result in earnings 300 basis points above the maximum allowable regulated return (MARR, currently 9.3%);

- The merger benefits to customers in the form of lower distribution rates at the time of the first re-basing of MergeCo.

The analysis undertaken in the Business Case suggests that rebasing of MergeCo is not anticipated until the 11th year following the merger.

The shared benefits of the MergeCo shareholders, which exclude any economic considerations corresponding to PS Solar, are also enhanced by the ongoing earnings stream generated by the acquired HOBNI regulated distribution assets.

1.5 Legal Agreements

There are three principal legal agreements that define the Transaction. These are:

i. Share Purchase Agreement
   - For the acquisition of Hydro One Brampton from the Province.

ii. Merger Participation Agreement
   - Sets forth conditions by which Enersource, Horizon, and PowerStream will merge after all approvals are in place.
   - To be executed after Board, shareholder, and municipal approvals are secured.

iii. Unanimous Shareholder Agreement
   - Governs the shareholders post-merger.

A summary of each legal agreement has been prepared with a brief commentary on each section of the agreement. The actual agreements in their most current form are also appended following the summaries.

1.5.1 Share Purchase Agreement (SPA) Summary (as of August 5, 2015)

Note that this is not a comprehensive summary of all material terms and conditions of the underlying agreement and should not be relied upon as a substitute of a detailed review of such underlying agreement.

Note that the underlying agreement is not yet settled or final and remains subject to ongoing legal and business review.

Purpose of the Agreement

- To govern the sale by Her Majesty the Queen in Right of Ontario as represented by the Minister of Energy of all of the issued and outstanding shares of Hydro One Brampton Networks Inc. (HOBNI), such shares to be purchased by the Parties.

Share Purchase Price

- $607MM.
- Subject to a post-closing adjustment of $1.50 for every dollar the net fixed assets of HOBNI at closing are more or less than $340.5MM with collar of $2MM.
- Subject to further post-closing adjustment of for every dollar the working capital of HOBNI at closing is more or less than $27MM.

Closing Date

- The last business day of the month following the date on which all conditions of closing are satisfied. It is anticipated the last closing condition will be the approval from the OEB.

Conditions of Closing

- The amalgamation of Horizon, Enersource and PowerStream shall have been completed in accordance with the Merger Participation Agreement.
- An advance ruling certificate or other approval shall have been given by the Competition Bureau.
- The OEB shall have approved the merger and subsequent acquisition of HOBNI.

Anti-Flip

- For five years after the closing date, the purchaser shall not directly or indirectly sell, transfer or assign all or substantially all of the business carried on by HOBNI. For three years after the closing date, no shareholder of the corporation shall directly or indirectly sell, transfer or assign, and the purchaser shall not issue, any securities carrying voting rights in the purchaser which results in persons other than the municipalities of Vaughan, Barrie, Markham, Mississauga, St. Catharines and Hamilton and BPC Energy Corporation and any third party institutional investor acquiring up to 10% of the shares from any of the foregoing municipalities, beneficially owning more than 49% of the purchaser.

Indemnity

- HOBNI will indemnify the purchaser for certain matters, including breaches of representations and warranties, breaches of covenants, pre-closing taxes, environmental matters related to PCBs and claims relating to its billing and account management system.

- Minimum damages of $250K per claim must be suffered to qualify.

- Purchaser will only be able to recover claims which, in the aggregate exceed $3.035MM (0.5% of the base purchase price).

- Indemnities are capped at a total of $607MM, but no more than $91.05MM for losses other than those related to breaches of limited fundamental representations.

1.5.2 Merger Participation Agreement (MPA) Summary (as of August 5, 2015)

Note that this is not a comprehensive summary of all material terms and conditions of the underlying agreement and should not be relied upon as a substitute of a detailed review of such underlying agreement.

Note that the underlying agreement is not yet settled or final and remains subject to ongoing legal and business review.

Purpose of the Agreement

- The Merger Participation Agreement sets out the terms and conditions by which Enersource, Horizon and PowerStream will amalgamate their businesses following and conditional upon receiving both OEB-and Competition Act approval.

- The Parties to the MPA include: (i) Enersource Corp., Horizon Utilities Inc., PowerStream Inc.-and their related entities; (ii) the PowerStream, Horizon and Enersource shareholders and (iii) the municipalities of Hamilton, St. Catharines, Vaughan, Markham, Barrie and Mississauga.

Merger Steps

- The merger will involve a number of steps, including the initial amalgamation of Enersource Holdings (an Enersource holding company to be created for purposes of the holding companies amalgamation), Horizon Holdings Inc. PowerStream Holdings Inc., MergeCo, and subsequent amalgamations of the Enersource, Horizon and PowerStream, LDCs (LDC MergeCo) and the Horizon and Enersource energy services companies (ES MergeCo). The LDC MergeCo and the ES MergeCo will be subsidiaries of MergeCo.

- LDC MergeCo will be the entity that subsequently acquires HOBNI.

Representations and Warranties

- The municipalities and Enersource, Horizon and PowerStream shareholders will be giving limited representations and warranties with regards to corporate status, authority, bankruptcy, consents, conflicts and share ownership (the Corporate Representations and Warranties).

- The Enersource, Horizon and PowerStream holding companies will be giving both Corporate Representations and Warranties and business-focused representations and warranties including with respect to, among other things, conduct of business, financial matters, liabilities, accounts receivable, tax matters, material contracts, litigation, environmental matters, etc.

Solar Shares

- In addition to the shares which will be issued in accordance with the Equity Allocation to the shareholders of MergeCo, MergeCo will issue a separate class of non-voting common shares to the PowerStream shareholders in exchange for all of the issued and outstanding shares held by the PowerStream shareholders in certain solar photovoltaic projects (the Solar Projects).

- The Solar Projects will be held in the LDC MergeCo and managed under a Management Services Agreement.

- PowerStream will be asked to provide specific disclosure as to the nature of these Solar Projects in the MPA and will be asked to represent and warrant that these are all its solar voltaic projects as at the date of closing and it is the true and registered owner of these Solar Projects.

Right to sell up to 10%

- Barrie, Vaughan, Markham, Hamilton and St. Catharines will be permitted pursuant to the MPA to sell up to 10% of their outstanding equity interests in their subsidiaries which are the direct shareholders in MergeCo by way of a treasury issue to any Canadian third party pension plan or fund that is registered in Ontario 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 equity interests of the selling party.

PowerStream Acquisition Rights

- PowerStream reserves the right to sell its equity interest or acquire the equity interests held by the Town of Collingwood in Collingwood PowerStream Utility Services Corp. at any time during the interim period between signing of the MPA and completion of the merger (the Interim Period), subject to approval, acting reasonably, of all Parties.

- PowerStream Energy Services Inc. further reserves the right to acquire all or substantially all of the assets of Util-Assist Inc. at any time during the Interim Period, subject to approval, acting reasonably, of all Parties.

Indemnity

- The Enersource, Horizon and PowerStream, shareholders will each indemnify and save harmless the other shareholders, municipalities and MergeCo from a breach by the applicable indemnifying party, PowerStream, Horizon, Enersource or the PowerStream, Horizon or Enersource holding companies of any representations and warranties, covenants or agreements contained in the MPA. The indemnities will be in accordance with the applicable indemnifying party's equity interest (prior to the HoldCo amalgamation) in the respective holding companies and will be capped at 15% of such equity interest.

- The municipalities will indemnify and save harmless the other municipalities, PowerStream, Horizon and Enersource shareholders and MergeCo from a breach by the applicable indemnifying municipality of any of their representations and warranties, covenants and agreements contained in the MPA. The indemnities will be in accordance with the applicable indemnifying party's indirect equity interest (prior to the HoldCo amalgamation) in the respective holding companies and will be capped at 15% of such equity interest.

- The PowerStream shareholders will indemnify and save harmless MergeCo and the amalgamated LDC entity from any and all losses in connection with or resulting from a claim in respect of the Solar Projects.

- An indemnifying party's duty to indemnify will only kick in once the aggregate of all losses incurred by the applicable indemnified party is in excess of $750K.

Shareholdings

- The Enersource, Horizon and PowerStream shareholders will each receive ownership interests in MergeCo as follows: Enersource (31%), Horizon (23%) and PowerStream (46%).

Conditions

- The MPA is conditional upon the Enersource, Horizon and PowerStream shareholders and the municipalities not breaching any of their representations, warranties, covenants and agreements and having provided all required deliverables. Deliverables include corporate resolutions authorizing the entering into of the various agreements, officer certificates, share certificates and certain consents, waivers and releases.

- The MPA is further conditional upon Competition Act approval, OEB approval, further governmental approval and the HOBNI purchase agreement not having been terminated.

Covenants

- Enersource, Horizon and PowerStream and their respective holding companies covenant under the MPA that during the Interim Period, they will conduct their businesses only in the normal course, subject to certain exceptions, which exceptions, generally speaking, allow for certain transactions outside the normal course of business provided such transactions don't incur liability, payments or expenses in excess of a level to be agreed.

  These Parties further provide standard covenants relating to, among other things, preservation of assets, maintenance of books and accounts, keeping in force insurance policies, refraining from amending certain contracts, and payment of dividends. Finally, these parties covenant that they will provide the other parties certain rights of access, terminate shareholder agreements (to the extent applicable), and provide for the preparation by MergeCo of certain financial statements post-closing.

- PowerStream, specifically, covenants that it shall (i) obtain and deliver a final rate order from the OEB with respect to its rate application currently filed with the OEB concerning distribution rates for the years 2016 - to 2020 and (ii) enter into a management services contract with MergeCo with respect to PS Solar.

- There are also mutual covenants, requiring Enersource, Horizon and PowerStream to, among other things:

    - Cooperate with one another with respect to the OEB and Competition Act applications.

    - Maintain confidentiality.

    - Refrain from making public statements regarding the ongoing deal negotiations.

    - Obtaining consents, approvals and waivers.

    - Execution and delivery of the amalgamation agreements.

    - Execution of the MergeCo shareholders agreement.

    - All things necessary to ensure the completion of the HOBNI share purchase transaction.

Termination Rights

- The MPA may be terminated at any time prior to completion of the merger (including receipt of all OEB and Competition Act approvals) where the vendor has terminated the HOBNI purchase agreement.

- The MPA may be terminated by any of the PowerStream, Horizon or Enersource shareholders where (i) a governmental authority has blocked some or all of the amalgamations; (ii) closing of the merger hasn't occurred within one year of the anniversary of the MPA or (iii) in the event of an occurrence of a material adverse effect with respect to any of the respective holding companies.

1.5.3 Unanimous Shareholders' Agreement (USA) (as of August 5, 2015) Summary

Note that this is not a comprehensive summary of all material terms and conditions of the underlying agreement and should not be relied upon as a substitute of a detailed review of such underlying agreement.

Note that the underlying agreement is not yet settled or final and remains subject to ongoing legal and business review.

Purpose of the Agreement

- The Shareholders and the Principals will establish, among other things, rights and obligations arising out of, or in connection with, the ownership of shares of MergeCo.

Parties

- Enersource Corporation, Markham Enterprises Corporation, Barrie Hydro Holdings Inc., Vaughan Holdings Inc., Hamilton Utilities Corporation and St. Catharines Hydro Inc., as Shareholders and BPC Energy Corporation, The City of Hamilton, The Corporation of the City of Barrie, The Corporation of The City of Mississauga, The Corporation of the City of St. Catharines, The Corporation of the City of Vaughan and The Corporation of the Town of Markham, as principals and the Corporation.

Director Appointment Rights

- Each Shareholder shall be entitled to nominate that number of individuals as members of the Board of the Corporation as set out below:

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

- Each Shareholder has the right to nominate one (and only one) non-independent individual as a member of the Board of the Corporation.

Unanimous Shareholder Approvals

The Corporation may not make a decision about, take action on, or implement any of the following matters, without the unanimous approval of all of the Shareholders:

- Changes to the articles and by-laws of the Corporation.
- Approval of the initial strategic plan of the Corporation.
- Winding-up, dissolving or terminating the Corporation.

- Any action that would breach the Corporation’s anti-flip covenants in favour of the Province of Ontario.

Special Shareholder Approvals

The Corporation may not make a decision about, take action on, or implement any of the following matters, without the affirmative vote of Shareholders holding at least 66.66% of the outstanding Shares:

- The sale of the assets of the Corporation having an aggregate book value of 20% of the total book value of all of the assets of the Corporation.

- The acquisition by the Corporation of a business and/or all or substantially all of the assets used in a business of any other person except a Subsidiary of the Corporation, except where the total aggregate purchase price for such business or assets is less than $100MM.

- Entering into an amalgamation, merger of consolidation by the Corporation or any of its Subsidiaries.

- The making of, directly or indirectly, loans or advances to, or the giving of security for or the guaranteeing of the debts of, any Person other than a direct or indirect Subsidiary of the Corporation.

- The redemption or purchase for cancellation by the Corporation or any of its Subsidiaries of any of its issued Shares or other securities.

- The appointment of the Auditor of the Corporation.

- The allotting, reserving, setting aside or issuing any Shares or other securities of the Corporation or any of its Subsidiaries or issuing or granting any rights, warrants or options to purchase, acquire or otherwise obtain any unissued Shares or other securities of the Corporation or any of its Subsidiaries other than Shares or other securities allotted, reserved, set aside or issued to a Pre-Approved Shareholder which does not result in adverse tax consequences to any Shareholder or Principal.

- The voting by or on behalf of the Corporation of any shares in the capital of a Subsidiary of the Corporation (other than a wholly-owned Subsidiary) to elect directors of such corporation.

- The entering into of any agreement other than in the ordinary course of the business of the Corporation.

- The taking of any of the foregoing actions by any Subsidiary of the Corporation.

- The taking, holding, subscribing for or agreeing to purchase or acquire shares in the capital of any body corporate, which, at the time of such subscription, agreement to purchase or acquisition is material to the Corporation except where the total aggregate purchase price for such shares is less than $100MM.

Individual Shareholder Veto

- The Corporation shall not within the first five years following the date of the Agreement, take action on, or implement any Transfer, or permit any of its Subsidiaries to Transfer, to any Person dealing at arm's length with the Corporation and each of its Subsidiaries all or substantially all of the assets of the Corporation or any of its Subsidiaries, taken as a whole, that are located within the geographic boundaries of any municipality that is a Principal on the date of this Agreement without the prior written approval of such municipality.

Restrictions on Transfer of Shares

- No Shareholder may transfer any Shares except as set out in the Agreement.

Rights of First Offer

- If any Shareholder wants to sell all or any part of its Shares to any person that is not expressly permitted under the Agreement, such selling Shareholder must first offer such Shares to the other Shareholders. Each non-selling Shareholders may make an offer to acquire their proportionate interest in the selling Shareholder's Shares.

Shareholder Pre-emptive Rights

- If the Corporation intends on raising capital through the issuance of Shares or other securities, it must first allow the Shareholders to subscribe for their proportionate interest in such offered Shares or other securities of the Corporation.

Tax Indemnity

- Each Shareholder that transfers its Shares pursuant to the Agreement where such transfer triggers taxes payable, such Shareholder will indemnify and hold the Corporation and each of the other Shareholders and Principals from any liability for tax including, if applicable any transfer tax payable under the *Electricity Act, 1988* (Ontario).

2.0 DESCRIPTION OF TRANSACTION PARTICIPANTS

The merger of Enersource Corp., Horizon Holdings Inc., and PowerStream Holdings Inc. combined with the acquisition of Hydro One Brampton Networks Inc. will result in the largest municipally owned electricity utility in Ontario, based on customer count.

The participating companies are leading, award winning electricity utilities in Ontario. Each has a proud and proven history of performance and working within the community. Together they will bring together a dynamic, forward-looking team focused on being the best in efficiency, customer service, innovation and sustainability.

As such, this merger (MergeCo) as outlined in this Business Plan sets a standard of excellence and best practices for the industry. MergeCo will provide benefits for customers, shareholders and the communities they operate within.

2.1 Enersource Corporation

Enersource Corporation (Enersource) is owned 90% by the City of Mississauga and 10% is owned by BPC Energy Corporation (Borealis), which is a wholly owned subsidiary of Ontario Municipal Employees Retirement (OMERS) System.

Enersource Corporation wholly owns Enersource Hydro Mississauga Inc., an electricity distribution company, regulated by the Ontario Energy Board (OEB), that provides electrical power to over 202,000 residential, commercial and industrial customers in Mississauga.

2.1.1 Brief History and Statistics

With a corporate history dating back to 1917, Enersource's beginnings precede the creation of the City of Mississauga. In 2000, a newly incorporated and commercially restructured company entitled Enersource Hydro Mississauga Inc. was created.

Today, Enersource is an award-winning industry leader. Most recently, for the second time in six years, Enersource has won the Electricity Distributor Association's LDC Performance Excellence Award for 2014.

2.1.2 Business Activity

Along with providing energy, Enersource helps educate customers on electricity safety, offers conservation programs for residential and business customers and provides smart metering to help local residents manage their energy costs.

2.1.3 Affiliates

As an unregulated operating subsidiary of Enersource Corp., Enersource Power Services (EPS) specializes in street lighting, high voltage design, as well as specification, procurement, construction, maintenance, operation and management services for local governments, airports and academic institutions with private electrical infrastructure facilities.

EPS provides high voltage infrastructure design, installation and maintenance for Canada's largest airport, Toronto Pearson International Airport, and is currently completing the country's largest known LED street lighting conversion initiative in the City of Mississauga.

2.1.4 Sources of Financial Capital

Enersource targets a debt-equity ratio of 60/40 for its actual total debt-to-equity capital structure by maintaining the appropriate level of debt and/or issuing dividends to Enersource Corp.

Enersource currently holds $320MM of private placement debt at a weighted average cost of 5.0303%. This is comprised of $110MM of Series A 10-year debentures with a fixed coupon rate of 4.521% and $210MM of Series B 30-year debentures with a fixed coupon rate of 5.297%.

Enersource's most recent Asset Management Plan proposed that for the five-year period from 2015 to 2019, net capital expenditures of almost $320MM are required, mainly to fund renewal investments in the electricity distribution system. The current consolidated cash balance combined with the ongoing cash generated through operations is insufficient to fund this level of capital investments.

Enersource has secured $100MM in financing with a major financial institution through a committed revolver facility. This arrangement combines the flexibility and cost of a credit line facility, while providing the security of a term loan facility. In addition, Enersource will have the flexibility to convert portions of the revolver to a term loan at any time, if desired. If amounts are termed out, all term loans will mature on April 29, 2021 to coincide with the maturity of the Series A, 10-year tranche bond debt.

2.1.5 Organizational Structure

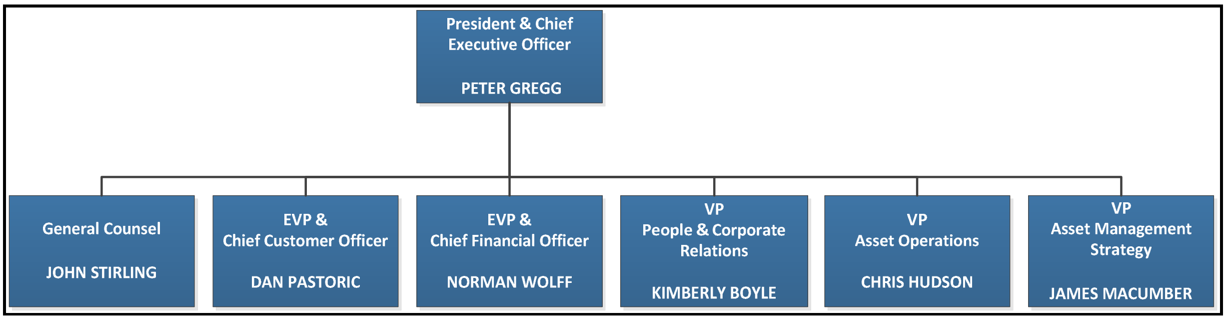

Figure 2. 1 - Enersource Organizational Chart

2.1.6 Facilities and Logistics

Enersource's administration functions are located at 2185 Derry Road West, Mississauga. It has an operations centre at 3240 Mavis Road, Mississauga.

In 2013, Enersource hired an external engineering firm to provide an assessment of its Mavis Road facility (Mavis). This resulted in a series of recommendations that worked to inform a 'Mavis Facilities Plan' for upgrades at that location.

As of June 2014, Enersource's fleet comprises 174 vehicles with the following distribution:

- Pickup trucks – 28%
- Bucket trucks and RBDs – 19%
- Vans – 12%
- Step Vans – 9%
- Passenger Cars – 6%
- Dump trucks – 4%
- Other – 22%

2.1.7 Operating Practices and Distribution Assets

Construction activities are based out of the Mavis operation centre.

Enersource's main control room is located at Mavis, with a fully operational emergency back up control room located at the Glen Erin MS facility.

Capital and maintenance programs are based on a five-year project plan for capital work and an annual program for maintenance.

The current forecasts do not include a significant capital expense needed to accommodate the Light Rail Transit project on Hurontario St., announced during the summer of 2015 by the Ontario Government. This additional work could cost as much as approximately $35MM.

In addition, the City of Mississauga has development plans for projects including Downtown 21, Lakeview Revitalization and Lakeshore Road Re-Intensification. While these are expected to add significant capital expenses to Enersource's forecast, costs are unknown at this time.

Electrical power in the City of Mississauga originates from 10 Hydro One Networks Inc. (Hydro One) transformer stations. The power is transformed at these transformer stations from 230 kV down to Enersource subtransmission voltages of 44 kV and 27.6 kV, or to Enersource's primary distribution voltages of 16.0/27.6 kV. The subtransmission voltages of 44 kV and 27.6 kV are further transformed at Enersource municipal substations to primary distribution voltages of 8.0/13.8 kV and 2.4/4.16 kV and Figure 2.2 provides a geographical distribution of these voltages within the City of Mississauga.

Enersource's system can be divided into two main categories: subtransmission and distribution.

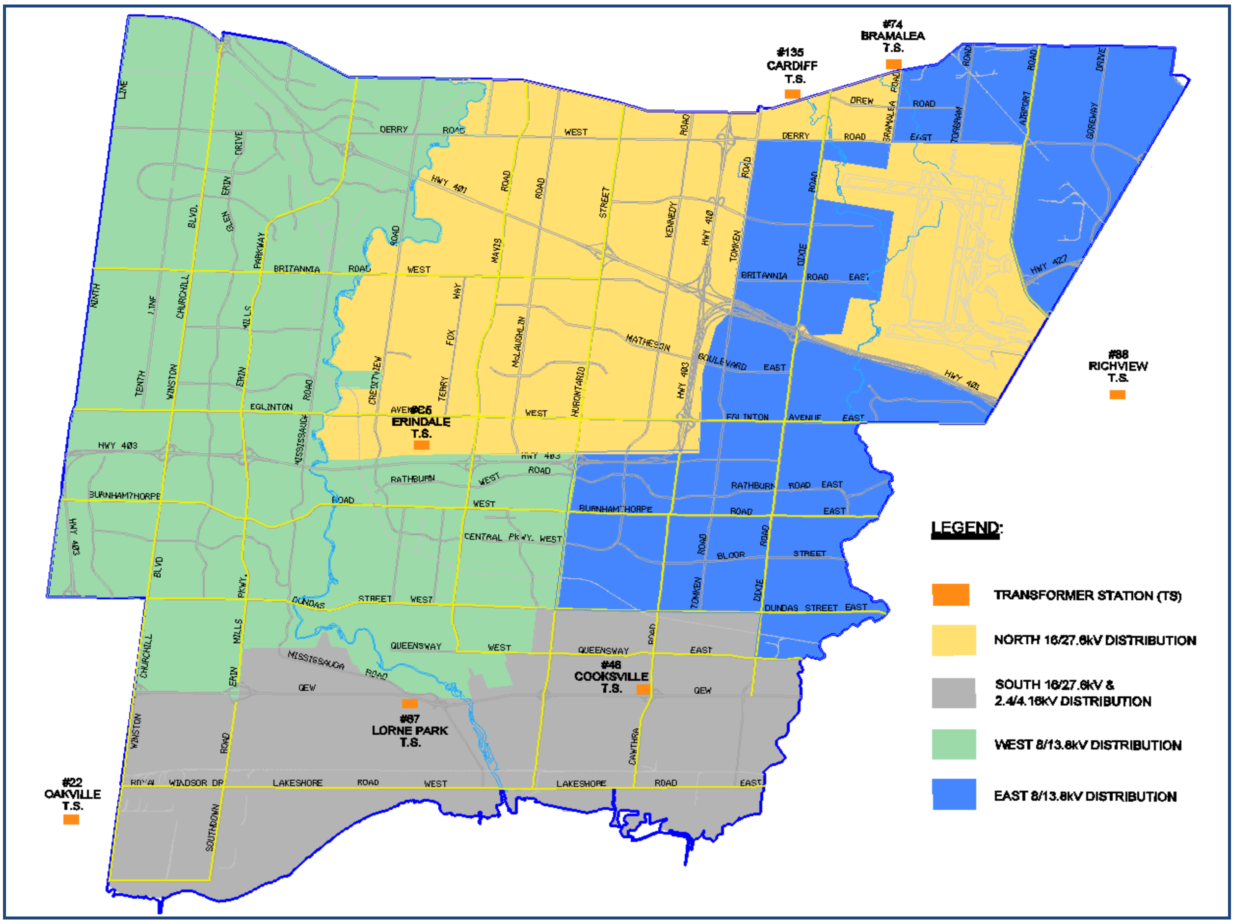

Figure 2. 2 - Enersource Territories

2.1.8 Information Systems

Primary information systems at Enersource include:

- Intergraph - Geographical Information System (GIS)
- Intergraph - Automated Mapping/Facilities Management (AM/FM)
- Intergraph - Outage Management System (OMS) - Integrated Operating Model (IOM)
- Oracle - J.D. Edwards - Enterprise Resource Planning (ERP)
- Oracle - Customer Care and Billings System (CC&B)
- Oracle - Load Profiling and Settlement Systems (LPSS)
- Elster - Metering Application Server (MAS)
- PrimeStone - PrimeRead
- Itron - MV90 Remote Meter Reading System
- Microsoft - BizTalk

2.2 Horizon Holdings Inc.

Horizon Holdings Inc. (HHI) is the holding company for Horizon Utilities Corp. and Horizon Energy Solutions Inc. (HESI), a leading provider of commercial grade metering, solar PV and CDM services.

Horizon Holdings Inc. is 78.9% owned by Hamilton Utilities Corp. (HUC) and 21.1% owned by St. Catharines Hydro Inc. (SCHI). The latter two companies are wholly owned by the City of Hamilton and the City of St. Catharines.

2.2.1 Brief History and Statistics

Horizon Utilities, the LDC affiliate, provides electricity and related utility services to more than 242,000 residential, commercial and industrial customers in Hamilton and St. Catharines under license from the OEB.

The company has an impressive record on LDC consolidation, representing eight separate municipal electric utilities through three mergers and three annexations of the former Ontario Hydro's rural distribution system. In 2005, Hamilton Hydro Inc. and St. Catharines Hydro Utility Services Inc. merged to form Horizon Utilities. In 2000, the five municipal electric utilities in Hamilton merged to create Hamilton Hydro Inc. In 1974, Waterdown Hydro and Lynden Hydro merged to create Flamborough Hydro. In 1960, St. Catharines Hydro merged with Port Dalhousie Hydro. The annexations occurred in Stoney Creek, Flamborough and St. Catharines. In each case, Horizon and its predecessors executed a successful integration plan that left the new utility, customers, and shareholders better off, with lower costs and enhanced shareholder returns.

Since its creation in 2005, Horizon Utilities has many industry accomplishments and recognitions to its credit, including:

- Hamilton-Niagara's Top 10 Employers – 2012, 2013, 2014, 2015
- Canadian Urban Institute "Brownie Award" 2014 (for smart growth connection strategy)
- First CEA Member to be designated a "Sustainable Electric Company" – 2013
- CEA Environmental Commitment Award 2013
- QUEST Community Energy Builder Award 2013
- BLOOM Sustainability Leadership Award 2013
- EDA Environmental Excellence Award 2012
- CEA Sustainability Company of the Year – 2011 and 2012
- ISO 14001 Environmental Management System accreditation – 2011
- ISO 26000 Social Responsibility through third-party review – 2011
- First LDC to make a Global Reporting Initiative sustainable development filing – 2008-
- Ontario Energy Association Company of the Year 2009 (for sustainability initiative)
- OPG-EDA Performance Excellence Award – 2006 (for 2005 merger)

2.2.2 Business Activity

Horizon Utilities distributes electricity within the Cities of Hamilton and St. Catharines. The service territory covers 430 sq. km and is illustrated in the following maps:

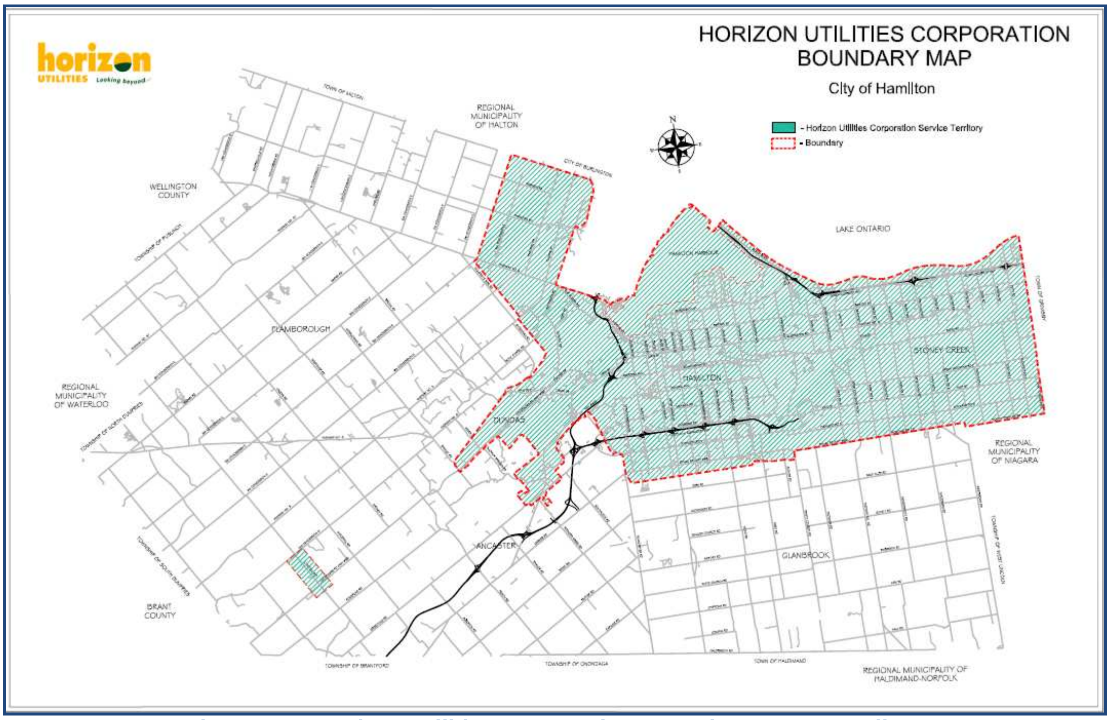

Figure 2. 3- Horizon Utilities Corporation Boundary Map - Hamilton

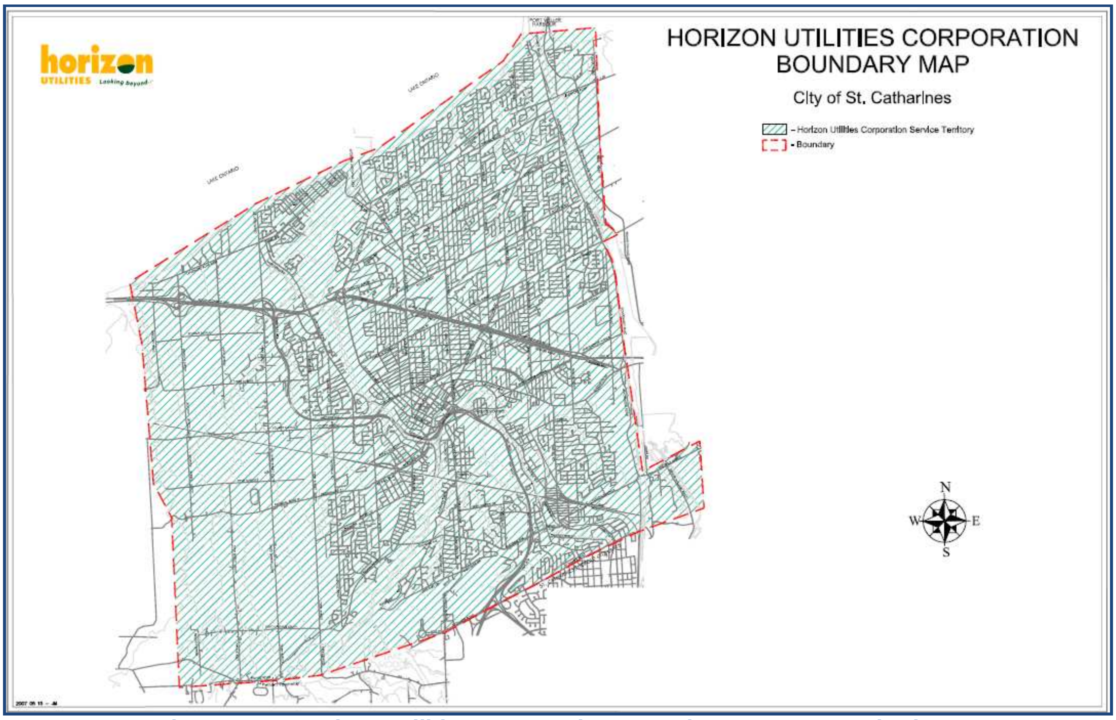

Figure 2. 4 - Horizon Utilities Corporation Boundary Map - St. Catharines

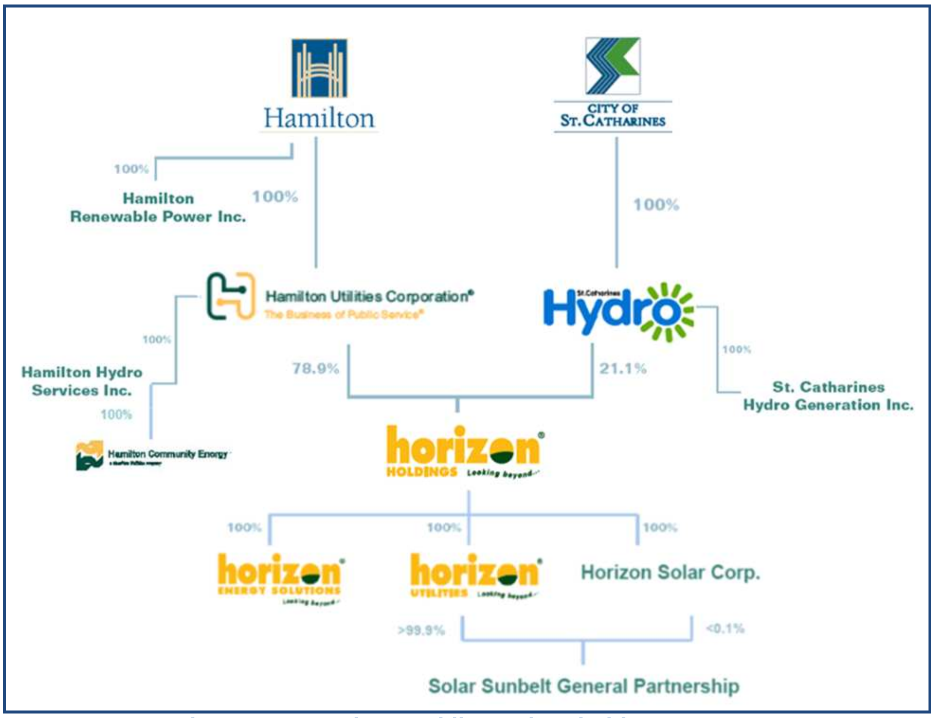

Figure 2. 5 - Horizon Holdings Shareholder Structure

Horizon Energy Solutions Inc.

HESI is a competitive market service provider that provides energy solutions for businesses, utilities, and municipalities.

Hamilton Community Energy (HCE)

Hamilton Utilities Corporation (HUC) is the holding company owned by the City of Hamilton. HUC owns 78.9% of Horizon Holdings Inc. (owner of Horizon Utilities Corporation and Horizon Energy Solutions) and 100% of Hamilton Hydro Services Inc., which is operating as Hamilton Community Energy (HCE).

HCE is for regulatory purposes an affiliate of Horizon Holdings and Horizon Utilities, but is not an owned affiliate of Horizon Holdings like Horizon Utilities or Horizon Holdings.
HCE delivers district energy solutions.

2.2.4 Sources of Financial Capital

HHI presently has three principal sources of financial liquidity:

Share Capital

Share capital is represented by $225MM (2014) of shareholder equity accruing to HUC and SCHI. HHI is privately held and does not have access to public equity markets to raise additional equity capital. HHI's present ability to raise equity capital is limited to the retention of earnings after dividends and perhaps additional investment from its shareholders.

HHI is able to seek private equity capital through its holding company shareholders – HUC and SCHI. However, the current tax regime imposed under the *Electricity Act, 1998 (Ontario)* effectively limits such investment in total to 10% of the market value of equity its shareholders.

Senior Unsecured Debentures

HHI has established a Trust Indenture with Computershare Trust Company of Canada dated July 21, 2010 for the issuance from time to time, of senior unsecured debentures. HHI has issued aggregate debentures of $190MM since the establishment of the Trust Indenture to provide financing for its investment in the electricity distribution assets of Horizon Utilities. The term, interest rates and maturities of debentures outstanding as of 2014 are disclosed in the appended 2014 consolidated financial statements of HHI.

Credit Facility

Horizon Holdings has a $100MM, 365-day, unsecured revolving credit facility for working capital purposes. The current credit is available until June 2016 but may be extended with the mutual agreement of the parties.

Overall, HHI has sufficient access to debt capital and anticipates retaining sufficient earnings to support its business operations on a sustainable basis.

2.2.5 Organizational Structure

HHI and HESI are separately governed by their own Boards of Directors, each consisting of five independent directors. Horizon Utilities is governed by a Board of Directors consisting of 10 independent directors.

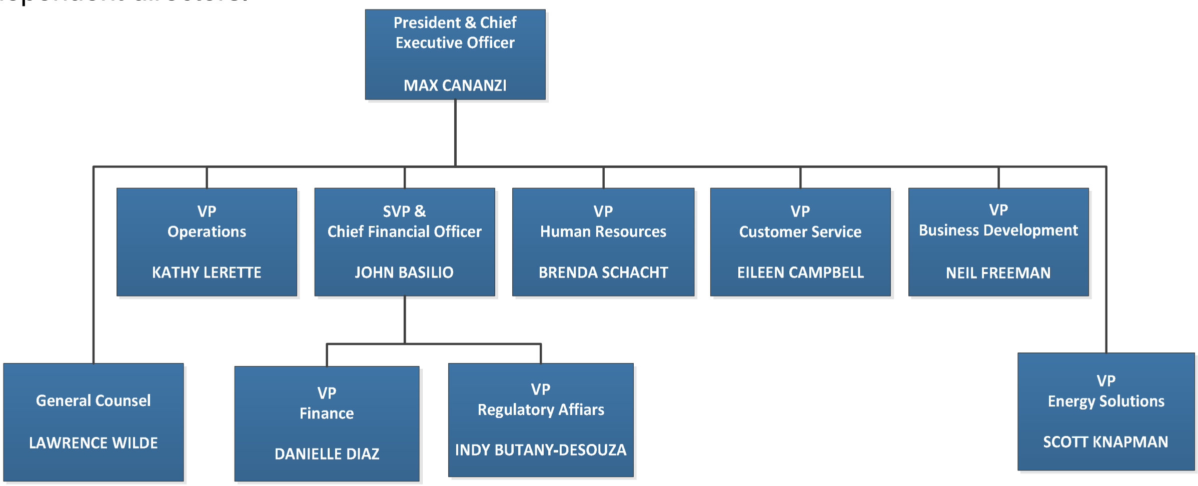

Figure 2. 6 - Horizon Organization Chart

The management structures are functionally aligned to support strategic direction and focus on:

- Sustainable business practice and growth
- Cost-effective asset and activity-based management
- Reliable service
- Customer care
- Occupational health and safety

Operations, maintenance, administration and construction are performed with a staff complement of 415 employees along with various contractors. The staffing complement is represented by 130 non-union employees and 275 unionized employees represented by the International Brotherhood of Electrical Workers (IBEW) Local 636.

2.2.6 Facilities and Logistics

Horizon's administration functions are located at 55 John St. North, Hamilton. It has three-fully functional operations centres located at: 450 Nebo Road, Highway 8 in Stoney Creek and 340 Vansickle Rd. St. Catharines.

Horizon Utilities also owns 25 substations which are dispersed geographically throughout Hamilton and St. Catharines.

The company has developed a program to decommission substations as it converts the remaining portions of its 4kV and 8kV electric system to higher voltages.

Horizon Utilities' transport and work equipment consists of 182 vehicles:

- Bucket Trucks - 28
- Digger Derrick/Crane Trucks – 10
- Underground Cable Pulling Trucks – 2
- Light Duty Vans and Pick-up Trucks – 56
- Heavy Duty Vans and Pick-up Trucks – 27
- SUV/Car – 12
- Trailers – 46

2.2.7 Operating Practices and Distribution Assets

Construction activities are based out of the three operations centres listed above. The Nebo facility generally services the areas west of the center of Hamilton while Stoney Creek services the east.

The St. Catharines Vansickle centre services the City of St. Catharines.

Horizon Utilities' main control room is located at the John Street facility, with a fully operational redundant back up control room located at the Vansickle Road facility.

Capital and maintenance programs are based on a five-year project plan for capital work and an annual program for maintenance. Execution is coordinated through a Planning and Scheduling process.

Horizon Utilities distributes electricity to 242,150 customers within the boundaries of the City of Hamilton and City of St. Catharines, with the exception of about 30,000 customers served by Hydro One Networks Inc.

More than half of the distribution plant is installed underground, including underground transformers and services.

Horizon Utilities has adopted and implemented asset management practices based on those outlined in the British Standards Institution Publicly Available Specification No. 55.

Horizon Utilities is supplied through the Hydro One transmission system at voltages of 13.8kV and 27.6kV. Electricity is then distributed over 1,904 km of underground (U/G) cable and 1,524 km of overhead (O/H) conductor. Horizon Utilities owns and operates 25 municipal substations stepping down voltages from 13.8kV and 27.6kV to either 4.16kV or 8.32kV. Horizon Utilities distributes electricity at four supply voltages: 27.6 kV, 13.8kV, 8.32 kV and at 4.16kV.

Transformer Stations

Horizon Utilities is serviced by 14 Hydro One-owned transformer stations in the Hamilton service territory and four Hydro One-owned transformer stations in the St. Catharines service territory. Furthermore, Horizon Utilities is supplied by two Hydro One-owned distribution stations for embedded and long-term load transfer customers.

Horizon Utilities is supplied from 248 feeder breakers further supplying 374 feeders: 353 at 13.8kV and 21 at 27.6kV.

The aggregated 10-day limited time ratings of all Hydro One-owned transformer stations supplying Horizon Utilities is 2,267 MVA. The coincident peak load supplied by these facilities is 59% of the aggregated rating. The remaining capacity is used for local contingency purposes or future customers.

Municipal Substations

Horizon Utilities owns and operates 25 municipal substations; 23 in the Hamilton service territory and two in the St. Catharines service territory.

Horizon Utilities operates 145 feeder breakers supplying 136 feeders at 4.16kV and 9 at 8.32kV.

The combined transformation capacity provides 394 MVA of which 376 MVA is provided at 4.16kV and 18 MVA at 8.32kV. The coincident peak load supplied by these facilities is 34% of the aggregated ratings. The remaining capacity is used for local contingency purposes or future customers.

Within the next 40 years, these substations will likely be de-commissioned and the voltage in their distribution areas will be converted to higher voltages supplied from the transmission system transformer stations. Since 2002, 18 substations have been de-commissioned.

Generation

There are 48 MW of embedded generation at 10 locations throughout the service territory, with one active embedded generation project with a capacity of 6.8 MW. Additionally there are: 11

net metering customers with a total of 24 kW of generation capacity, 50 Feed-in-Tariff (FIT) projects with 7.7 MW of generation capacity and 347 MicroFIT projects with a total of 2.7 MW of generation capacity.

Network Configuration

Power is distributed across 3,510 km of line; 1,977 km of which are installed underground with the remainder carried on 50,578 Horizon Utilities owned poles.

Of the 25 substations, 19 are indoor operating at 4.16/2.4 kV, and six are outdoor with overhead structures. Substation transformer capacities range from 4 MVA to 27 MVA.

The 4.16/2.4 kV substations supplying urban and industrial loads typically have two transformer banks, two incoming 13.8 kV feeders, and anywhere between four and 15 outgoing distribution voltage feeders. The Dundas area is the exception, where single transformer substations were originally installed.

Along the distribution lines, the voltage is further stepped down to utilization voltages of 120/240 V for residential, 120/208 V for commercial and 600/347 V for industrial customers. The step down in voltage is made through 23,787 distribution transformers.

About 10,253 distribution transformers are connected to the underground system, 4,236 of which are housed in submersible vaults and 6,017 are surface mounted on pads. About 13,534 distribution transformers are mounted on wood, concrete and steel poles and are connected to the overhead system.

Horizon Utilities also owns and maintains 68 transformer rooms with metal-enclosed interrupter switches and fuses that are located inside customer premises. These switchgear assemblies are an integral part of the underground dual radial feeder system in the downtown core of Hamilton, whereby the building serviced can be switched from one feeder cable to the alternate supply feeder cable.

2.2.8 Information Systems

Primary I information systems at Horizon Utilities include:

- IBM System I (AS/400) primarily used for the Daffron Customer Information System (CIS)
- Cisco FlexPod Data Center environment consisting of Cisco Unified Computing System (UCS) blade centre servers and NetApp Storage Area Network (SAN)
- Industrial and Financial Systems (IFS) Enterprise Resource Planning (ERP) System
- Elster Energy Axis System
- Survalent System Control and Data Acquisition (SCADA) System
- Intergraph Geographic Information System (GIS)
- Intergraph inService Outage Management System (OMS)
- Cisco Call Manager VoIP Telephone System
- Cisco Unified Contact Center Express (UCCX)
- IVR Nuance Text-to-Speech (TTS)
- Itron MV-90 Remote Meter Reading System

2.3 Hydro One Brampton Networks Inc.

Hydro One Brampton (HOBNI) is an electricity distribution company that provides electrical power to over 150,000 residential, commercial and industrial customers in the City of Brampton.

Regulated by the OEB, Hydro One Brampton's single shareholder is Hydro One Inc. which is owned by the Government of Ontario.

2.3.1 Brief History and Statistics

Hydro One Brampton was formed in 1911 as Brampton Hydro-Electric Commission to distribute electricity to the Town of Brampton's 1,100 customers.

The utility is currently serving 150,000 customers. Growth projections indicate that Hydro One Brampton will have 240,000 customers by 2035.

Hydro One Brampton's commitment to providing optimal service to local residents and businesses is reflected in consistently high customer satisfaction scores within an environment that promotes the safe and reliable delivery of electricity and services. The company currently has 219 employees and is actively engaged in the community.

2.3.2 Business Activity

Hydro One Brampton delivers electricity to the City of Brampton and has a service territory of 269 sq. km which is outlined in the map below.

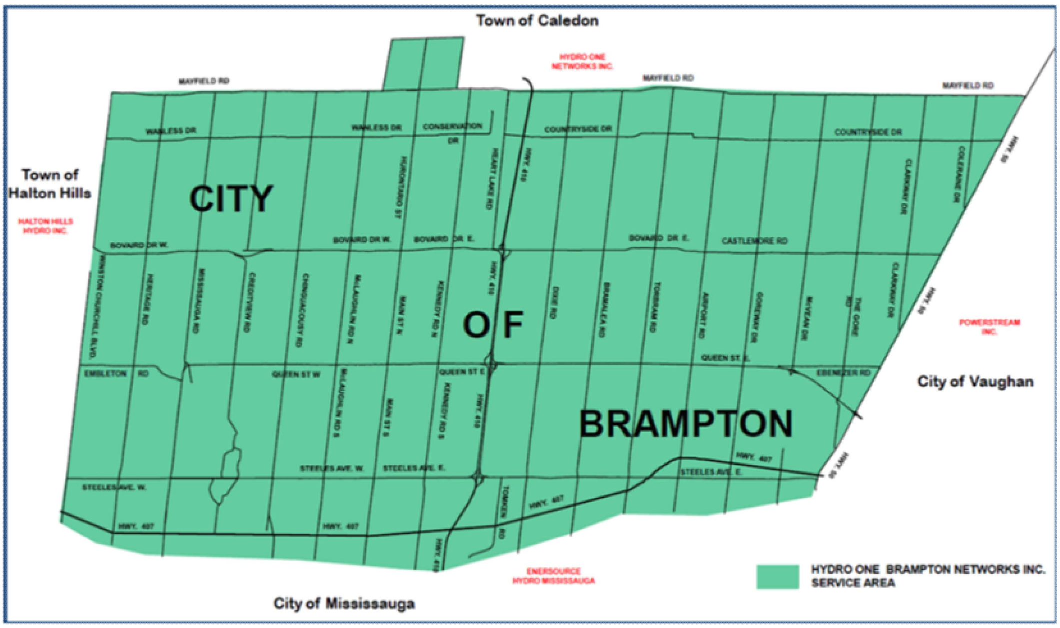

Figure 2. 7 - Map of HOBNI Service Territory

2.3.3 Affiliates

The sole shareholder of Hydro One Brampton is the Province of Ontario. Prior to its transfer to the Province it was wholly owned by Hydro One Inc.

2.3.4 Sources of Financial Capital

Hydro One Brampton's primary sources of capital are retained earnings, long-term debt and short-term borrowings. It attempts to maintain the regulated debt/equity structure of 60/40.

All long-term debt instruments issued by Hydro One Brampton are held by Hydro One Inc. and are based on the terms of specific external debt issued in the market by Hydro One Inc.

Hydro One Brampton currently has four promissory notes which are held by Hydro One Inc., with a total face value of $193MM. Details are as follows:

- A $143MM note issued on June 3, 2001, with an interest rate of 6.95% per annum and a maturity date of June 1, 2032.
- A $20MM note issued on September 26, 2011, with an interest rate of 4.41% per annum and a maturity date of September 26, 2041.
- A $20MM note issued on January 13, 2012, with an interest rate of 3.22% per annum and a maturity date of January 13, 2022.
- A $10MM note issued on June 6, 2014, with an interest rate of 4.19% per annum and a maturity date of June 6, 2044.

The company's short-term borrowings are primarily composed of an inter-company demand facility with Hydro One Inc. which is used to settle amounts due to and from Hydro One Inc. and its other subsidiaries.

Prior to its transfer, Hydro One Inc. maintained pooled bank accounts for its use and for the use of its subsidiaries, including Hydro One Brampton. The balance in the inter-company demand facility represents the cumulative net effect of all deposits and withdrawals made by the company to and from the pooled bank accounts. Interest is earned on positive inter-company balances based on the average of the bankers' acceptance rate at the beginning and end of the month, less 0.02%. Interest is charged on overdraft inter-company balances based on the same bankers' acceptance rate, plus 0.15%.

2.3.5 Organizational Structure

HOBNI is governed by its Board of Directors and its Finance, Regulatory and Policy Committee. The board is comprised of five members, one of whom is independent. Figure 2.8 depicts the HOBNI's relationship prior to its direct ownership transfer to the Province of Ontario.

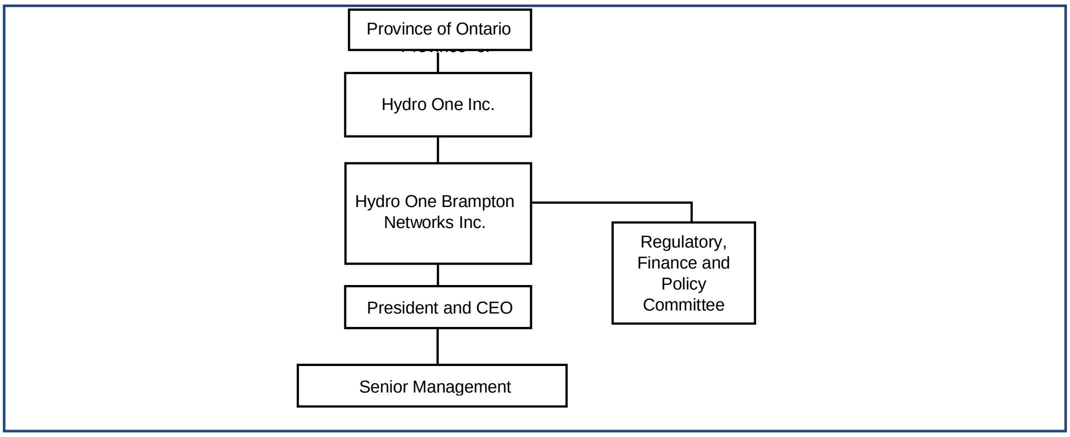

Figure 2. 8 - HOBNI Corporate Reporting Relationship

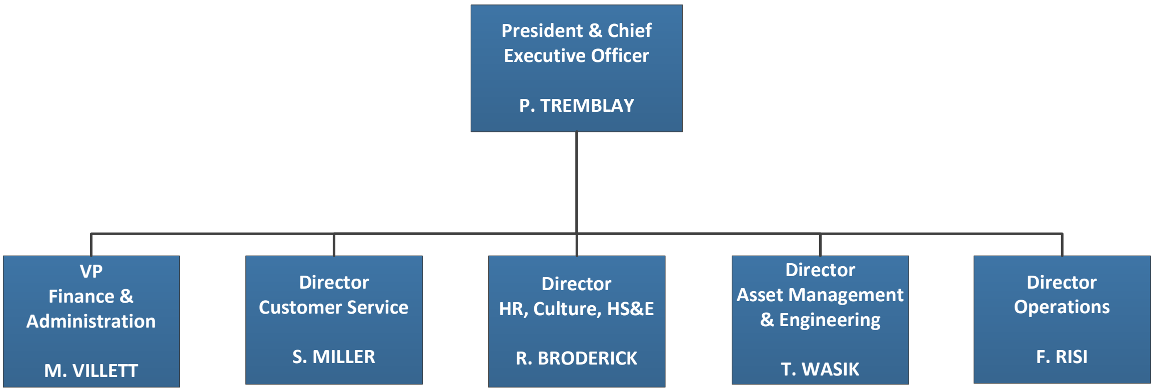

Figure 2. 9 - HOBNI Organizational Chart

2.3.6 Facilities and Logistics

The following summarizes Hydro One Brampton's distribution system assets and station assets:

Hydro One Brampton 2014 Asset Counts	
Asset	**Total**
Power Transformers - TS	3
Power Transformers - MS	18
Circuit Breakers	73
Distribution Transformer	18,451
Distribution Switchgear	309
Wood Poles	9,196
Concrete Poles	3,199
LIS & Vacuum Switches	211
Automated Switch	35
Underground Feeder Cable (km)	814
Underground Distribution Cable (km)	2,600
Overhead Conductor (km)	2,177

Figure 2. 10 - HOBNI Asset Inventory

Administration and Operations are located at 175 Sandalwood Parkway West in Brampton. The 146,200 sq.ft. facility houses a 40,600 sq. foot service centre, a 42,300 sq.ft. garage and 63,300 sq.ft. of office space.

Hydro One Brampton's vehicle fleet is comprised of:

- 29 heavy duty vehicles
- 13 medium duty vehicles
- 32 light duty vehicles
- 36 other trailers and equipment

2.3.7 Operating Practices and Distribution Assets

Hydro One Brampton's Operations Business Unit is comprised of seven departments:

- Lines and Fleet
- Operating (Control Room)
- Substations and P&C (Protection & Control)
- Survey & Inspections & Locates
- GIS Information Technology
- Drafting/Records
- Metering

Hydro One Brampton's electrical supply is sourced from four Hydro One Networks (HONI) owned 230 kV transformer stations; Goreway TS, Bramalea TS, Pleasant TS and Woodbridge TS, with secondary voltages of 44 kV and 27.6 kV. Hydro One Brampton owns and operates one 230 kV transformer station constructed in 2001 with a secondary voltage of 27.6 kV (Jim Yarrow MTS).

Hydro One Brampton services an area of 269 sq. km and has approximately 18,450 distribution transformers, 12,400 poles and 5,590 km of primary distribution lines (2,177 km overhead lines and 3,413 km underground cables). With 12 distribution stations, it has 41 feeders operating at voltages of 27.6 kV and 44 kV.

Hydro One Brampton connects the source transformer stations to its distribution system using 61 feeder breakers in total. Further step-down from the 44 kV and 27.6 kV sub-transmission voltages is performed at 12 municipal substations (MS) to primary distribution voltages of 13.8 kV, 8.32 kV and 4.16 kV, which are connected to the distribution system using 41 feeders from 47 breakers. These feeders and stations include equipment such as poles, conductors, transformers, reclosures, protection devices and switches.

Table 1 - HOBNI System Statistics

	Hydro One Brampton
2014 Annual Energy Delivery (GWh)	3,945.0
All Time System Peak Demand (MW)	837.6
Number of Customers	150,800
Service Territory (km^2)	269
Number of TS	5 (4 owned by HONI, 1 owned by HOBNI)
Number of TS Transformers Owned	3 (1 spare)
Number of Supply Points	61 Feeder Breakers
Number of MS	12
Number of MS Transformers	18
Number of Distribution Feeders	41 Feeders
Overhead Primary Lines (km)	2,177
Underground Primary Cables (km)	3,413

2.3.8 Information Systems

The primary information systems at Hydro One Brampton are as follows:

- IBM System I (AS/400) custom developed software for all business applications including Customer Information System (CIS).
- HP blade centre servers and storage area network utilizing VmWare for virtualized servers and desktops.
- Trilliant ServiewCom for meter data management.
- Survalent System Control and Data Acquisition (SCADA) system
- Intergraph Geographic Information System (GIS)
- Intergraph inService Outage Management System (OMS)
- Nortel CS1000E with Komutel Contact Center Solution
- Itron MV-90 Remote Meter Reading system

2.4 PowerStream Inc.

PowerStream Inc. (PowerStream) is the second largest municipally owned local distribution company (LDC) in Ontario, serving over 370,000 residential and commercial customers. PowerStream is regulated by the OEB, and is jointly owned by the municipalities of Barrie (20.5%), Markham (34.2%) and Vaughan (45.3%).

2.4.1 Brief History and Statistics

In 2004, Hydro Vaughan Distribution Inc., Markham Hydro Distribution Inc., and Richmond Hill Hydro amalgamated to form PowerStream Inc. Since then, 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. PowerStream has been recognized for numerous awards:

- 2015, 2014 Canada's Greenest Employer Award.
- 2015, 2014, 2013 and 2012 Greater Toronto's Top Employers.
- Energy Star 'Market Transformation Utility of the Year-Regional Award' (2015) .
- 2014 Gold Recipient of an Excellence Canada 'Canada Award for Excellence'.
- 2014 Association of Energy Professionals' Outstanding Achievement in Marketing Communications (Residential) – Smart Kids campaign.
- 2013 Canada's Safest Employers Award (Gold Recipient for Safety and Silver Recipient for Wellness).
- 2013 and 2012 Achievers 50 Most Engaged Workplaces™.
- 2013, 2011 and 2009 Electricity Distributors Association's Environmental Excellence Award.
- 2013, 2011 and 2009 Smart Commute Employer of the Year Award for North Toronto, Vaughan.
- 2012 Canada Award of Excellence for Innovation and Wellness (Silver Recipient).

2.4.2 Business Activity

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.

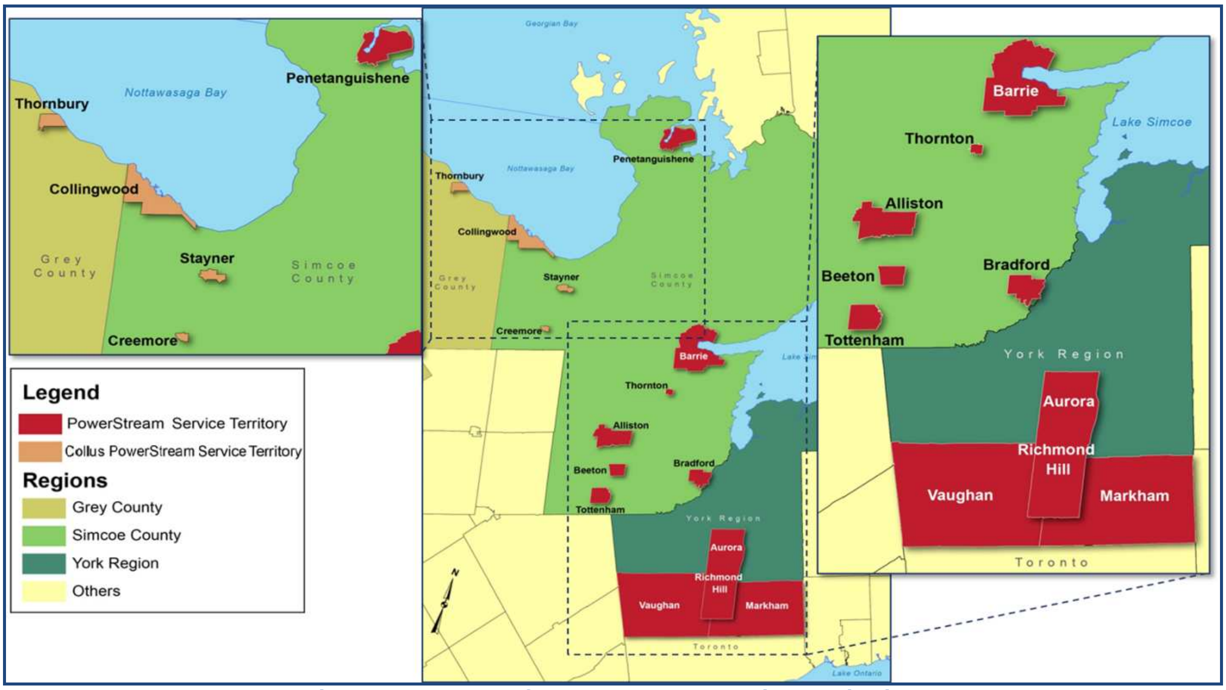

Figure 2. 11 - Map of PowerStream's Service Territories

2.4.3 Affiliates

PowerStream Holdings Inc. was incorporated on July 24, 2013, under the *Business Corporations Act* (Ontario) as the parent company of the wholly owned subsidiary of PowerStream Inc. and PowerStream Energy Services Inc.
PowerStream Holdings Inc. is owned by:

- The Corporation of the City of Vaughan through its wholly owned subsidiary, Vaughan Holdings Inc.
- The Corporation of the City of Markham through its wholly owned subsidiary, Markham Enterprises Corporation.
- The Corporation of the City of Barrie, through its wholly owned subsidiary, Barrie Hydro Holdings Inc.

Percentage ownership of Common Shares is as follows:

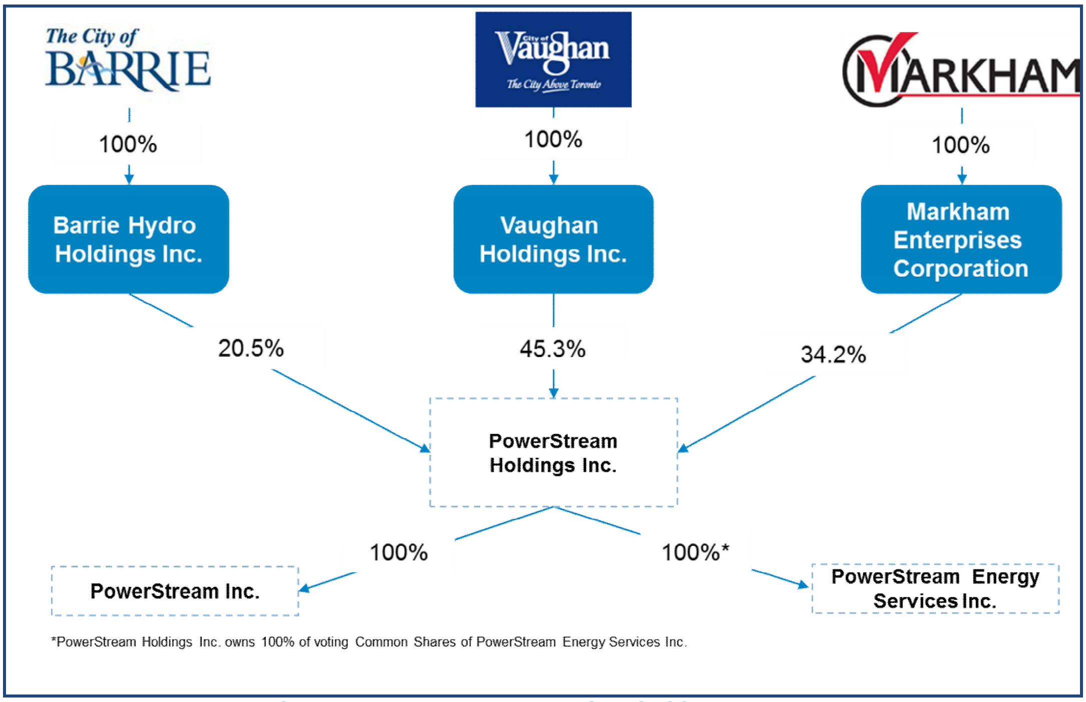

Figure 2. 12 - PowerStream Shareholder Structure

PowerStream Inc. operates the core distribution business, distributing electricity under a license issued by the OEB. It also includes the PowerStream Solar and the CDM business units.

PowerStream Inc. holds 50% ownership of the joint venture Collus PowerStream, which is accounted for as an investment on PowerStream's financial statements with a net asset value of approximately $7.5MM.

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.

PowerStream shareholders have contributed approximately $12MM of equity to support the initial growth of PESI's sub-metering business.

2.4.4 Sources of Financial Capital

PowerStream funds it capital at 60/40 debt-to-equity. PowerStream maintains a 50% net income dividend policy for its common shares, based on its rate regulated business. Net income that is not distributed is reinvested to support the core business.

In 2013, PowerStream's shareholders approved a contribution of $50MM of equity over a three-year period to support the 2014-2016 capital program of PowerStream's core business.
On November 28, 2014, the shareholders made an initial equity contribution of approximately $20MM for 8,091 common shares of PowerStream Holdings Inc. Also In 2014, PowerStream's shareholders contributed approximately $16MM in equity through the purchase of non-voting

Class A common shares for the solar generation business, completing a total equity contribution of $60MM for the build-out of the $150MM solar portfolio.

Sources of Debt

Under the Trust Indenture dated July 30, 2012 between PowerStream Inc. and ComputerShare Trust Company of Canada, PowerStream has issued $200MM 3.958% Series A unsecured debentures and $150MM 3.239% Series B unsecured debentures. PowerStream maintains an A Credit rating from rating agencies Standard & Poors Rating Services and DBRS rating agency.

On June 1, 2004, unsecured 20-year term promissory notes were issued to the City of Vaughan and the City of Markham in the amounts of $78.2MM and $67.9MM respectively.

On December 31, 2008, an unsecured 16-year term promissory note was issued to the City of Barrie in the amount of $20MM, replacing the existing promissory note issued to the predecessor corporation, Barrie Hydro Distribution Inc.

Interest on the three promissory notes is at an annual rate of 5.58%. Deferred interest of $8.7MM and $7.6MM owed to the City of Vaughan and the City of Markham respectively have been deferred to October 2018 and earn an annual rate of 4.03%.

To support the solar generation business, PowerStream has received approximately $68MM in construction advances from Ontario Infrastructure Projects Corporation as part of the October 15, 2010 Financing Agreement. PowerStream has converted $4.6MM of the construction advances into a series of 20-year amortizing debentures.

Credit Facilities

On December 17, 2008 PowerStream executed an unsecured credit facility, providing an extendible 364-day committed revolving credit facility of $75MM, an uncommitted demand facility of $25MM, and uncommitted Letter of Guarantee facilities of $20MM and $0.36MM.

PowerStream entered into a second unsecured credit facility agreement that provided for a committed line of credit of up to $150MM on February 12, 2013. This committed facility matures on February 12, 2017. As at December 31, 2014, the corporation utilized $25MM of the $150MM committed facility.

Summary of Debt Outstanding as of December 31, 2014

($MM)	**Debt Outstanding**	**Maturity Date**
Shareholder Promissory Notes	$166	May 31, 2024
Deferred Interest to Shareholders	$16	October 31, 2018
Series A Debentures	$198	July 30, 2042
Series B Debentures	$149	November 21, 2024
Short-Term Bank Debt, as at Dec 31, 2014	$25	Rolling
Ontario Infrastructure Financing	$68	Various

2.4.5 Organizational Structure

PowerStream's Board of Directors is comprised of 13 members and is appointed by the company's three Shareholders.

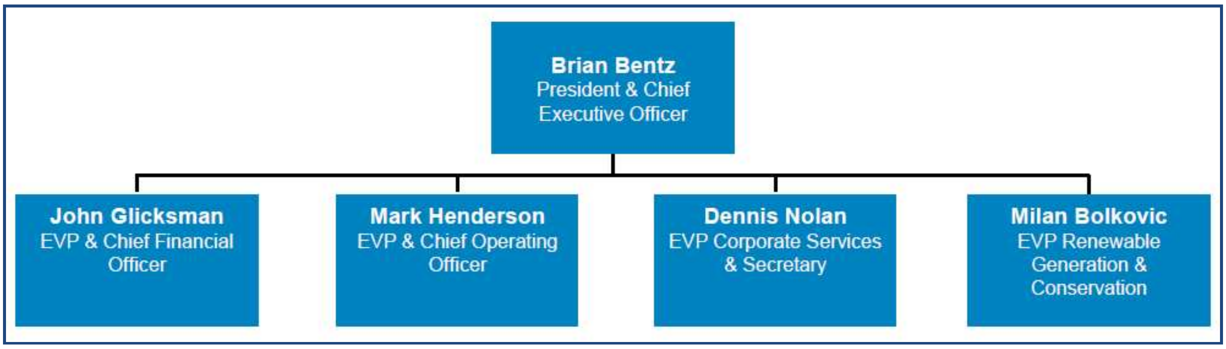

Figure 2. 13 - PowerStream Organizational Chart

Operations, maintenance, administration and construction are performed with a staff complement of 199 employees along with various contractors. The staffing complement is represented by 32 non-union employees and 167 unionized employees represented by the Power Workers' Union.

2.4.6 Facilities and Logistics

PowerStream Holdings Inc. and PowerStream Inc.'s head office is located at 161 Cityview Boulevard in Vaughan with additional administration space at 9401 Jane Street, Vaughan. Operations are split between 80 Addiscott Court, Markham and 55 Patterson Road, Barrie

PowerStream manages a fleet of over 250 heavy duty and light duty vehicles, trailers, and other mobile equipment. These include:

- 43 heavy duty units
- 156 light/medium units including vans, pickup trucks and automobiles
- 60 miscellaneous units including pole trailers, general use trailers, tension machines and forklifts.

2.4.7 Operating Practices and Distribution Assets

PowerStream's operations business units consist of:

- System Control
- Protection and Control (P&C)
- Station Sustainment
- Metering
- Lines
- Emergency Preparedness

PowerStream distributes electricity through its three-phase primary distribution systems. These are the 44 kV sub-transmission, the 27.6 kV primary distribution system and the 13.8 kV, 8.32 kV and 4.16 kV primary distribution systems.

PowerStream owns 11 of the 25 Transformer Stations (TSs) that connect PowerStream's distribution system to the 230 kV provincial transmission grid owned by Hydro One and operated by the Independent Electricity System Operator (IESO).

PowerStream's 11 transformer stations are supplied from the Hydro One Networks Inc. transmission system. These large transformer stations each supply a significant number of customers. Maintenance of the Transformer Stations is performed on an ongoing basis.

PowerStream's transformer stations that are in good or very good health as shown below:

Location	Position	Manufacturer	MVA Nameplate	Age	Health Index Category	Health Index
Lazenby MTS1 - Richmond Hill MTS#1	T1	Hyundai	125	24	Good	74
J.V. Fry - Markham MTS#1	T1	Ferranti Packard	83	29	Good	75
Greenwood -Vaughan MTS #1	T2	TTI	125	26	Good	75
A.M. Walker - Markham MTS#2	T1	TTI	83	27	Good	75
Lazenby MTS1 - Richmond Hill MTS#1	T2	Hyundai	125	24	Good	75
Lazenby MTS2 - Richmond Hill MTS#2	T1	Pauwels	83	14	Good	77
D.H. Cockburn - Markham MTS#3 Expansion	T4	Pauwels	83	11	Good	77
D.H. Cockburn - Markham MTS#3 Expansion	T3	Pauwels	83	11	Good	77
D.H. Cockburn - Markham MTS#3	T2	ABB	83	24	Good	78
D.H. Cockburn - Markham MTS#3	T1	ABB	83	24	Good	78
A.M. Walker - Markham MTS#2	T2	TTI	83	27	Good	78
Torstar - Vaughan MTS #2	T1	ABB	125	24	Good	79
Lazenby MTS2 - Richmond Hill MTS#2	T2	Pauwels	83	14	Good	80
Greenwood -Vaughan MTS #1 Expansion	T4	ABB	125	10	Good	81
J.V. Fry - Markham MTS#1	T2	Ferranti Packard	83	29	Good	82
Greenwood -Vaughan MTS #1	T1	TTI	125	26	Good	85
Lorna Jackson - Vaughan MTS #3	T2	ABB	125	14	Good	85
Fabro TS -Markham TS#4	T1	ABB	125	7	Good	85
Fabro TS -Markham TS#4	T2	ABB	125	7	Good	85
Greenwood -Vaughan MTS #1 Expansion	T3	ABB	125	23	Very Good	86
Torstar - Vaughan MTS #2	T2	ABB	125	24	Very Good	89
Lorna Jackson - Vaughan MTS #3	T1	ABB	125	14	Very Good	91
D.H.Cochburn	Spare	Siemens	83	6	Very Good	98
Greenwood	Spare	ABB	125	6	Very Good	98

Figure 2. 14 - PowerStream Health Index for TX Assets

The following summarizes PowerStream's distribution system and assets:

PowerStream 2014 Asset Counts	
Asset	**Total**
Transformers Stations	11
Distribution Stations	54
Total # of Transformer	44,192
Switchgear	1,847
Pole and Pole Structures	39,962
Switches	37,651

Figure 2. 15 - PowerStream Asset Inventory

2.4.8 Information Systems

Primary Information technology systems for PowerStream include:

- CopperLeaf - Asset Management Optimization tool (C55 Software)
- Oracle - Customer Care&Billing V10G & Application V2.3
- Oracle - JD Edwards V9.1
- ESRi - GIS 10.2.1
- Schneider - Responder 10.2.1
- Survalent - Worldview Professional Version 1.15.0122 Quad Servers
- Microsoft - BizTalk 2010

3.0 MAJOR AGREEMENTS AND CORPORATE GOVERNANCE

3.1 Major Agreements

1. Merger Participation Agreement (MPA)
2. Amalgamation Agreement – Holdings Companies
3. Amalgamation Agreement – LDCs
4. Amalgamation Agreement – Energy Services Companies
5. Unanimous Shareholders Agreement (USA)
6. Share Purchase Agreement (SPA)

These agreements deal with the merger transaction, the acquisition of the shares of Hydro One Brampton Networks Inc. (HOBNI) and the obligations of the various parties with respect to the newly merged entity. The agreements also provide for the governance of MergeCo at various levels from the municipalities, which are the ultimate indirect shareholders, their respective holding companies which are the direct shareholders of MergeCo and the directors and management of MergeCo.

3.2 Merger Steps

The various steps involved in merger and acquisition of shares would be:

1. Enersource adds a holding company, Enersource Holdings Inc. below Enersource Corporation and rolls over all shares of Enersource Hydro Mississauga Inc. and Enersource Services Inc.

2. Enersource Holdings Inc., Horizon Holdings Inc. and PowerStream Holdings Inc. amalgamate to form MergeCo.

3. (a) MergeCo amalgamates its three LDC subsidiaries, Enersource Hydro Mississauga Inc., Horizon Utilities Corporation and PowerStream Inc., to form LDC MergeCo.(b) LDC MergeCo acquires shares of HOBNI.

4. (a) MergeCo amalgamates Enersource Services Inc., Enersource Power Services Inc., Enersource Technologies Inc. and Horizon Energy Solutions Inc. to form ES MergeCo.
   (b) MergeCo rolls its shares of PowerStream Energy Services Inc. to ES MergeCo in consideration of shares of ES MergeCo.

5. Articles of Amendment are filed for Horizon Solar Corp., PowerStream Energy Services Inc. and Hydro One Brampton Networks Inc. to change the names of those corporations. Solar Sunbelt GP's business name registration is withdrawn and a new business name is registered.

6. Subject to appropriate tax rulings and OEB approval:

   (a) LDC MergeCo would incorporate a new, wholly-owned OBCA corporation (LDC GP) and together LDC MergeCo, as sole limited partner, and LDC GP, as sole general partner, would form a limited partnership (LDC LP).

(b) LDC MergeCo would rollover all of its assets (other than its interest in Collus) to LDC LP in consideration for its partnership interest.

(c) HOBNI would rollover all of its assets to LDC LP in consideration for a limited partner interest in LDC LP.

(d) HOBNI and LDC MergeCo would amalgamate by way of a short form amalgamation, resulting in LDC MergeCo again owning all of the limited partner interests of LDC LP.

The resulting corporate structure after completion of these steps is shown below:

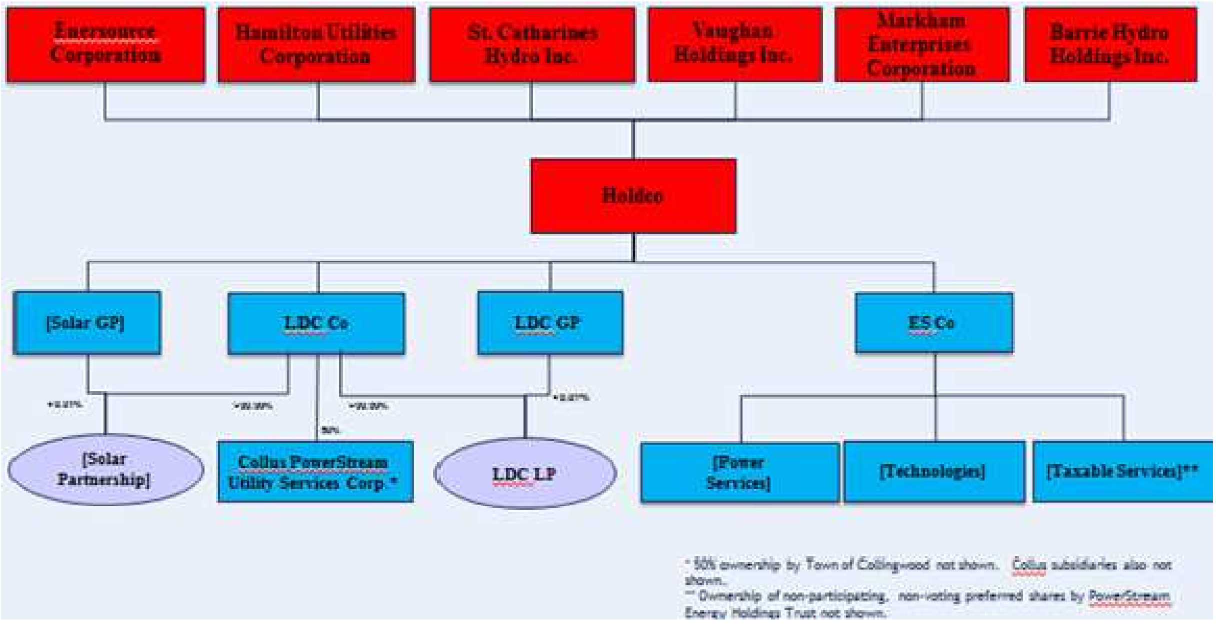

Figure 3. 1 - Corporate (Legal) Structure

3.3 Summaries of the Agreements

Note that this is not a comprehensive summary of all material terms and conditions of the underlying agreement and should not be relied upon as a substitute of a detailed review of such underlying agreement.

Note that the underlying agreement is not yet settled or final and remains subject to ongoing legal and business review.

3.3.1 Merger Participation Agreement

1. Purpose of the Agreement

- The Merger Participation Agreement (MPA) 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 Parties to the MPA include: PowerStream, Horizon, Enersource and their related entities; PowerStream, Horizon and Enersource shareholders, and the municipalities of Hamilton, St. Catharines, Vaughan, Markham, Barrie and Mississauga.

2. Merger Steps

- The merger will involve a number of steps. This includes the initial amalgamation of Horizon Holdings Inc. (Horizon), PowerStream Holdings Inc. (PowerStream) and Enersource Holdings (Enersource), the latter being an Enersource holding company created for purposes of the holding companies amalgamation; MergeCo and subsequent amalgamations of the PowerStream, Horizon and Enersource LDCs (LDC MergeCo) and the Horizon and Enersource energy services companies (ES MergeCo). The LDC MergeCo and the ES MergeCo will be subsidiaries of MergeCo.

- LDC MergeCo will be the entity that subsequently acquires HOBNI.

3. Representations and Warranties

- The municipalities, Borealis and the PowerStream, Horizon and Enersource shareholders will be giving limited representations and warranties with regard to corporate status, authority, bankruptcy, consents, conflicts and share ownership (Corporate Representations and Warranties).

- PowerStream, Horizon and Enersource will be giving both Corporate Representations and Warranties and business-focused representations and warranties including with respect to, among other things, conduct of business, financial matters, liabilities, accounts receivable, tax matters, material contracts, litigation and environmental matters.

4. Solar Shares

- In addition to the shares which will be issued in accordance with the Equity Allocation to the shareholders of MergeCo, MergeCo will issue a separate class of non-voting common shares to the PowerStream shareholders in exchange for all of the issued and outstanding shares held by the PowerStream shareholders in certain solar photovoltaic projects (Solar Projects).

- The Solar Projects will be held in the LDC MergeCo and managed under a Management Services Agreement.

- PowerStream will be asked to provide specific disclosure as to the nature of these Solar Projects in the MPA and will be asked to represent and warrant that these projects constitute all of its solar voltaic projects as at the date of closing and it is the true and registered owner of these Solar Projects.

5. Right to sell up to 10%

- Barrie, Vaughan, Markham, Hamilton and St. Catharines will be permitted pursuant to the MPA to sell up to 10% of their outstanding equity interests in their subsidiaries which are the direct shareholders in MergeCo by way of a treasury issue to (i) any Canadian third party pension plan or fund that is registered in Ontario or (ii) to another direct or indirect shareholder of PowerStream, Horizon or Enersource, provided one or more municipalities continue to own at least 90% of the equity interests of the selling party.

6. PowerStream Acquisition Rights

- PowerStream reserves the right to sell its equity interest or acquire the equity interests held by the town of Collingwood in Collingwood PowerStream Utility Services Corp. at any time during the interim period between signing of the MPA and completion of the merger (Interim Period) subject to consent of the other parties acting reasonably.

- PowerStream Energy Services Inc. further reserves the right to acquire all or substantially all of the assets of Util-Assist Inc. at any time during the Interim Period subject to consent of the other parties acting reasonably.

7. Indemnity

- The PowerStream, Horizon and Enersource shareholders will each indemnify and save harmless the other shareholders, municipalities and MergeCo from a breach by the applicable indemnifying party, PowerStream, Horizon, Enersource or the PowerStream, Horizon or Enersource holding companies of any representations and warranties, covenants or agreements contained in the MPA. The indemnities will be in accordance with the applicable indemnifying party's equity interest (prior to the HoldCo amalgamation) in the respective holding companies and will be capped at 15% of such equity interest.

- The municipalities will indemnify and save harmless the other municipalities, PowerStream, Horizon and Enersource shareholders and MergeCo from a breach by the applicable indemnifying municipality of any of their representations and warranties, covenants and agreements contained in the MPA. The indemnities will be in accordance with the applicable indemnifying party's indirect equity interest (prior to the HoldCo amalgamation) in the respective holding companies and will be capped at 15% of such equity interest.

- The PowerStream shareholders will indemnify and save harmless MergeCo and LDC MergeCo from any and all losses in connection with or resulting from a claim in respect of the Solar Projects.

- An indemnifying party's duty to indemnify will only kick in once the aggregate of all losses incurred by the applicable indemnified party is in excess of $750,000.

8. Shareholdings

- The PowerStream, Horizon and Enersource shareholders will each receive ownership interests in MergeCo as follows: PowerStream (46%); Enersource (31%) and Horizon (23%) although the actual shares will be held by the holding companies of the municipalities: Enersource Corporation, Markham Enterprises Corporation, Barrie Hydro Holdings Inc., Vaughan Holdings Inc., Hamilton Utilities Corporation and St. Catharines Hydro Inc.

9. Conditions

- The MPA is conditional upon the PowerStream, Horizon and Enersource shareholders and the municipalities not breaching any of their representations, warranties, covenants and agreements and having provided all required deliverables. Deliverables include corporate resolutions authorizing the entering into of the various agreements, officer certificates, share certificates and certain consents, waivers and releases.

- The MPA is further conditional upon Competition Act approval, OEB approval, further governmental approval and the HOBNI purchase agreement not having been terminated.

10. Covenants

- PowerStream, Horizon and Enersource and their respective holding companies covenant under the MPA that during the Interim Period, they will conduct their businesses only in the normal course, subject to certain exceptions, which exceptions, generally speaking, allow for certain transactions outside the normal course of business provided such transactions don't incur liability, payments or expenses in excess of a level to be agreed upon.

  These parties further provide standard covenants relating to, among other things, preservation of assets, maintenance of books and accounts, keeping in force insurance policies, refraining from amending certain contracts, and payment of dividends. Finally, these parties covenant that they will provide the other parties certain rights of access, terminate shareholder agreements (to the extent applicable) and provide for the preparation by MergeCo of certain financial statements post-closing.

- PowerStream, specifically, covenants that it shall (i) obtain and deliver a final rate order from the OEB with respect to its rate application currently filed with the OEB concerning distribution rates for the years 2016 to 2020 and (ii) enter into a management services contract with MergeCo with respect to its solar voltaic projects.

- There are also mutual covenants, requiring PowerStream, Horizon and Enersource to, among other things, (i) cooperate with one another with respect to the OEB and Competition Act applications (ii) maintain confidentiality (iii) refrain from making public statements regarding the ongoing deal negotiations (iii) obtain consents, approvals and waivers (iv) execute and delivery the amalgamation agreements (v) execute the MergeCo shareholders agreement and (vi) all things necessary to ensure the completion of the HOBNI share purchase transaction.

11. Termination Rights

- The MPA may be terminated at any time prior to completion of the merger (including after receipt of all OEB and Competition Act approvals) where the vendor has terminated the HOBNI purchase agreement.

- The MPA may be terminated by any of the PowerStream, Horizon or Enersource shareholders where (i) a governmental authority has blocked some or all of the amalgamations, (ii) closing of the merger hasn't occurred within one year of the anniversary of the MPA or (iii) in the event of an occurrence of a material adverse effect with respect to any of the respective holding companies.

3.3.2 Amalgamation Agreement – Holding Companies

1. Parties to the Agreement

The Parties to the Agreement are PowerStream Holdings Inc., Horizon Holdings Inc. and Enersource Holdings Inc.

2. Purpose of the Agreement

- The Amalgamation Agreement (AA - HoldCos) sets out the terms of the amalgamation of PowerStream Holdings Inc., Horizon Holdings Inc., and Enersource Holdings Inc.

The AA – HoldCos provides for the following:

i) The date, time and specific authority under which the Parties will amalgamate to form MergeCo and the shares that will be issued by MergeCo to Enersource Corporation, Markham Enterprises Corporation, Barrie Hydro Holdings Inc., Vaughan Holdings Inc., Hamilton Utilities Corporation and St. Catharines Hydro Inc. as shareholders of MergeCo.

ii) Capital structure and share capital attributes.

iii) The number of directors and the initial directors.

3.3.3 Amalgamation Agreement – LDCs

1. Parties to the Agreement

The Parties to the Agreement are PowerStream Holdings Inc., Horizon Holdings Inc., and Enersource Holdings Inc.

2. Purpose of the Agreement

- The Amalgamation Agreement (AA - LDCs) sets out the terms of the amalgamation of PowerStream Inc., Horizon Utilities Corporation, and Enersource Hydro Mississauga Inc.

- The AA – LDCs provides for the following:

i) The date, time and specific authority under which the Parties will amalgamate to form LDC MergeCo and the shares that will be issued by LDC MergeCo to MergeCo as sole shareholder of LDC MergeCo.

ii) Capital structure and share capital attributes.

iii) The number of directors and the initial directors of MergeCo.

3.3.4 Amalgamation Agreement – Energy Services Companies

1. Parties to the Agreement

The Parties to the Agreement are Enersource Services Inc., Enersource Power Services Inc., Enersource Technologies Inc. and Horizon Energy Solutions Inc.

2. Purpose of the Agreement

- The Amalgamation Agreement (AA - ES Cos) sets out the terms of the amalgamation of Enersource Services Inc., Enersource Power Services Inc., Enersource Technologies Inc. and Horizon Energy Solutions Inc.
- The AA – ESCs provides for the following:
    - i) The date, time and specific authority under which the Parties will amalgamate to form ES MergeCo and the shares that will be issued by ES MergeCo to MergeCo as sole shareholder of ES MergeCo.
    - ii) Capital structure and share capital attributes.
    - iii) The number of directors and the initial directors of MergeCo.

3.3.5 Unanimous Shareholder Agreement (USA)

1. Purpose of the Agreement

- The Shareholders (as defined below) and the Principals (as defined below) will establish, among other things, rights and obligations arising out of or in connection with the ownership of shares (Shares) of MergeCo (the Corporation).

2. Parties

- Enersource Corporation, Markham Enterprises Corporation, Barrie Hydro Holdings Inc., Vaughan Holdings Inc., Hamilton Utilities Corporation and St. Catharines Hydro Inc., as shareholders (the Shareholders), and BPC Energy Corporation, City of Hamilton, The Corporation of the City of Barrie, The Corporation of The City of Mississauga, The Corporation of the City of St. Catharines, The Corporation of the City of Vaughan and The Corporation of the Town of Markham, as principals (the Principals) and the Corporation.

3. Director Appointment Rights

- Each Shareholder shall initially be entitled to nominate that number of individuals as members of the Board of the Corporation as set out below:

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

- Each Shareholder has the right to nominate one (and only one) non-independent individual as a member of the Board of the Corporation.

- On an ongoing basis the following principles would apply for the appointment of directors:

  - Each shareholder holding a whole 1/13th of the voting shares of MergeCo would get to nominate a director for such 1/13th.

  - The original shareholders would always have a right to appoint at least one director, as long as that shareholder owns voting shares. This protection would not apply to any successor owner of an original shareholder's shares.

  - Each shareholder with interests of less than a whole 1/13th that are not represented by a director (i.e. original shareholders with less than 1/13th but who received their grandfathered director would not have this right) would cast a ballot weighted to its proportionate unrepresented interest for any empty seats on the board. Seats would only be filled if the nominated director or directors receives a majority of the votes cast. Any directors so elected must be independent.

4. Unanimous Shareholder Approvals

- The Corporation may not make a decision about, take action on, or implement any of the following matters, without the unanimous approval of all of the Shareholders:

  - Changes to the articles and by-laws of the Corporation.
  - Approval of the initial strategic plan of the Corporation.
  - Winding-up, dissolving or terminating the Corporation.
  - Any action that would breach the Corporation's anti-flip covenants in favour of the Province of Ontario during the anti-flip period specified in the SPA.

5. Special Shareholder Approvals

- The Corporation may not make a decision about, take action on, or implement any of the following matters, without the affirmative vote of Shareholders holding at least 66.66% of the outstanding Shares:

  - The sale of the assets of the Corporation having an aggregate book value of 20% of the total book value of all of the assets of the Corporation.

- The acquisition by the Corporation of a business and/or all or substantially all of the assets used in a business of any other person except a Subsidiary of the Corporation, except where the total aggregate purchase price for such business or assets is less than $100MM.

- Entering into an amalgamation, merger of consolidation by the Corporation or any of its Subsidiaries.

- The making of, directly or indirectly, loans or advances to, or the giving of security for or the guaranteeing of the debts of, any Person other than a direct or indirect Subsidiary of the Corporation.

- The redemption or purchase for cancellation by the Corporation or any of its Subsidiaries of any of its issued Shares or other securities.

- The appointment of the Auditor of the Corporation.

- The allotting, reserving, setting aside or issuing any Shares or other securities of the Corporation or any of its Subsidiaries or issuing or granting any rights, warrants or options to purchase, acquire or otherwise obtain any unissued Shares or other securities of the Corporation or any of its Subsidiaries other than Shares or other securities allotted, reserved, set aside or issued to a Pre-Approved Shareholder which does not result in adverse tax consequences to any Shareholder or Principal.

- The voting by or on behalf of the Corporation of any shares in the capital of a Subsidiary of the Corporation (other than a wholly-owned Subsidiary) to elect directors of such corporation.

- The entering into of any agreement other than in the ordinary course of the business of the Corporation.

- The taking of any of the foregoing actions by any Subsidiary of the Corporation.

- The taking, holding, subscribing for or agreeing to purchase or acquire shares in the capital of any body corporate, which, at the time of such subscription, agreement to purchase or acquisition is material to the Corporation except where the total aggregate purchase price for such shares is less than $100MM.

6. Individual Shareholder Veto

- The Corporation shall not within the first five years following the date of the Agreement, take action on, implement any Transfer, or permit any of its Subsidiaries to Transfer to any Person dealing at arm’s length with the Corporation and each of its Subsidiaries all or substantially all of the assets of the Corporation or any of its Subsidiaries, taken as a whole, that are located within the geographic boundaries of any municipality that is a Principal on the date of this Agreement without the prior written approval of such municipality.

7. Restrictions on Transfer of Shares

- No Shareholder may transfer any Shares except as set out in the Agreement.

8. Rights of First Offer

- If any Shareholder wants to sell all or any part of its Shares to any person that is not expressly permitted under the Agreement, such selling Shareholder must first offer such Shares to the other Shareholders. Each non-selling Shareholders may make an offer to acquire their proportionate interest in the selling Shareholder's Shares.

9. Guiding Principles

- The Corporation shall operate in accordance with the Guiding Principles set out in the Agreement.

10. Shareholder Pre-emptive Rights

- If the Corporation intends on raising capital through the issuance of Shares or other securities, it must first allow the Shareholders to subscribe for their proportionate interest in such offered Shares or other securities of the Corporation.

11. Tax Indemnity

- Each Shareholder that transfers its Shares pursuant to the Agreement where such transfer triggers taxes payable will indemnify and hold the Corporation and each of the other Shareholders and Principals from any liability for tax including, if applicable any transfer tax payable under the *Electricity Act, 1988* (Ontario).

3.3.6 Share Purchase Agreement (SPA)

1. Purpose of the Agreement

- To govern the sale by Her Majesty the Queen in Right of Ontario as represented by the Minister of Energy of all of the issued and outstanding shares of HOBNI, such shares to be purchased by the corporation (MergeCo) resulting from the amalgamation of Horizon Utilities Corporation (Horizon), Enersource Hydro Mississauga Inc. (Enersource) and PowerStream Inc. (PowerStream).

2. Purchase Price

- $607MM.

- Subject to a post-closing adjustment of $1.50 for every dollar the net fixed assets of HOBNI at closing are more or less than $340.5MM with collar of $2MM.

- Subject to further post-closing adjustment of $1.00 for every dollar the working capital of HOBNI at closing is more or less than $27MM.

3. Closing Date

- The last business day of the month following the date on which all conditions of closing are satisfied. It is anticipated the last closing condition will be the approval from the OEB.

4. Conditions of Closing

- The amalgamation of Horizon, Enersource and PowerStream shall have been completed in accordance with the Merger Participation Agreement.
- An advance ruling certificate or other approval shall have given by the Competition Bureau.
- The Ontario Energy Board shall have approved the merger and subsequent acquisition of HOBNI.

5. Anti-Flip

- For five years after the closing date, the purchaser shall not directly or indirectly sell, transfer or assign all or substantially all of the business carried on by HOBNI.
- For three years after the closing date, no Shareholder of MergeCo shall directly or indirectly sell, transfer or assign, and the purchaser shall not issue, any securities carrying voting rights in the purchaser which results in persons other than the municipalities of Vaughan, Barrie, Markham, Mississauga, St. Catharines and Hamilton and BPC Energy Corporation and any third party institutional investor acquiring up to 10% of the shares from any of the foregoing municipalities, beneficially owning more than 49% of the purchaser.

6. Indemnity

- HOBNI will indemnify the purchaser for certain matters, including breaches of representations and warranties, breaches of covenants, pre-closing taxes, environmental matters related to PCBs and claims relating to its billing and account management system.
- Minimum damages of $250,000 per claim must be suffered to qualify.
- Purchaser will only be able to recover claims which, in the aggregate exceed $3.035MM (0.5% of the base purchase price).
- Indemnities are capped at a total of $607MM but no more than $91.050MM for losses other than losses related to breaches of limited fundamental representations.

3.4 Key Steps to Closing

- Board Approvals - September (2015)
- City Council Presentations - September (2015)
- City Council Approvals - September / October (2015)
- OEB Application - after Council Approvals (2015)
- OEB Decision (est.) - December (2015) / January (2016)
- Transaction Close (est.) - prior to end of March 31 (2016)

3.5 Corporate Governance

3.5.1 Unanimous Shareholders Agreement (USA)

The Unanimous Shareholder Agreement is the authoritative document providing for the governance of the MergeCo group of companies including matters requiring the approval of the shareholders of MergeCo. Other than the specific matters described in points four and five of Section 3.3.5 above, the Board of Directors is charged with the governance of MergeCo subject to certain shareholder expectations including:

- MergeCo be managed in a manner consistent with the guiding principles found in Section 2.10 of the Unanimous Shareholders Agreement.
- The Board of Directors establish prudent policies with respect to capital structure, distribution rates, returns on shareholder investment, risk management and strategic planning.
- The Board of Directors establish committees, as appropriate, to review various matters such as financial results, risk management policies, executive compensation and the evaluation and recommendation of potential independent Board of Directors nominees.

4.0 STRATEGIC PLAN FOR MERGECO

4.1 Business Purpose, Mission and Vision

MergeCo will create Ontario's leading integrated energy business which will provide best-in-class customer service. The business will include the following activities, permitted by applicable law:

Regulated

- The distribution and transmission of electricity.
- The provision of standard supply service to customers as permitted by the distribution and transmission license(s) issued from time to time by the OEB to the LDC or its predecessors.
- Other activities that can be conducted directly by an electricity distributor or transmitter.

Unregulated and Regulated where permitted

- The generation and sale of renewable and solar electricity as well as distributed technologies, including site-specific combined heat and power projects and geothermal (including generation solutions).
- Extension of energy-related services including suite metering and distributed generation technologies. This includes site-specific combined heat and power projects, geothermal, mircrogrids, energy storage installations and home energy services inclusive of solar and battery storage.
- Any other business approved by the Board of Directors, including street lighting.

4.2 Strategic Drivers

As a primarily municipal community-owned entity, key elements of MergeCo's Business Plan will focus on:

- Customer service
- Efficient and effective performance
- Reliability
- Safety
- Innovation
- Staff development
- Teamwork
- Sustainability

MergeCo will be driven by enhancing shareholder and customer value and by supporting the communities within the new, merged service territory.

MergeCo's strategy will be guided by:

Superior customer service

Customers will be the operational priority and will receive superior service. MergeCo will ensure a reliable, effective and efficient electricity distribution system as well as innovative, value-added, energy services and solutions. Customers will have access to customer service in a timely, reliable and accurate manner. MergeCo will be operated on customer-centric values.

Shareholder value

MergeCo will optimize its rate of return and shareholder value. The maximum rate of return will be sought, subject to OEB approval with respect to the LDC. The non-regulated business will have an expectation to earn a rate of return with an appropriate risk premium.

Growth

MergeCo will pursue growth opportunities on a prudent and profitable basis where it enhances the company's strategic position and economies of scope and scale. It will seize opportunities for acquisitions, mergers or other business relationships which provides growth to its regulated and unregulated businesses. Unregulated business growth will be pursued within and beyond the MergeCo traditional service territory.

Capital structure

To fund mergers, acquisitions and new business opportunities, it is expected that investment capital will be required, including private equity.

Employees

MergeCo and its affiliates will treat employees in a fair and equitable manner. It will use best-in-class human resource policies and procedures to attract and retain top talent. It will adhere to an established set of core values and will demonstrate a shared commitment towards customer service excellence, improved productivity and workplace safety. MergeCo will ensure its employees understand the business plan and direction as well as having the skills required to advance its goals.

Community

MergeCo will assume a significant role in the communities in which it operates while balancing the requirement to achieving the optimal rate of return and shareholder value. MergeCo will strive to be a good corporate citizen and a facilitator of economic development throughout its service area. MergeCo will act as a catalyst for economic development but will not facilitate economic development in a manner that would favour one community over another or discriminate against any community within the service area.

Distribution system performance; reliability and planning; employee and community safety

MergeCo will implement standards and practices in the aforementioned areas with a focus on continuous improvement and on building a performance-improvement culture. Standards and practices will give due consideration to service reliability, costs and risks.

Environmental stewardship

MergeCo will act as a responsible steward over the resources it manages and will exercise a strong commitment to energy conservation and environmental sustainability. It will employ business and operating practices which seek to minimize environmental impacts.

Sector leadership

As an energy sector leader, MergeCo will seek to influence and shape the sectoral landscape from an operational, policy and regulatory perspective.

4.3 Target Market

MergeCo will be a champion of consolidation in Ontario's electricity sector with a focus on (but not exclusive to) the geography of the Greater Golden Horseshoe area. This will occur for both the regulated and non-regulated businesses.

4.4 Corporate Branding

Prior to Closing, Enersource, Horizon and PowerStream, shall unanimously agree on a co-branding strategy. MergeCo will co-brand for a period of time in each of the service territories until such time that an overall brand is developed and implemented.

5.0 OPERATIONAL PLAN

5.1 Operating Philosophy

MergeCo will implement its business mission and vision by focusing on four operating strategies:

- Improving service delivery to customers.
- Increasing shareholder value through growth and productivity improvements.
- Improving internal operational cost efficiencies and asset utilization.
- Developing and maintaining highly skilled and motivated employees.

MergeCo recognizes that to achieve the necessary and desired customer and financial outcomes, operational processes and skilled employees must be in place to support and deliver on results.

MergeCo will use the Balanced Scorecard as a performance management guide as well as a communication tool that aligns the merging entities.

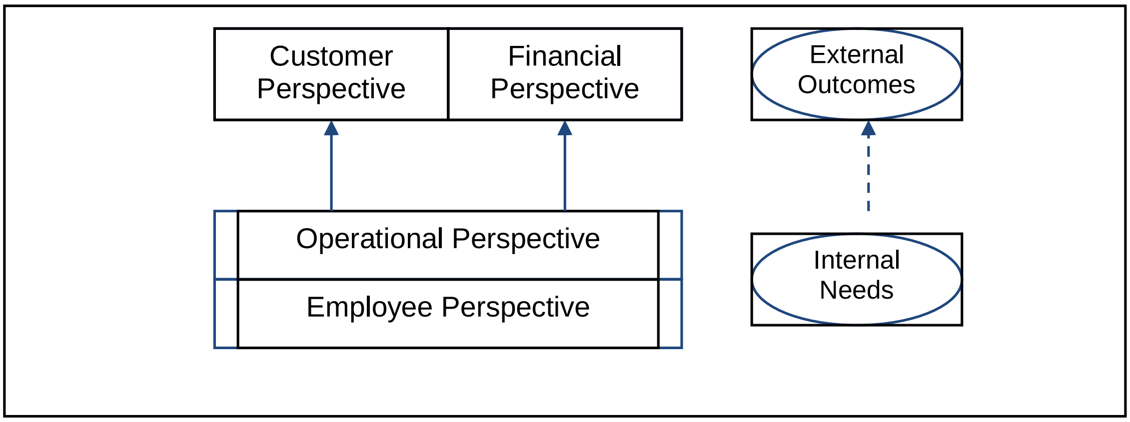

Figure 5. 1 - A Balanced Scorecard Approach

5.1.1 The Customer Perspective

The true test in determining high levels of customer service is when our customers can say, via a customer satisfaction survey, they are receiving superior value. The Customer Perspective for a utility is predicated on Operational Excellence. MergeCo simply cannot respond adequately to customer issues if information isn't available, accurate and the response is not timely. Having the appropriate IT infrastructure is crucial.

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 and quality

- Responsiveness/ease of doing business
- Trust/corporate image

5.1.2 The Financial Perspective

Shareholder value will be created at MergeCo by focusing on two objectives: revenue growth and productivity.

5.1.2.1 Revenue Growth

Build the Franchise

Revenue growth will largely be achieved through MergeCo mergers and acquisitions of other LDCs or LDC service areas that will span the Greater Golden Horseshoe area and potentially beyond.

In addition, some service areas within MergeCo continue to experience organic growth which will lead to new customer connections, likely in the range of 3,000 to 6,000 over the next several years.

Increase Customer Value

Revenue growth will also be achieved by increasing customer value where possible. Opportunities to leverage the existing customer base and provide additional services within the confines of OEB regulations will be pursued. Horizon and PowerStream, for instance, have benefited from providing water billing services to their respective service areas on the same bills as electricity. This approach should be investigated within other MergeCo service areas.

5.1.2.2 Productivity

Improve Cost Structures

MergeCo will be focused on reducing controllable expenditures by utilizing a systematic approach that builds from a foundation of solid management information. MergeCo will ensure the appropriate performance information is collected so that judicious management decisions can be made on what and when expenditures are required.

Improve Asset Utilization

Improvements in productivity can be realized by better utilization of existing assets. MergeCo will leverage best practices in asset management from the four entities. This includes the evaluation of long-term capital plans, maintenance practices, design standards and operating standards for alignment of best practices.

5.1.3 Operational Perspective

The Operational Perspective focuses on the key business process that will be required to achieve desired customer and financial outcomes. It also brings together external targets with internal requirements.

MergeCo may implement some or all of the following initiatives towards achieving its targets.

Cost Efficiency Improvements

Activity-Based Costing/Activity Based Management System

- With proper costing information MergeCo can benchmark, continuously improve, and compare itself to best service providers.

Organizational Process Review and Alignment

- Within MergeCo key business processes will be identified and logically grouped into process families. A critical review will be taken on areas of responsibility to eliminate duplication of effort.

Identification, Monitoring and Tracking of Key Performance Indicators

- For each key process MergeCo will establish key performance indicators (KPI). Information is the first cornerstone and measurement is the second towards making improvements.

Implement a Supply Chain Management (SCM) Philosophy Towards Delivery of Products and Services

- SCM is involved in analyzing the planning, sourcing, make/build and delivery decisions in providing service and products to customers. SCM will support the MergeCo Operational Strategy. The focus is on job planning, material forecasting, material standardization, just-in-time delivery and strategic sourcing.

5.1.4 Employee Perspective

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, receive ongoing communication 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

5.2 Organizational Design

MergeCo will be organized around three corporate entities:

i) Corporate entity that will act as a holding company and provide administrative support to the operating companies.

ii) Utility or LDC entity that will largely manage the regulated utility business.

iii) Sustainability and Innovation entity that will be focused on the future growth for MergeCo in addition to the delivery of corporate services.

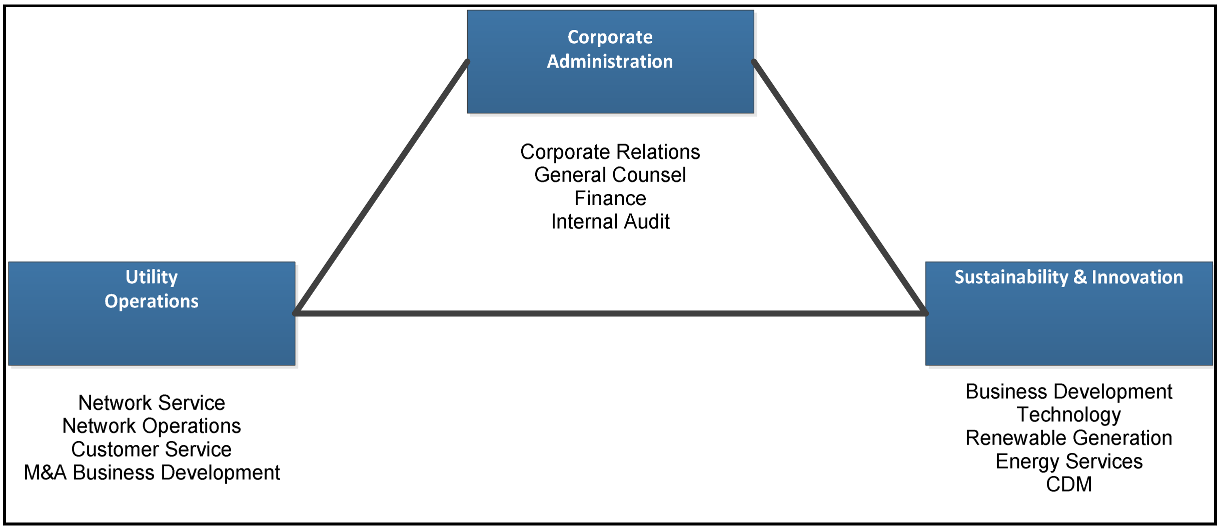

Figure 5. 2 - MergeCo Entity Level Organizational Structure

The MergeCo organization top line structure is shown above and is organized into three distinct areas for maximum efficiency and supports the management of centralized and de-centralized functions within MergeCo.

5.2.1 Locations of Functions

Each corporate entity's head offices are to be located in a separate community taking advantage of existing head office facilities. At each office, a strong local executive presence will exist.

The determination of location for the office and each of operating entities was based on practical considerations for both current and future requirements.

The following principles will underlie the final determination of which employees will work from each of the head office locations:

- All communities share the benefits and reductions.
- Focus on fair and equitable treatment of merging communities.
- Executive for head offices will have substantial presence in that location.
- Exercising management flexibility to fulfill synergy targets.
- Centralized and de-centralized functions in each community.

Service Centres

MergeCo will utilize existing service centres for de-centralized functions such as construction and maintenance, trouble response, logistics, fleet services and metering. There are six service centres located within the three regions:

- Western Region
    - Hamilton and St. Catharines

- Central Region
    - Mississauga and Brampton

- Eastern Region
    - Markham and Barrie

Future consolidation of the Mississauga and Brampton service centres will reduce the total number of service centres to five.

Administrative Offices

MergeCo will initially utilize four administrative offices, one in each region (with the exception of the Central Region) for customer touch point services such as customer service and engineering as well as some centralized functions. Over time this may be reduced to three with the potential consolidation of the Mississauga and Brampton centres.

5.2.2 Centralized Versus Decentralized Functions

In merging Enersource, Horizon and PowerStream and in acquiring Hydro One Brampton there will be role redundancies, given the four utilities have similar business purposes and functions. While all four LDCs are leaders in efficiency opportunities for further cost efficiencies will exist.

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.

Operating Regions

Western Region:	Horizon service territories
Central Region:	Hydro One Brampton and Enersource service territories
Eastern Region:	PowerStream service territories

In developing MergeCo's operational organizational structure, primary considerations were efficiency, effectiveness and service levels. Not all job functions within the utility are directly tied to the regions they serve. In fact, several services can be performed centrally, that is, outside of the region without any degradation of efficiency, effectiveness, and service levels. Centralizing appropriate functions may create scale and lower costs which is a fundamental objective of MergeCo. A necessary step is to identify what functions can be centralized and what functions are best left de-centralized.

De-centralized (Asset Related Services)

For MergeCo, regionalized functions tend to be categorized as being labour intensive and focused on the delivery of service at the asset level in the field. Opportunities exist for reduction and rationalization of Asset Related Services with the adoption of best practices in job planning, resource planning/allocation methodologies and task productivity improvements. The overall optimization function recognizes the inherent regionalized aspect of these tasks as they are intrinsically linked to geographic assets and trade-off of commuting costs that would be associated to centralization.

Centralized (Transactional/Informational Services)

In contrast to Asset Related Services, Transactional/Informational Services are technology focused. The definition of technology includes business processes. These functions utilize technology as leverage for productivity. Focus is typically on standardization and repeatability. The table below is a functional listing of a utility and the classifications of these functions into their appropriate category:

Utility Functions	
Centralized	**De-centralized**
Corporate	Facilities (Property)
Human Resources	Logistics
Regulatory Affairs	Fleet Services
Procurement	Metering
Customer Service (Call Centre, Billing, Collections)	Maintenance
Finance	Construction
Information Technology	Trouble Response
Asset Management & Engineering Services	Control Room (Day only)

Figure 5. 3 - Utility Functions

These categorizations are based on broad assumptions that reflect the primary focus and nature of the tasks involved in carrying out the functions. In certain areas a hybrid approach between centralized and de-centralized is desirable, and therefore will be employed.

5.3 Asset Management Plan

The total income producing asset value of MergeCo will be approximately $2,610MM.

MergeCo's 2016 capital program is estimated to be $300MM. Given the size of the asset base and the level of annual investment required, it is necessary that MergeCo have dedicated staff resources whose function is to identify, validate and prioritize expenditures on these assets to ensure maximum value is derived at all times.

Asset Management is defined as:

"Systematic and coordinated activities and practices through which an organization optimally manages its assets and their associated performance, risks, and expenditures over their life cycle for the purpose of achieving its organizational strategic plan."

MergeCo will continue to work to common Asset Management objectives and adoption of best practices. Key Asset Management objectives will include:

Financial Objectives

- Manage assets to minimize total lifecycle cost.
- Optimize operational and capital investments by utilizing best practices to replace, refurbish and maintain assets.
- Ensure investment prudency through balancing resources and the interests of customers and shareholders.
- All material expenditures (maintenance or capital) will undergo a benefit/cost evaluation under a decision model that will incorporate system requirements, financial considerations, customer demands and environmental concerns. This process will be aided by the use of advanced prioritization and asset condition assessment software tools.

Customer Focused Objectives

- Deliver save and reliable service to customers at reasonable cost.
- Satisfy customer expectations and deliver value for money.
- Manage reliability risks by monitoring outage causes with a goal that limits durations of outages on the distribution system.
- Perform regular customer surveys to gauge customer satisfaction with operational effectiveness and reliability and power quality.

Operational Objectives

- Develop and utilize best-in-class processes for managing company assets.
- Manage risk to acceptable levels.
- Incorporate and leverage benefits of new technology while assets are renewed.

Each year a five-year system plan will be created and/or updated that will identify areas of the system that require replacement, re-enforcement and expansion. This will include a schedule of planned maintenance programs.

An annual operational plan and associated budget will be produced that will be consistent with the business principles of MergeCo as agreed in the Merger Participation Agreement. Specifically MergeCo will develop an Asset Management plan to:

- Establish sustainable infrastructure through adequate investments: the ability to sustain adequate investment analysis levels in maintaining and replacing aging infrastructure is the fundamental benefit of a financially viable MergeCo.

- Maintain service reliability at least at current levels or better based on standard industry measurements: MergeCo will maintain and improve service reliability to customers.

5.4 Customer Service Plan

The objectives and business principles of MergeCo provide for enhanced customer service delivery as a result of the merger transaction. As such, customer service operational plans will be closely linked to the achievement of customer service satisfaction levels. In setting performance targets for customer service levels, MergeCo will consider:

- Present service levels of Enersource, Horizon, Hydro One Brampton and PowerStream.
- Service levels required by OEB regulation.
- Competitive benchmarks.
- Results of customer surveys.

There are merits of centralizing many of the process related back-office customer service functions such as the customer information system, billing and collections, etc. Centralizing such functions will not adversely impact customer service levels but will contribute to cost savings.

As part of its ongoing operation, MergeCo will regularly review the level of customer service support to ensure appropriate levels are maintained. It is expected that a larger call centre will result in faster response times.

5.4.1 Local Presence

A fundamental benefit in creating scale through mergers is the centralization of back-office related jobs. Consolidation of key elements of the Customer Service function is essential in reducing the overhead costs and payroll costs associated with this area.

Current differences exist between the four utilities on walk-in customer service. Horizon does not accept walk-in payments from customers but rather, encourages customers to consider an electronic payment method and offers payment drop-off boxes. Enersource and Hydro One Brampton accept walk-in customer payments as does PowerStream. PowerStream has maintained local presence in the communities it serves by enabling walk-in payments and customer service at five outpost locations in its communities.

MergeCo recognizes the need for the existing local customer touch points in Hydro One Brampton, Enersource and PowerStream to be maintained and as such, the existing customer service presence will remain.

5.4.2. Conservation and Demand Management

Under the 2015-2020 Conservation First Framework (CFF) all LDCs in Ontario have a requirement in their distribution licence to make Conservation and Demand Management (CDM) programs available to all customers. To receive CDM program funding from the IESO, LDCs entered into a six-year standard Energy Conservation Agreement (ECA) with the IESO and submitted utility-specific CDM Plans outlining conservation activities for the next six-year period. The technical review and approval process for these plans is underway by the IESO.

The ECA specifically indicates, if an LDC amalgamates with another distribution company it must notify the IESO within five days of the effective date and must submit a revised CDM Plan for the merged company within 120 days of the effective date. MergeCo will be required to submit a combined CDM Plan for all merging companies to the IESO for approval.

MergeCo Combined CDM Opportunity

The following table provides a summary of the CDM targets, budgets, potential performance incentives and CDM Plan status for Enersource, Horizon Utilities, PowerStream and Hydro One Brampton along with information on Toronto Hydro for comparison purposes. MergeCo would have the single largest distributor CDM target and budget representing 23% of the provincial total. If MergeCo achieved at least 100% of its six-year target by end of 2020, the company could earn $24MM in performance incentives.

	PowerStream	**Horizon Utilities**	**Enersource**	**Hydro One Brampton**	**Merged (4)**	**Toronto Hydro (comparison)**
IESO Allocated 2015-2020 CDM Targets & Budgets						
CDM Target (GWh)	535	330	484	255	1,605	1,576
Budget ($M)	$140.7	$84.83	$122.5	$66.8	$414.8	$400.2
6-year Potential Performance Incentives $10,000 / GWh achieved ($15,000 / GWh for Joint Plans) 50% + payable at mid-term if ≥50% progress						
At 100% target ($M)	$8.0	$5.0	$4.8	$2.6	$24.1	$15.8
CDM Plans						
Type	Joint	Joint	Single Joint resubmission with HOBNI	Single Joint resubmission with Enersource	Joint	Single
Status with IESO	Approved (Feb 24)	Approved (May 29)	Submitted (April 2) Resubmitted in August 2015	Submitted (April 30) Resubmitted in August 2015		Approved (Mar 26)

Figure 5. 4 - Summary of CDM Requirements and Opportunities

5.4.3 LEAP (Low-Income Energy Support Program)

There is a distinct benefit for low-income customers from MergeCo that is similar to the benefit of a having a larger and more diverse asset pool. Large utilities like Union Gas and Enbridge can use their revenue from a broad pool of customers to distribute LEAP money where it is most needed more so than any one of the four LDCs on their own.

Currently, two of the four LDCs spend their full allotment of LEAP with demands that exceed available funds and two are under-spending ($114 thousand in 2013). MergeCo could distribute these unused funds to low-income customers in the other two utilities' service areas.

LDC	2013 - Distribution Revenue (Mil)	LEAP Funds Available (0.12% of distribution revenue)	Unused in 2013
Horizon	$ 109	$ 130,800	$ -
PowerStream	$ 169	$ 202,800	$ 14,990
Enersource	$ 121	$ 145,200	$ -
HydroOne Brampton	$ 67	$ 80,400	$ 99,621
Total	**$ 466**	**$ 559,200**	**$ 114,611**

Figure 5. 5 - Comparison of 4 LDCs for LEAP Funds

5.5 Business Applications Plan

MergeCo will set the following objectives for business applications:

- Establish a stable, consolidated, secure information technology infrastructure environment to sustain the operations of the new company and minimize operational risk during the transition period following the merger.
- Consolidate the Enterprise Resource Planning system of all legacy companies as quickly as possible into a common JD Edwards system environment to facilitate the integration business operations.
- Consolidate the Customer Information Systems (CIS) environment of all legacy companies as quickly as possible into one common Oracle Customer Care & Billing (CC&B) system to facilitate integration of Customer Service business functions and improve service to customers.
- Consolidate the Geographic Information System (GIS) and Outage Management Systems (OMS) of the legacy companies into one common Intergraph GIS and OMS environment to facilitate integration of the electrical Network Operations of the business and improve service to customers.
- Consolidate enterprise cyber security practices and technologies into a single common set of processes and systems that provides the protection of information and the entire

information technology architecture to support all business and regulatory requirements of the new company.

5.5.1 Stable Environment during Transition Period

During the transition period following the merger, MergeCo will quickly establish a stable business applications environment to support operations and minimize risk. A review of the business applications presently employed by each of the four LDCs indicates a high level of compatibility.

There are a number of less compatible systems including finance, work order management and payroll systems that will need to be integrated as part of a transitional plan. Each of these systems may be run in parallel until such time as integration plans can be executed.

Overall, it appears that the level of systems compatibility between the utilities will facilitate a transition to a common approach to delivering business applications while supporting continuing business operations and managing risk.

5.5.2 Strategic Plan for Business Applications

The following objectives have been adopted in formulating an information technology (IT) strategy for MergeCo:

- Leverage experience from within the legacy companies and other similar utilities.
- Maximize return on investment.
- Where possible, leverage best practices embodied in package solutions.
- Managing implementation risk and cost.

The first phase in the implementation of the strategic plan for business applications is to consolidate the core enterprise applications (ERP, CIS, GIS/OMS and SCADA) as quickly as possible in order to facilitate the realization of identified synergies. This would involve utilizing the business processes and systems configuration of one of the utilities and migrating all others to the selected configuration. Such actions would expedite realization of synergies.

Once all of the utilities are utilizing a common set of enterprise applications, phase two would be to implement process improvements and system reconfiguration to support best practice business processes and increased staff productivity.

The total one-time costs of the IT transition projects are approximately $55MM for 22 separate projects. This includes one-time CAPEX of $51MM and one-time OPEX of $4MM. One-time CAPEX includes capitalized internal labour of $11.6MM from 2016 to 2018.

These one-time costs are offset by pre-merger planned 2016-2020 CAPEX spending for the four utilities of $89MM which would be avoided as a result of the merger and consolidation of systems.

The objective of the IT transition is to integrate all enterprise systems by mid-2018, with exception of the integration of GIS/OMS from PowerStream which will be completed by the end of 2018.

5.6 Opportunities

The total anticipated benefits resulting from the merger of Enersource, Horizon and PowerStream, and the acquisition of Hydro One Brampton total $312MM in operating costs and $114MM of avoided capital costs. Over a 10-year period, over $425MM of total cash savings are anticipated. These operating and capital savings will benefit customers through lower rates, and shareholders through increased and more stable dividends as elaborated elsewhere in this document.

Annual operating savings will ramp up quickly during the initial five years, between 2016 - 2020, with sustained net annual operating savings of approximately $42.5MM in 2020 and beyond. The savings will result from increasing scale for all utilities and leveraging resources or infrastructure to realize these savings.

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total
OPEX Savings	$ 7.2	$ 20.1	$ 31.5	$ 40.6	$ 42.5	$ 42.5	$ 42.5	$ 42.5	$ 42.5	$ 42.5	**$ 354.6**
OPEX Transition Costs	$ (20.9)	$ (11.1)	$ (8.2)	$ (2.3)	$ (0.5)	$ -	$ -	$ -	$ -	$ -	**$ (43.0)**
Total OPEX Savings	$ (13.7)	$ 9.0	$ 23.5	$ 38.3	$ 42.0	$ 42.5	$ 42.5	$ 42.5	$ 42.5	$ 42.5	**$ 311.6**
CAPEX Savings	$ 23.0	$ 22.6	$ 28.8	$ 23.2	$ 30.0	$ 8.0	$ 8.0	$ 8.0	$ 8.0	$ 8.0	**$ 167.6**
CAPEX Transition Costs	$ (33.7)	$ (15.2)	$ (4.4)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	**$ (53.3)**
Total CAPEX Savings	$ (10.7)	$ 7.4	$ 24.4	$ 23.2	$ 30.0	$ 8.0	$ 8.0	$ 8.0	$ 8.0	$ 8.0	**$ 114.3**
Total Cash Savings	**$ (24.4)**	**$ 16.4**	**$ 47.9**	**$ 61.5**	**$ 72.0**	**$ 50.5**	**$ 50.5**	**$ 50.5**	**$ 50.5**	**$ 50.5**	**$425.9**

Figure 5. 6 - Operating Cost Savings

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total
Payroll Cost Savings	$ 6.7	$ 17.5	$ 28.0	$ 34.5	$ 36.7	$ 36.7	$ 36.7	$ 36.7	$ 36.7	$ 36.7	**$ 306.9**
Payroll Transition Costs	$ (17.5)	$ (10.0)	$ (7.8)	$ (2.0)	$ (0.3)	$ -	$ -	$ -	$ -	$ -	**$ (37.6)**
Total Payroll Savings	$ (10.8)	$ 7.5	$ 20.2	$ 32.5	$ 36.4	$ 36.7	$ 36.7	$ 36.7	$ 36.7	$ 36.7	**$ 269.3**
											$ -
Non-Payroll Cost Savings	$ 0.5	$ 2.6	$ 3.9	$ 6.0	$ 5.8	$ 5.8	$ 5.8	$ 5.8	$ 5.8	$ 5.8	**$ 47.8**
Non-Payroll Transition Costs	$ (3.4)	$ (1.1)	$ (0.6)	$ (0.2)	$ (0.2)						**$ (5.5)**
Total Non-Payroll Savings	$ (2.9)	$ 1.5	$ 3.3	$ 5.8	$ 5.6	$ 5.8	$ 5.8	$ 5.8	$ 5.8	$ 5.8	**$ 42.3**
Total OPEX Savings	$ (13.7)	$ 9.0	$ 23.5	$ 38.3	$ 42.0	$ 42.5	$ 42.5	$ 42.5	$ 42.5	$ 42.5	**$ 311.6**

Figure 5. 7 - CapEx and OpEx Savings

Payroll Cost Savings

MergeCo will benefit from $270MM (net of transition costs) in savings over the first 10 years from payroll reductions. The savings result from redundant positions largely in administration and back-office functions, as well as the reduction of staff dedicated to IT systems that are no longer required.

Non-payroll Cost Savings

In addition to payroll reductions, the merger partners looked at non-payroll cost reductions. In total, $42MM (net of transition costs) of savings in the first 10 years was identified through this preliminary review. Savings are related to the elimination of costs due to the duplication of business processes across the four entities and adoption of best practices. Highlights of these cost savings are:

- Reduction of third party costs e.g. consulting, legal etc.
- Consolidation of contracts and services
- Volume discounts

- Software licensing and maintenance
- Consolidation of systems

Transition Costs (operating)

As MergeCo transitions people, processes and technology, there will be transitional operating costs for the first three years. Operating transition costs are related to:

- Voluntary separation packages
- IT system migration and integration costs
- Re-branding and communication tool integration
- Third-party costs

Avoided Capital Expenditures

MergeCo anticipates approximately $114MM (net of transition costs) in avoided capital expenditures over the first 10 years. These savings are primarily related to MergeCo taking advantage of converged IT systems that, without a merger, would have required each utility to undertake these costs independently. Other areas of savings are:

- Elimination of IT costs due to converged IT Systems (e.g. programming, maintenance and license fees).
- Purchasing power will result in volume discounts for inventory and third party contractors.
- Rationalization of fleet and equipment across the three Regions.
- Elimination of duplicated programming costs due to regulatory compliance or changes in regulation (e.g. CIS programming for billing changes).
- Reduction of labour costs from the elimination of future hires and best practice adoption of work methods.

Transition Costs (Capital)

Capital related transition costs of $53MM are driven by the integration and consolidation of IT systems. IT systems such as CIS, ERP, GIS/OMS, telephone system, miscellaneous IT systems etc. will be consolidated over the first three years of the merger.

Please refer to Section 6 (Financial Plan) and related Appendices for a complete analysis on the financial benefits of the merger.

5.7 Implementation Plan

Following formal Shareholder approval of the transaction and prior to closing, a process will be implemented to develop the merger integration and transition plan. Specifically, the departmental sub team structure that was utilized to identify synergy savings will be employed to create detailed implementation planning.

Leveraging the subject matter expert teams from the four organizations, detailed department by department implementation plans will be built. These plans will give consideration to and recommendations for all transitional issues as the four organizations work to become one over time.

It will also map the path, with the appropriate project milestone dates, to the permanent operating state, including but not limited to plans for the integration and standardization of operating procedures, common business and operating processes, common technology platforms and nomenclature and naming conventions.

5.8 Transitional Issues

CDM

Under the Energy Conservation Agreement with IESO, MergeCo would need to resubmit a combined CDM Plan within 120 days of the merger. There may be opportunity to seek an extension or exception to this requirement. It is anticipated that the new Resource Plan could be in place by January 1, 2016.

There is a potential timing issue related to transition and consolidation of CDM activities across the four LDCs. Specifically, if the transition is too slow, MergeCo may be prevented from reaping the synergistic benefits of the merger in time to help achieve the mid-term (2017) CDM target and performance incentive.

Many of the LDCs in GTA area have already been meeting to identify opportunities for collaboration. Additionally, the Transaction participants are also beginning to work more closely together to identify ways to help each other in the short term in order to achieve cost efficiencies and increase energy savings results as soon as possible.

From a CDM perspective, potential issues of a material nature are most likely to be related to staff resources including aligning/mapping roles and compensation structure. Given the relative infancy of CDM activities within the utility sector, there is a range of approaches that have been taken for developing specific job functions and for establishing titles and compensation structures.

With over $400MM in funding and a target of 1.6 TWh, MergeCo would be the largest LDC in Ontario from a CDM delivery perspective. The new Conservation First Framework presents an opportunity to earn a sizeable incentive for performance ($24MM for achieving target, maximum incentive of $58MM). However it also presents many new challenges, responsibilities and financial risks to LDCs.

There are many risk factors which could impact MergeCo's ability to achieve its CDM targets and earn performance incentives ($24MM+) in the 2015-2020 framework. Key risks identified by the subcommittee are identified below.

- Inability to retain existing contract specialized CDM resources:
    - Limited pool of resources; 50% of positions still contract.

- Not transitioning quickly enough to take advantage of synergies in time for mid-term incentive (2017).

5.9 Significant Assumptions

The Operational Plan has execution risks attached; the bulk of which are associated with people and systems. As with any consolidation of this scale there are potential risks associated with synergy delivery. Certain key assumptions have been made in this business case that must be identified and validated during the transition period.

5.9.1 Labour and Human Resources

- Take up on retirement and voluntary separation programs will meet target:
    - A significant portion of cost savings is to be delivered by reduction in payroll costs. A risk exists that the programs offered may not attract sufficient numbers. If this risk materializes, involuntary layoffs may be required.

- Key staff or single incumbent positions will not leave the company during the transition before an effective transfer of knowledge has occurred.

- MergeCo assumes that work procedures and Work Protection Code are not materially different between the four utilities to prevent trades from safely working in each service area without prior extensive training being required.

5.9.2 Information Systems

The primary risk to IT synergies and transition project delivery is MergeCo's ability to cope with the magnitude of technological and organizational change in the planned consolidation timeframe while effectively managing the business. Organizational commitment, effective project management, rapid standardization and simplification of business processes and rapid resolution of issues as they are identified will assist in mitigation of this risk.

- All legacy Customer Information Systems will be migrated to a single consolidated Oracle Customer Care and Billing system by yearend 2018.
- Horizon and HOBNI IBM System (AS/400) will be retired by year end 2017.
- All legacy Enterprise Resource Planning systems will be migrated to a single consolidated system by year end 2017.
- All legacy GIS-OMS systems will be migrated to a single consolidated GIS-OMS system by yearend 2018.
- All legacy SCADA systems will be migrated to a single consolidated SCADA system by mid-2017.
- The new company will migrate to one Production Data Centre and one Disaster Recovery Data Centre by yearend 2017.
- Server/SAN consolidation to a single standard platform by yearend 2017.
- The new company will migrate to a common phone system platform by 2017.
- Assumption that financial reporting by department is in place by 2017 to enable costs to be tracked by new structure and areas of accountabilities to permit timely decisions to be made to manage to plan
- Any regulatory reporting requirements will be considered and accommodated as part of the IT system integration plan.

6.0 FINANCIAL PLAN

6.1 The Transaction

Project MergeCo comprises the following:

i.) A merger of the regulated and non-regulated business activities of: PowerStream Holdings Inc. (PS); Enersource Corporation (EC); and Horizon Holdings Inc. (HHI) (individually, a 'Party' and collectively, the 'Parties');

ii.) An acquisition by the Parties of the regulated electricity distribution business of Hydro One Brampton Networks Inc. (HOBNI) for gross proceeds of $607MM net of any purchase price adjustments as defined in the corresponding Share Purchase Agreement.

The manner of the merger and acquisition are further described below and in accompanying appendices. The combined entities under i.) and ii.) are referred to as MergeCo and the corresponding transactions are referred to as the "Transaction".

Subject to terms further elaborated below, the Solar Generation business of PowerStream (PS Solar) is included in the merged assets but the benefits thereof accrue solely to the benefit of the PS common shareholders; Values are presented in millions (MM) unless otherwise indicated.

6.2 Benefits

<u>Overview</u>

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 $355MM 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 (CapEx) savings of $168MM over the first 10 years, thereafter continuing at a sustained level of $8MM annually.

- MergeCo will incur transition costs of approximately $96MM in the first three years with respect to systems and process integration and human resource costs.

In total, MergeCo will deliver approximately $426MM of net cash savings (pre-tax) in the first 10 years following the merger thereafter sustained at approximately $51MM per year.

The very meaningful shareholder and customer benefits described herein are made available by the operating synergies and savings previously described and summarized as follows ($MMs):

($MMs)	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total
Gross Synergies											
Operating	7.2	20.1	31.7	40.6	42.5	42.5	42.5	42.5	42.5	42.5	354.6
Capital	23.0	22.6	28.8	23.2	30.0	8.0	8.0	8.0	8.0	8.0	167.6
Total Synergies	30.2	42.7	60.5	63.8	72.5	50.5	50.5	50.5	50.5	50.5	522.2
Transition Costs											
Charged to Operating	20.9	11.1	8.2	2.3	0.5	-	-	-	-	-	43.0
Charged to Capital	33.7	15.2	4.4	-	-	-	-	-	-	-	53.3
Total Transition Costs	54.6	26.3	12.6	2.3	0.5	-	-	-	-	-	96.3
Net Synergies											
Operating	(13.7)	9.0	23.5	38.3	42.0	42.5	42.5	42.5	42.5	42.5	311.6
Capital	(10.7)	7.4	24.4	23.2	30.0	8.0	8.0	8.0	8.0	8.0	114.3
Total Net Synergies	(24.4)	16.4	47.9	61.5	72.0	50.5	50.5	50.5	50.5	50.5	425.9

Figure 6. 1 - Total Net Synergies

The 2025 annual operating and capital savings are expected to be sustainable thereafter. Customers will benefit from reduced rates as compared to the rates that would have exist if the merger transaction had not occurred. Customers also benefit from a larger and more stable utility that has significant access to investment capital to support sustainable investment in the reliable and safe distribution of electricity.

Based on OEB policy for distributor consolidation, the cost savings and synergies resulting from a merger may be retained by shareholders and customers of LDCs as follows:

- Savings net of transaction and transition costs may be retained by shareholders until the next LDC rate re-basing, which must occur no later than the beginning of the eleventh year following the merger. Consequently, LDC shareholders may retain merger benefits for a maximum ten year period subsequent to a merger. The benefits retained in the second five year period are subject to an earnings sharing mechanism further described below;

- The merger benefits to customers in the form of lower distribution rates at the time of the first re-basing of MergeCo.

The analysis undertaken in the business case suggests that rebasing of MergeCo is not anticipated until the eleventh year following the merger.

The shared benefits of the MergeCo shareholders (MergeCo Shareholder(s), which exclude any economic considerations corresponding to PS Solar, are also enhanced by the ongoing earnings stream generated by the acquired HOBNI regulated distribution assets.

Please refer to *Appendix 6-A – Financial Results Overview* for a detailed overview of pro forma MergeCo Shareholder and customer benefits with corresponding assumptions, risks, opportunities, and regulatory implications.

<u>MergeCo Shareholder Benefits</u>

Subject to assumptions and risks further described herein, the Transaction is expected to deliver meaningful shareholder benefits summarized as follows:

MergeCo

- Increase in the Net Present Value (NPV) of earnings of approximately $276MM from $1,154MM to $1,430MM from 2016 to 2036 (the "Forecast Period") relative to the status quo, a 24% increase.

PowerStream Holdings Inc.

- Increase in the NPV of allocated shared earnings of approximately $112MM from $545MM to $657MM through the Forecast Period relative to the status quo, a 21% increase.
- Increase in the NPV of allocated shared dividends of approximately $121.7MM from $273MM to $394MM through the Forecast Period relative to the status quo, a 45% increase (the PS dividend policy rate on earnings rises from 50% under its status quo to 60% under the merger).
- Average increase in annual dividends across the Forecast Period of $12.8MM.

Enersource Corporation

- Increase in the NPV of allocated shared earnings of approximately $91MM from $352MM to $443MM through the Forecast Period relative to the status quo, a 26% increase.
- Increase in the NPV of allocated shared dividends of approximately $55MM from $211MM to $266MM through the Forecast Period relative to the status quo, a 26% increase.
- Average increase in annual dividends across the Forecast Period of $5.5MM.

Horizon Holdings Inc

- Increase in the NPV of allocated shared earnings of approximately $73MM from $256MM to $329MM through the Forecast Period relative to the status quo, a 29% increase.
- Increase in the NPV of allocated shared dividends of approximately $44MM from $154MM to $197MM through the Forecast Period relative to the status quo, a 29% increase.
- Average increase in annual dividends across the Forecast Period of $4.8MM.

MergeCo expects to adopt a dividend policy with dividends computed on shared earnings determined in a manner consistent with that used by the OEB for purposes of its distribution rate-making policies. Such basis is commonly referred to as Modified International Financial Reporting Standards (MIFRS). MIFRS is a modified basis of International Financial Reporting Standards (IFRS) used by Canadian corporations for financial statement purposes. MergeCo generally expects to pay dividends up to 60% of earnings based on the analysis; which is the assumption for purposes of this Financial Plan.

A separate dividend policy will be developed for the PS Solar business that is appropriate to that business for the benefit of the Class S Shareholders.

<u>Customer Benefits</u>

Customers generally benefit from lower rates from, or very near to, the commencement of a merger transaction.

OEB policy with respect to rate-making associated with LDC consolidations is described in *Section 6.6*.

The savings corresponding to LDC consolidations are transferred to customers at its first rate re-basing; which must be undertaken no later than the 11th year following a consolidation transaction. The period prior to such first re-basing is defined as the Re-basing Deferral Period.

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

In the absence of the Transaction, the Parties and HOBNI would continue to regularly re-base their rates, through successive Custom IR applications (further described below) in order to recover ongoing increases in their cost structures. Under the merger, no such re-basing occurs during the Re-basing Deferral Period during which the savings accrue to shareholder interests. Consequently, as a result of the Transaction and consolidations generally, customers benefit from lower rates during the Re-basing Deferral period.

The overall relative benefit to customers under the "Merged" versus "Status Quo" scenarios is illustrated in the chart below (also included in *Appendix 6-A - Financial Results Overview*).

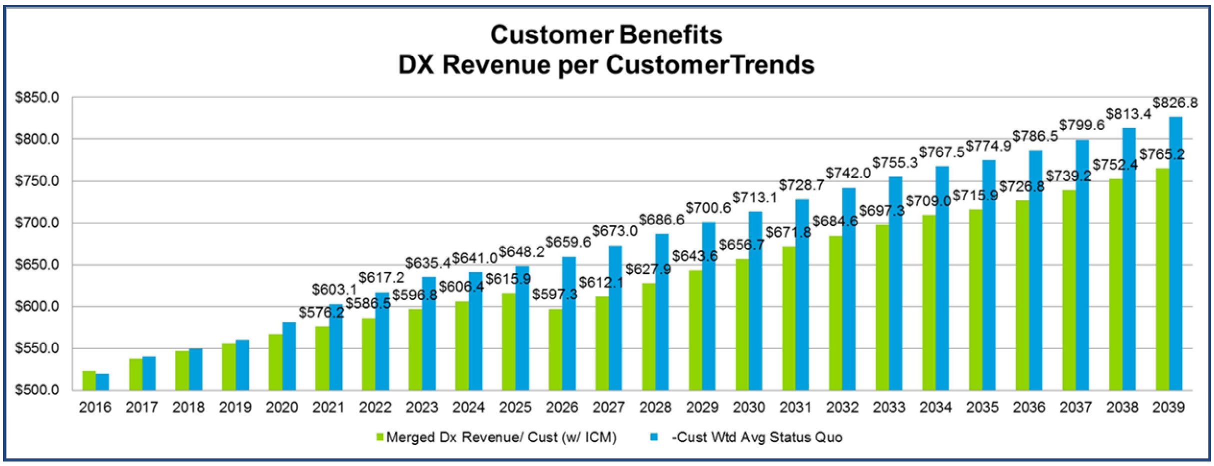

Figure 6. 2 - Distribution Revenue per Customer Trends

Overall, the Transaction is also expected to deliver lower distribution costs to MergeCo customers averaging an aggregate of:

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

6.3 Valuation

The Parties engaged Deloitte LLP (Deloitte) to perform a relative (as opposed to absolute) valuation of each Party for purposes of allocating MergeCo shareholdings to the respective shareholders of each Party.

The Parties requested a relative valuation of income generating assets on the basis that each would contribute a common capital structure (i.e., debt and equity) to MergeCo. The common capital structure adopted for purposes of valuation is comprised of 60% debt and 40% equity relative to contributed assets.

The principal business of each Party is regulated electricity distribution. The 'Rate Base' or asset value of the regulated and total business (regulated and non-regulated) of each Party is as follows (2014):

Rate Base - Regulated Business ($M)		
	2014	**%**
PowerStream	$929.5	45.1%
Enersource	$654.1	31.7%
Horizon Utilities	$477.6	23.2%
	$2,061.2	

Rate Base - Regulated and Non-Regulated Businesses ($M)		
	2014	**%**
PowerStream	$952.6	45.5%
Enersource	$657.2	31.4%
Horizon Utilities	$483.8	23.1%
	$2,093.6	

Figure 6. 3 - MergeCo Rate Base Calculation

Note: the calculation of Rate Base is based on the information from 2014 Financial statements only and does not include any adjustments for non-distribution assets

Each Party has non-regulated businesses as follows:

- PS – PS Solar, sub-metering, and other energy businesses;
- EC – street light maintenance, high voltage design and maintenance;
- HHI – solar generation, meter servicing, and water billing.

PS proposed that its PS Solar business not be included in the valuation on the basis that its common shareholders continue to benefit from the economics of the underlying solar assets and contracts existing as of the merger date. However, PS proposed that such contracts should remain in MergeCo and be managed therein (PS Solar Hybrid Structure) as follows:

- The PS Solar assets, liabilities, and other undertakings and attributes be clearly segregated from those shared generally by the MergeCo Shareholders;

- Such PS Solar assets, liabilities, and other undertakings and attributes accrue to the Class S Shareholders subject to not otherwise creating any adverse implication to the shared interests of the MergeCo Shareholders.

Similar to the structure for PS Solar within PS, this business 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. Financial interactions between the LDC interests of MergeCo and PS Solar, such as management support, will be subject to an affiliate services arrangement that is compliant with the Affiliate Relationships Code for Transmitters and Distributors as applicable.

The PS proposal regarding the PS Solar Hybrid Structure has been accepted by the parties subject to terms that allocate some of the benefits of this business to compensate for assumed risks.

Deloitte employed leading valuation principles in its determination of relative value as follows:

- Enterprise Value (EV), which uses discounted cash flow analysis to arrive at the value of each Party;

- Market Multiple (MM), which effectively determined a multiple of the asset value that a prospective purchaser might be willing to pay on the basis that it continues to earn a regulated rate of return on the regulated assets of each party after consideration for merger costs and savings.

The Enterprise Value approach was used exclusively to value the non-regulated business investments of each Party.

The high level results of the relative valuation by Party are as follows:

	Enterprise Value	Market Value	Difference (MM-EV)
PowerStream	46.0%	45.2%	-0.7%
Enersource	31.0%	31.5%	0.5%
Horizon	23.0%	23.3%	0.3%

Figure 6. 4 - Participant Value Calculations

It is evident from the above that both approaches yield very similar results. The Parties anticipate using the EV approach as the primary approach to value on the basis that this is a more pure analytical approach for purposes of relative valuation. A valuation based on market multiples is a relevant test of the reasonability of the relative values reached through the EV approach.

The allocation of shareholdings under the EV approach is as follows:

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

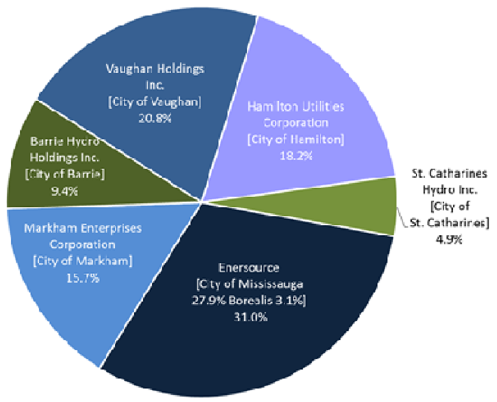

Figure 6. 5 - Individual Shareholder Ownerships

The valuation results indicate that there is no single controlling interest in MergeCo such that the shareholdings are well distributed with the Enersource Corporation having the largest interest at 31.0% and St. Catharines Hydro Inc. having the smallest interest at 4.9%.

There is no further analysis of valuation in this Business Plan document. The detailed valuation report of Deloitte is provided at *Appendix 6-B – Phase II – Relative Valuation Report (Hybrid PowerStream Solar Structure).*

6.4 Transaction Structure

The corporate structure has been designed with the following objectives:

- Financial flexibility to support ongoing sustainment-based investment in electricity distribution and business growth;
- Tax efficiency.

The proposed final structure is provided below:

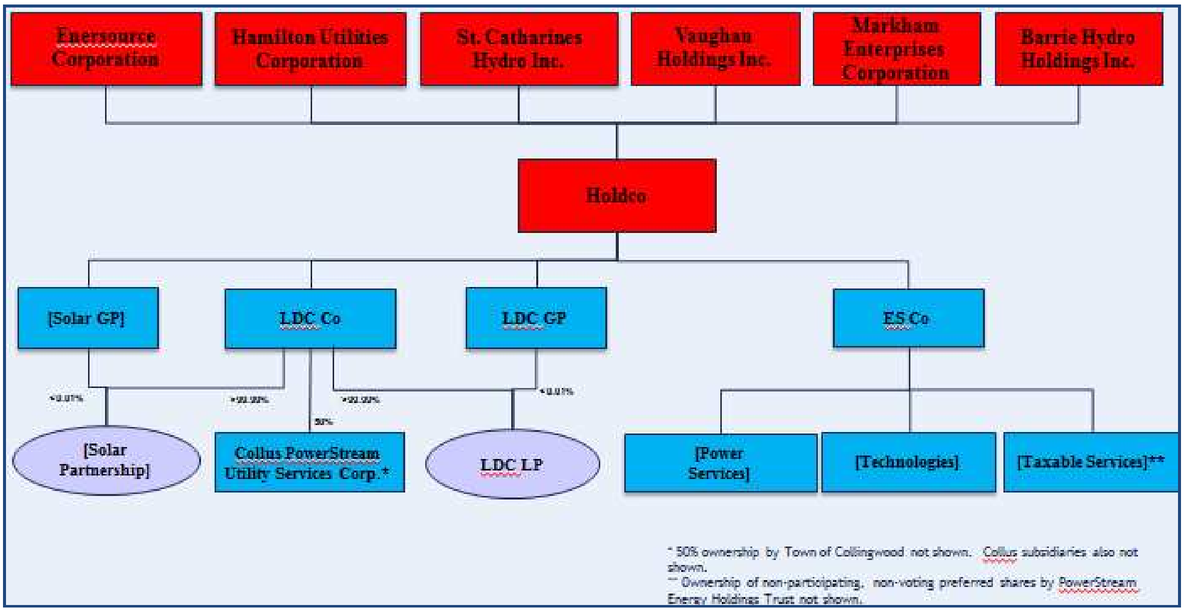

Figure 6. 6 - Proposed (Legal) Corporate Structure

The LDC Co holds the LDC business and assets as well as the solar generation assets. The energy services company or 'ES Co' holds the other non-regulated business interests.

Holdco is effectively a holding company for all of the businesses of MergeCo. Holdco warehouses corporate functions including the CEO, legal, finance, treasury, communications, and public and investor relations.

The businesses of PS, EC, and HHI are effectively merged in LDC Co and ES Co. HOBNI is thereafter effectively acquired by LDC Co.

With the exception of the shareholders of EC, MergeCo is held directly by municipal holding companies that, in turn, are held directly by respective municipalities as follows:

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

BPC Energy Corporation (BPC) and the City of Mississauga continue to hold their respective shareholder interests in MergeCo through EC. It is necessary, as direct interest of BPC in MergeCo will trigger significant tax consequences for MergeCo. The tax issues corresponding to the structure are elaborated below and in corresponding referenced appendices.

MergeCo will require financial flexibility and outside investment to support its growth objectives. Otherwise, MergeCo growth is effectively limited to its ability to issue debt. In order to provide this financial flexibility, MergeCo expects to adopt a partnership structure for each of its electricity distribution and electricity generation businesses (further elaborated herein). The use of a partnership is expected to permit additional private investment in a tax-efficient manner not available to more traditional corporate structures.

The partnership structure (LDC LP) is expected to be adopted subject to:

i.) The receipt of appropriate and favourable tax rulings and interpretations;

ii.) Regulatory (OEB) approval.

Assuming the partnership structure is adopted, the LDC assets of MergeCo would be transferred to LDC LP on a tax deferred basis. The solar generating assets of MergeCo could be similarly transferred to a separate Solar Partnership to provide similar financial flexibility benefits.

The transaction steps to achieve the structure are provided in *Appendix 6-C – PSI Solar Business and* [redacted]

[redacted]

There is no further discussion of the transaction steps to achieve the structure in this Business Plan.

The financing and tax issues corresponding to the structure will be elaborated further in this document.

6.5 Corporate Finance

MergeCo will require ongoing access to financial capital to address the following investment objectives:

- Ongoing sustainment of the electricity distribution business through re-investment in aged infrastructure, new investment in customer connections growth, and corresponding working capital;
- Acquisition of HOBNI;
- Growth through mergers and acquisitions or logical extensions of the existing business;
- Shareholder preferences for monetizing their respective investment interests in MergeCo.

The regulated utility universe in Canada and much of the United States is generally in an A-range for utilities that do not have significant commodity-based exposures. In Canada, 20 of 33 utilities are in the Standard and Poor's A-range.

The foregoing plans are based on more detailed principles, scenario analysis and modeling, and risk identification provided in *Appendix 6-F – Financing Plan*.

Sustainment-Based Investment

The financial plan has been modeled on the basis that the ongoing sustainment and growth requirements of the electricity distribution system are provided for in a manner consistent with the long-term forecasts of the entities comprising MergeCo. Each entity has long-term capital plans based on detailed asset condition assessments, growth estimates, and sound engineering principles.

MergeCo requires sustainment-based financing for the following:

- To support its current and ongoing investments in electricity distribution infrastructure;
- To support working capital timing differences, such as differences between the realization of customer receivables and the settlement of trade payables.
- To support security requirements such as the prudential requirements of the Independent Electricity System Operator for electricity purchases.

The rate-making policies of the OEB generally provide for the recovery of:

- Prudently incurred capital and operating expenditures.
- A corresponding recovery of the cost of financial capital to support capital investments and a working capital allowance based on a deemed regulated capital structure that is consistent with industry norms for regulated utilities.

Financial capital will be provided through a combination of the following:

- MergeCo regulated and non-regulated operating cash flow.
- Revolving credit facilities in an amount sufficient to finance working capital and support bridge financing of ongoing growth in the assets of MergeCo.
- The establishment of a trust indenture under which MergeCo will issue long-term debt instruments to provide a more permanent source of financing for its long-term assets.

Such sources of financial capital are identical to those presently used by the MergeCo entities and are typical of the sources used by similar utilities.

The Parties have arranged a commitment from two financial institutions for a $500MM revolving term loan to provide a source of financing on closing for working capital and bridge financing for new capital expenditure (Working Capital Facility).

Rate-making policy effectively establishes an appropriate capital structure for Ontario LDCs. This “deemed” structure comprises 60% debt and 40% equity in support of the regulated assets or “Rate Base” of an LDC. At these levels of debt and equity and corresponding rate-recovery of financial capital, rate-making policy effectively supports an A-range credit rating.

MergeCo anticipates maintaining a financial capital structure of approximately 60% debt as a result of the acquisition of HOBNI; further elaborated in this business plan. MergeCo will manage its business to continue to support an A-range rating.

Acquisition of HOBNI

Acquisition Financing

HOBNI is effectively being acquired by MergeCo without the assumption of any debt, other than certain debt-like obligations not severable from the business. Such debt-like obligations include customer deposits, regulatory liabilities, and employee benefit liabilities.

On this basis, the acquisition of HOBNI is to be financed by:

- Borrowing against the HOBNI Rate Base to the extent such borrowing supports an A- range rating overall for MergeCo; and

- Contributions of borrowing capacity and/ or new equity capital by each Party in proportion to its relative shareholding in MergeCo.

The level of borrowing to support the transaction has been set in a range of 70-75% of the HOBNI purchase price to optimize the cost of financial capital for MergeCo, while also providing sufficient ongoing liquidity to support its sustainment-based investment requirements at a target A-range credit rating. Please refer to *Appendix 6-F – Finance Plan* for scenario analysis supporting this target range.

The amount of borrowing and capital contribution by source is summarized in the following table assuming an overall 70% level of debt financing to finance the HOBNI purchase price:

($MMs)	**Debt Capacity**	**New Equity**	**Total**
HOBNI	201.6	-	201.6
PS	61.6	124.7	186.3
EC	61.1	64.6	125.7
HHI	100.6	($7.2)	93.4
Total	424.9	182.1	607.0

Financing at 70% debt level

The acquisition of HOBNI represents a long-term investment by MergeCo. Such investment is properly financed by corresponding long-term financial instruments such as long-term debt and/ or new shareholder equity.

It would be impractical for MergeCo to issue $424.9MM of long-term debt, such as a bond / debenture, contemporaneously with the acquisition of HOBNI. Consequently, MergeCo requires a short-term source of debt financing to acquire HOBNI as of the acquisition closing date; anticipated to be within 30 days of the merger closing date.

The Parties have arranged a commitment from two financial institutions (the same as for the Working Capital Facility) for a $625MM non-revolving term loan to provide a source of short-term financing for the HOBNI acquisition (Acquisition Facility). The Parties will work diligently to establish a new MergeCo Trust Indenture to provide for a long-term debt issuance to take out the Acquisition Facility as soon as is practical following the acquisition of HOBNI.

<u>Interest Rate Risk and Long-Term Financing – HOBNI Acquisition</u>

There is a significant period of time between the execution of the HOBNI Share Purchase Agreement (Execution Date) and the closing of the acquisition (Closing Date). The Execution Date is expected to be sometime in September. The Closing Date is not anticipated until March 2016 and is subject to the following:

i) closing of the merger of PS, EC, and HHI;

ii) approval of the OEB of the merger and acquisition;

iii) Competition Bureau approval of the transaction. While these conditions are each expected to be fulfilled subsequent to the Execution Date, the timing of each (most particularly 'ii)' is uncertain, which further creates uncertainty regarding the actual Closing Date.

The price being paid for HOBNI is fixed, subject to certain purchase price adjustments. However, the associated acquisition financing will not be in place until closing.

Consequently, the value of and ongoing HOBNI net earnings stream is subject to interest rate risk between signing and closing. Additionally, this interest rate risk continues post-closing until MergeCo is able to take out the Acquisition Facility with fixed-rate long-term debt. This risk and mitigation techniques are further described under Section 6.7.

The prevalence of interest rate risk also creates urgency to issue fixed-rate debt as soon as possible post-closing.

The Business Plan modeling assumes a 4% debt cost of financing for the HOBNI acquisition; which is reasonable relative to recent bond forecasts (Refer to *Appendix 6-G)*. This suggests that MergeCo may be able to achieve or modestly outperform the debt cost assumption in the model if it were to issue fixed-rate debt within the first two quarters of 2016.

<u>Growth Investment</u>

As a result of the tax regimes within which LDCs operate, growth capital has been substantially limited to an ability to raise new debt capital. The tax status of LDCs and their investment interests are described in more detail in *Appendix 6-H*.

The foregoing discussion assumes familiarity with the tax regimes imposed on LDCs. Additionally, the foregoing terminology and definitions are elaborated in *Appendix 6-H*. Following the acquisition of HOBNI and with consideration for its ongoing sustainment investment requirements, MergeCo will not have sufficient borrowing capacity to achieve its strategic growth objectives. Consequently, a structured approach is required to manage PILs and Transfer Tax in a manner that effectively results in the payment of tax commensurate with the value of LDC interests or assets actually transferred or disposed.

[redacted]

[redacted]

[redacted]

Other options to financing growth are limited within the context of the current tax regimes governing municipally-owned LDCs. Such options are either significantly less cost effective or significantly limit the amount of private financial growth capital that can be accessed without resulting in material tax consequences.

<u>Shareholder Monetization</u>

Under the present corporate structures for each of PS, EC, and HHI, it is difficult to monetize more than 10% of the fair value of shareholder interests without the incurrence of a very material PILs Departure Tax liability. This “all-or-nothing” tax would effectively result in the taxation of accrued capital and recapture gains on 100% of the value of a Municipal Electricity Utility (MEU) corporation and all of its downstream MEU investment interests at the time that an MEU corporation loses its tax exempt status under the Tax Acts.

[redacted]

6.6 Regulatory Considerations

Business Plan Considerations

Rate-Making Associated with Distributor Consolidation

The current OEB policy with respect to distributor consolidation encourages the distribution sector to continue to seek out efficiencies through consolidation. This recognizes recent government policy expectations that consolidation is necessary to encourage modernization of the electricity distribution system and initiatives that will result in savings for electricity ratepayers.

The following are the most significant policy matters for purposes of the Business Plan:

i.) Consolidating entities may defer rate re-basing for a maximum period of 10 years. During the continuing deferral period following year five, earnings in excess of 300 basis points above the allowed rate of return for the consolidated distributor must be shared with customers on a 50:50 basis.

    In other terms, shareholders are permitted to retain resulting merger synergies / savings to both: a) recover corresponding transaction and integration costs; and b) enhance earnings above the allowed regulated rate of return for up to a ten year period.

    This is a significant shareholder inducement to pursue consolidation opportunities since there are very limited opportunities otherwise to earn returns on investment in excess of the allowed regulated rate of return.

    Following the re-basing deferral period, savings/ synergies are transferred to customers in the form of lower rates in perpetuity. Consolidation is also one of the very few mechanisms available to benefit customers in such a material manner.

    Based on corresponding analysis, the Business Plan provides for the maximum re-basing deferral period of 10 years

ii.) During the Re-Basing Deferral period, consolidating distributors will have opportunity to apply for rate adjustments consisting of a Price Cap adjustment (described in 'b)' below) and an Incremental Capital Module (ICM) mechanism.

    The use of the ICM is limited to consolidating distributors that are presently under a form of rate-making referred to as Price Cap Incentive Rates or 'Price Cap IR'. The OEB offers three choices to distributors for rate-making:

    a) Custom IR – which affords distributors with rising investments the option of applying for multi-year rate adjustments that support such investments;

    b) Price Cap IR – which affords distributors with modestly rising investments to periodically (every five years) apply for rate adjustments reset to current investment levels. In the subsequent four years (IR Term), rates are adjusted for an inflation index less an expected productivity factor;

c) Annual IR – which affords distributors with inflation-based growth annual rate adjustments equal to an inflation index less a higher productivity expectation than under Price Cap IR.

The ICM is not relevant to the Custom IR option which already resets rates to corresponding capital investment levels. The OEB policy specifies that, following the Custom IR term of a consolidating distributor, such distributor moves onto Price Cap IR.

The use of ICM is untested for consolidating distributors that are on different forms of IR. Consequently, there is some risk with respect to the manner in which the OEB will adjudicate ICM applications of consolidating LDCs on Price Cap IR that have consolidated with LDCs on other forms of IR.

The Business Plan assumes that the consolidating distributors would adjust rates for ICM through the re-basing deferral period where such distributors are on or have transitioned to Price Cap IR. The form of IR for each distributor through this period is illustrated in the following table:

<table>
<tr><th></th><th>2016</th><th>2017</th><th>2018</th><th>2019</th><th>2020</th><th>2021</th><th>2022</th><th>2023</th><th>2024</th><th>2025</th></tr>
<tr><td>Horizon Utilities</td><td colspan="4">Custom IR</td><td colspan="6">Price Cap</td></tr>
<tr><td>PowerStream</td><td colspan="5">Custom IR</td><td colspan="5">Price Cap</td></tr>
<tr><td>Hydro One Brampton</td><td colspan="10">Price Cap</td></tr>
<tr><td>Enersource</td><td colspan="10">Price Cap</td></tr>
</table>

Figure 6. 7 - Forms of Incentive Rate applications

Rate Adjustments Following the Re-basing Deferral Period

As previously described in Section 6.2 under Customer Benefits, customers will benefit from consolidation transactions through lower distribution costs from the time of their commencement or shortly thereafter.

Subsequent to the Re-basing Deferral Period, it is anticipated that MergeCo will file a Custom IR application for rates effective for the next five years (2026 to 2030). At that time, the merger savings / synergies will benefit customers.

It is important that customers within each of the merging communities benefit equitably from the merger savings. Generally speaking, the OEB expects distributors to address whether or not they intend to harmonize rates and, if so, to provide a harmonization plan. Harmonizing rates generally results in all ratepayers within a particular rate class (Residential, Small Business, etc.) pay the same rate.

MergeCo will maintain its four independent rate zones with separate rate setting methods until the re-basing in 2026. At the time of the next re-basing, MergeCo will evaluate rate harmonization options, leveraging available OEB policies and tools. Rates will not be harmonized, and rate zones will continue, until rate differences are immaterial.

MAADs Application for Transaction Approval

The OEB must approve all mergers, acquisitions, amalgamations, and divestitures (MAADs) transactions that meet certain criteria. The Parties and HOBNI must file a MAADs application with the OEB to solicit its approval of the merger and acquisition transaction contemplated herein.

The OEB applies a 'no harm test' in its determination of whether or not to approve a MAADs application. This test generally requires satisfaction of the following policy objectives:

1) To protect interests of consumers with respect to prices, adequacy, reliability, and quality of electricity service.

2) To promote economic efficiency and cost-effectiveness in generation, transmission, distribution, sale, and demand management of electricity, and to facilitate maintenance of financially viable electricity industry.

3) To promote electricity conservation and demand management in a manner consistent with the Ontario government's policies, including having regard to the consumers' economic circumstances.

In general terms, the MAADs application includes the following information in order to address the 'no harm test':

- Detailed description of the proposed transaction;

- Consumer Protection:

    - Indication of consumer impact with respect to: prices; adequacy, reliability and quality of electricity service.
    - Capital expenditure plans regarding operational safety, system integrity, service quality, and reliability.
    - Rate harmonization plan and timeline for rebasing.
    - Details of the earnings sharing mechanism to be employed in years 6-10.
    - Details of the price cap adjustment mechanism for the years 6-10.
    - Incremental costs: i) transaction costs, (i.e., legal); ii) incremental merged costs (i.e., employee severances); iii) incremental ongoing costs (i.e., purchase and maintenance of new IT systems), including how these will be financed.
    - Bill Impacts – distribution and total bill.
    - Details of the costs and benefits of the proposed transaction to the customers.

- Economic Efficiency

    - Indication of economic efficiency and cost effectiveness as a result of the proposed transaction (i.e., impacts on administration support functions such as IT, accounting, and customer service).

- Financial Viability
  - Valuation of any assets or shares that will be transferred in the proposed transaction including how such value was determined.
  - Details of the financing of the proposed transaction.
  - Details on the capital structure, on an actual basis, of the parties to the proposed transaction prior to the transaction and on a pro forma basis after completion of the proposed transaction.

The Parties believe that its Business Plan evidence will demonstrate no harm as a result of:

- Credible, material, sustainable savings that will ultimately result in lower customer costs commencing shortly after the closing of the Transaction and relative to the Status Quo.

- A viable financing plan for MergeCo that provides for ongoing sustainable investment in electricity distribution infrastructure with a capital structure generally consistent with regulatory deemed levels and a corresponding A-range rating.

- Considerable critical mass and means to deliver ongoing and innovative conservation and demand management programs to customers in an efficient and effective manner.

The Parties recognize that elements of the merger are complex and novel including, among other things, an innovative structure and a multi-party merger and acquisition.

The Parties anticipate filing the MAADs application within two weeks following the receipt of all shareholder approvals. The development of the application is underway but cannot be completed without such approvals and executed copies of corresponding agreements. Thereafter, the Parties are hopeful that an OEB decision is provided by or shortly after the end of the calendar year.

Competition Act

The Competition Bureau must generally be given advance notice of proposed transactions under the merger notification provisions of the Competition Act (Canada), when the following three thresholds are exceeded:

Size of Parties Threshold

- This threshold is exceeded where the parties to a transaction collectively with their respective affiliates have: (a) assets in Canada with a book value exceeding $400MM; or (b) revenues “in, from or into” Canada exceeding $400MM.

Size of Target Threshold

- This threshold is exceeded where either: (a) the book value of assets in Canada of the target (or, in the case of an asset acquisition, of the assets in Canada being acquired) exceeds $86MM; or (b) the gross revenues from sales “in or from” Canada generated by those assets exceeds $86MM.

Shareholding Threshold

- In the case of a corporation that is not publicly traded, this threshold is exceeded where a buyer proposes to acquire voting shares in the target sufficient to break through the 35% voting shareholding level, or, if that level is already exceeded, the 50% voting shareholding level. This threshold is inapplicable to asset acquisitions.

The proposed transaction appears to exceed all three thresholds and, as such, the Parties must apply to the Competition Bureau for a review of the transaction. Such application is expected to be made just following the receipt of all shareholder approvals. A clearance is expected within 45 days (or potentially within 30 days) after filing the application, assuming that the Competition Bureau does not identify any material competition issues arising from the proposed transaction.

6.7 Summary of Key Risks

The principal material risks to the economic elements of the Business Plan are elaborated below.

Achievement of Synergies

The nature of the synergies and associated assumptions and risks are elaborated in Section 5.

There is a risk that synergies may not be fully achieved or are delayed.

Slides 20 and 21 of Appendix 6-A provide the forecast impact on shared income and dividends of achieved synergies at 50% and 75% of the expectation in this business plan.

At these levels, dividends and income remain above the Status Quo levels. Substantially all of the erosion is within the first 10 years within which shareholders retain the merger benefits. Thereafter, income and dividends remain relatively constant under either scenario since most of the increase post-2025 is attributable to the acquired HOBNI income stream.

At each step from 100% to 75% and 75% to 50% of achieved synergies:

- Aggregate shared income declines by approximately $130MM across the Forecast Period;
- Aggregate shared dividends declines by approximately $80MM across the Forecast Period.

The Parties believe that the synergies provided in the Business Plan are reasonably achievable. This notwithstanding, the Parties believe that the downside risk is at a 75% synergy level; at which level the merger and acquisition continue to be worth pursuing.

Incremental Capital Module

There is a risk that the OEB may not approve the expected ICM applications of MergeCo.

The impact of no ICM revenue is as follows:

- Aggregate shared income declines by approximately $135MM across the Forecast Period.
- Aggregate shared dividends declines by approximately $81MM across the Forecast Period.

Substantially all of the erosion is within the first 10 years post-merger. ICM is anticipated only while the Parties and HOBNI are under Price Cap IR; which is within the 10-year Re-Basing Deferral period. Thereafter, MergeCo is expected to re-base its rates through successive Custom IR applications.

Credit Rating/ Cost of Capital

As described in Section 6.5, the Business Case has modeled a level of financing in order to optimize the cost of capital for MergeCo at a targeted A-rating.

There is a risk that the HOBNI acquisition and previously described revenue and income risks may result in an unexpected downgrade of the MergeCo rating below its initial rating target.

The Parties assess this risk as medium with moderate impact to borrowing costs.

The likely impact of a realized downgrade is from A to A- with long-term borrowing costs increasing by approximately 20 basis points. The average borrowing of MergeCo within the five years post-merger is estimated at approximately $2B. A 20 basis point increase in borrowing cost represents an income/ cash erosion of approximately $4MM/year, or $3MM after tax.

Interest Rate Risk – HOBNI Acquisition

As described in Section 6.5, the value of and ongoing HOBNI net earnings stream is subject to interest rate risk between signing and closing. Additionally, this interest rate risk continues post-closing until MergeCo is able to take out the Acquisition Facility with fixed-rate long-term debt.

The Parties assess this risk as medium given that there will be a period of time between closing and the issuance of long-term debt. The range of time could be three to twelve months but it is anticipated that long-term take-out financing can be arranged within six months of closing.

A +/- 25 basis point movement in long-term interest rates has a corresponding annual $1.5MM impact on HOBNI financing costs.

Management Techniques for Hedging Risk

Such interest-rate risk may be hedged by the Parties through the use of a ‘Bond-Forward’. *Refer to Appendix 6-G – Managing Interest Rate Risk* for additional details. A Bond-Forward is essentially a financial contract to establish a fixed-rate on a fixed amount of principal to be issued at an established future date (Bond Issue Date). The cost of the bond forward is effectively determined with reference to the Bond-Forward Yield (known at the time of entering the Bond-Forward) and the Prevailing Bond Yield at the Bond Issue Date (only known at that date).

If the Bond-Forward Yield is less than the Prevailing Bond Yield as of the Bond Issue Date, the Parties would receive a net cash settlement from the Bond-Forward Issuer (typically a large bank). The reverse would result in a payment to the Bond Forward Issuer. In either case, the effective yield on the bonds issued on the Bond Issue Date would be the Bond-Forward Yield; thus locking in the bond yield in advance of issuance as of the date the Bond-Forward is executed.

The use of a Bond-Forward is a well-established hedging mechanism to lock in a bond interest rate and hedge interest rate risk where the Bond Issue Date is reasonably certain. In the case of MergeCo, the Bond Issue Date would not be reasonably certain given the uncertainty regarding the Closing Date, as explained above. The uncertainty of a Bond Issue Date (or whether a bond may be issued at all in the absence of closing) creates the risk of a financial settlement by the Parties without the corresponding anticipated benefits of the Bond-Forward.

It is likely risky to enter into a Bond-Forward at the Execution Date but it may be appropriate at some point following the Execution Date as the Closing Date and a likely Bond Issue Date becomes more apparent.

7.0 HUMAN RESOURCES

7.1 Human Resources Plan Summary

As the leadership team considers the integration of Enersource, Horizon, Hydro One Brampton and PowerStream, many key considerations lie within people and organizational design. The following is a summary of each participating organization:

Enersource Corporation

- 421 Employee Complement
- 161 Non-Unionized Employees
- 260 Unionized Employees represented by IBEW Local 636

Horizon Utilities Corporation

- 415 Employee Complement
- 137 Non-Unionized Employees
- 278 Unionized Employees represented by IBEW Local 636

Hydro One Brampton

- 243 Employee Complement
- 77 Non-Unionized Employees
- 46 Unionized Employees represented by IBEW Local 636 (inside workers)
- 120 Unionized Employees represented by Unifor Local 1285 (outside workers)

PowerStream Inc.

- 554 Employee Complement
- 212 Non-Unionized Employees
- 342 Unionized Employees represented by PWU

Adopting best practices and finding efficiencies while maintaining or improving customer service and shareholder value is critical and will require sensitive and appropriate human resource programs to deal with issues such as staffing and redundancies. Therefore, guiding principles and assumptions must support a fair and equitable process that is consistent for all employees while maintaining a positive and healthy workplace culture.

Recognition of Existing Collective Agreements

MergeCo recognizes the representative rights and collective agreements of each respective bargaining unit and its members. As such those rights and agreements will be maintained and respected until such time as a final determination, if any, is made under the *Labour Relations Act* (Ontario).

MergeCo is committed to building harmonious relationships with the union and all employees. This is critical to productivity and quality of customer service, enhances employee motivation and commitment, and positively influences employee attraction and retention.

7.2 Employee Demographics

Understanding MergeCo employee demographics is important to future organizational development and human resource planning.

The demographic profile of each organization is comparable. As an integral part of the strategic and business planning processes, workforce planning will continue to consider the quantity, the quality and the capability of the workforce required to deliver business results and meet customer expectations.

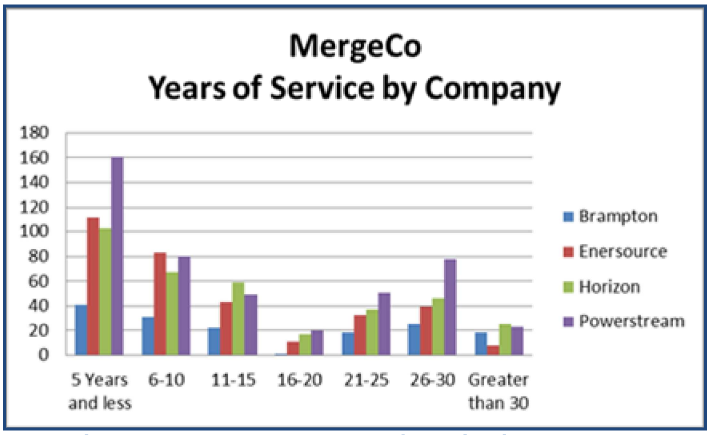

Figure 7. 1 - MergeCo Years of Service by Company

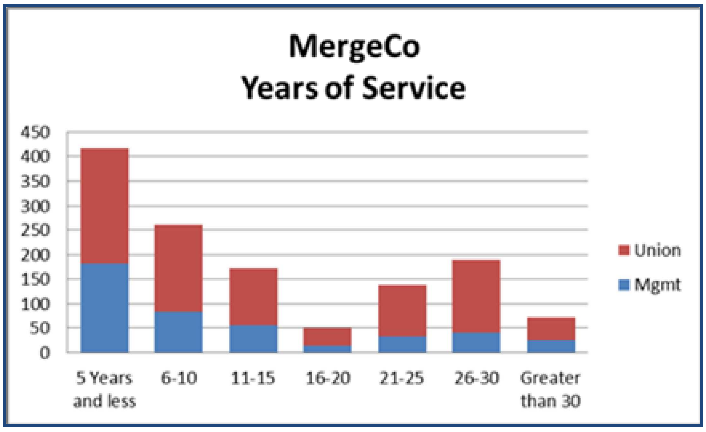

Figure 7. 2 - MergeCo Years of Service

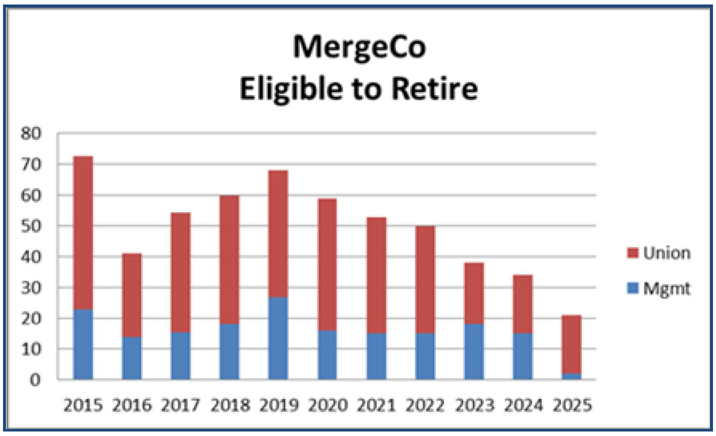

Figure 7. 3 - MergeCo Eligible to Retire

7.3 Philosophy

Employees are our most valuable asset. Health and safety is the number one priority in all business activities and MergeCo will continue to strive for excellence in health, safety and employee wellness. In considering potential synergy savings and impacts on employees, the human resources plan is based on a philosophy that maximizes employees' continuing employment choices, retains the best employees and if necessary, provides an adequate bridge to new employment. This approach will allow the organization to maintain a positive reputation with employees, communities and shareholders, and to be seen as an attractive merger partner.

The human resources plan must balance the need to reshape MergeCo's business within a realistic timeline against the retention of an engaged and highly skilled workforce by:

- Providing transparency, awareness and fairness in the selection process.
- Implementing transitional plans for unionized employees in accordance with the applicable collective agreement.
- Introducing voluntary incentive programs that will target those employees eligible for retirement and those affected by possible work relocation.
- Maximizing opportunities to the fullest extent possible through attrition or redeployment.
- Staffing vacant positions and creating transitional roles to support integration and progress to full operational effectiveness.

7.4 Employee Impact and Selection Process

Appointments in MergeCo will be based on a fair, equitable and transparent selection process centered on matching the skills and competencies of employees with each position. Senior positions may be subject to appointment at the discretion of the Executive Management Team, where appropriate. For non-union positions with multiple qualified candidates, an interview process will be undertaken. Interview teams will consist of management representatives and an

HR representative. Consideration will be given to interview results, internal references on past performance and the candidate's skills and competencies.

The new company recognizes that a best practice is to grow and hire from within. Therefore where there are unfilled positions, interested employees who were not successful candidates will be considered first, regardless of level and prior to any consideration for external recruitment. Likewise, retraining and redeployment will be considered prior to hiring externally.

7.5 Transition Plan

Human resources program incentives that reflect fair and equitable treatment of employees will afford MergeCo a greater chance of achieving its short and long-term goals. A supportive workforce throughout the merger process will secure a stronger future for the new company, with employees as positive ambassadors who embrace change, support leadership decisions and take ownership of MergeCo's vision, values and direction.

For staff in the new organization, frequent and ongoing communication, decisive leadership and a clear vision for the future will be key tenants for success. A comprehensive communications strategy will be pivotal in articulating synergy program principles and MergeCo's future direction.

Upon approval of the merger and as early in the transition period as possible, employees need to understand the direction of the new company and be provided sufficient information on program offerings in order to begin making decisions on their future career choices.

7.6 Opportunities for Employees

Greater opportunities will exist for advancement within a larger, financially stronger company. Employees will appreciate that greater job security is directly linked to companies that can adapt, grow and stay in front of customer and financial issues. MergeCo is a business model that permits employees to contribute to this vision while working to secure their own futures.

Current employees of the participating LDCs are important stakeholders. The successful implementation of MergeCo will be dependent on their continued motivation, skill and commitment to customer service and operational excellence. Once the implementation process is complete, MergeCo will deliver benefits for its employees. These benefits include:

- Leading edge product, technology and service innovation that will create opportunities for employees to develop new skills.

- Access to increased training and development opportunities across the organization and the ability to further enhance skills through corporate-wide training programs.

- Flexibility and critical mass to be a leader in the Ontario electricity industry. Its employees will have confidence about the future of the company and its growth potential.

- The continued creation, implementation, and promotion of a positive corporate culture for employees with a focus on health, safety and wellness.

7.7 Health and Safety Plan

MergeCo's safety program focuses on maintaining high levels of performance on leading and lagging safety objectives and strives for continuous improvement of health, safety and wellness for employees and contractors.

Excellence in health and safety is vital to the well-being of the public, customers, visitors, contractors and our employees and essential to all aspects of our business.

MergeCo will hold paramount 'Safety First' core principles, such as:

- We conduct our business so it meets or exceeds all applicable laws and regulations and minimizes risk to our employees, the public, customers, visitors and contractors.
- We are committed to continuously improving our health and safety performance.
- We continually promote employee safety on and off the job.
- We believe all occupational injuries and illnesses are preventable.

This focus ensures that all managers have clear results-driven safety objectives that are audited regularly. It insists on high standards, on careful measurement and on benchmarking against the best, including these key components:

- Program Compliance – Key Leading Indicators
- Program Standard Improvements
- Injury/Incident Experience (Lagging Indicators)

Accountability for safety is the responsibility of each and every employee and is supported at all levels of the organization.

8.0 COMMUNICATION PLAN

In Ontario, electricity and related issues exist in a highly politicized environment, and MergeCo is no exception. Thus, effective communications throughout all phases of the merger will be critical albeit challenging. It is necessary to ensure the general public is provided with actual facts, and to garner support among internal and external stakeholders. Within this context, the following goals have been identified as being of vital importance:

- To effectively, clearly and accurately communicate one of the most significant amalgamations of electric utilities in recent Canadian history, involving four of Ontario's largest LDCs.
- To build a new brand and corporate identity for MergeCo that positions the new company as a global leader in a transformed energy sector.
- To sell MergeCo's brand to internal and external stakeholders across a non-contiguous service territory of 1,800 km^2 in 15 communities stretching from St. Catharines in the south to Penetanguishene in the north.
- To transition from four individual brands to an interim co-brand, to one single MergeCo brand that will be recognized as an industry leader in consolidation.
- To communicate MergeCo values to employees, customers, shareholders and the general public through the implementation of a jointly developed strategic communications and issues management plan.
- To ensure that the four organizations speak with one voice during the transition process, while continuing to effectively manage issues that may arise in respective communities and among community leaders.
- To foster an environment of open communication and transparency between the LDCs and their stakeholders, throughout the process.

8.1 Municipal Shareholder Communications

Municipal Shareholders impacted by the merger are Barrie, Hamilton, Markham, Mississauga, St. Catharines and Vaughan Municipal Councils. These Shareholders are accountable to the public in general and to ratepayers in particular. As such, municipal councils represent a key communication audience.

The Province of Ontario is currently the sole shareholder for Hydro One Brampton.

Throughout the merger process, the MergeCo Corporate Relations Synergies Team (representing the four LDCs) will work with the Executive Leadership Team to develop appropriate communication materials.

Management and the Board Steering Committee will ensure information updates are provided to mayors, councillors and/or city staff as appropriate.

Requests for information will be handled promptly and effectively. All local issues involving the merger will be channeled through MergeCo's Corporate Relations Synergies Team.

8.2 Employee Communications

Effective and timely employee communication is of paramount importance throughout the merger process and beyond. Such communication encourages employee support for MergeCo activities and is essential in ensuring employees are treated respectfully and professionally. The Corporate Relations Synergies Team, working in conjunction with Human Resources and other departments where appropriate, will coordinate the timing of employee Town Hall meetings, as well as the release of employee communications and Frequently Asked Questions (FAQs).

For each phase of the merger, particularly when there are new developments to share with employees, communication material will be updated, approved and shared with each merger partner through the Corporate Relations Synergies Team.

When appropriate, the Management Steering Committee will meet with representatives from bargaining units for unions representing respective LDCs. Union leaders and unionized workers in each LDC will simultaneously receive consistent and timely information.

The Corporate Relations Synergies Team will ensure messages to all employees are coordinated and delivered in a clear, consistent and respectful manner.

8.3 Public Information Process

There may be public and/or regulatory expectations that MergeCo will be subject to a public consultation process. Therefore, there are plans to have formal consultation sessions in several service area communities, as well as meetings with neighbourhood and business groups, where deemed necessary.

<u>Media Relations</u>

An impartial, third-party public relations firm has been jointly hired by the MergeCO LDCs to triage inquiries from regional, provincial or national news outlets. The LDCs have continued to work with their own local, community-based media outlets with which the LDCs have a pre-existing relationship, to handle media inquiries of a local nature. The Corporate Relations Synergies Team has and will continue to ensure the Executive Leadership Team receives pertinent information with regard to MergeCo-related media coverage on a local and broader scale.

9.0 DUE DILIGENCE

Overview

As part of the proposed transaction, the merging entities undertook a due diligence review to assess among other things certain legal, financial, environmental and operational aspects prior to obtaining Board, Shareholder and Regulatory approval (the Due Diligence Review).

No issues identified during the Due Diligence Review would prevent the proposed Transaction from proceeding.

Purpose

The principal purpose of the Due Diligence Review was to (i) identify any issues that would prevent the proposed transaction from proceeding and (ii) inform the drafting and negotiation of the various agreements.

Use of Third Party Subject Matter Experts

Legal counsel, tax and accounting firms together with other advisors were retained by the merging entities to assist in the Due Diligence Review.

The responsibility for completion of the legal Due Diligence Review was assigned by the merging entities as follows:

- PowerStream engaged Gowling Lafleur Henderson 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 scope of the legal Due Diligence Review included examination of:

- 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, in particular collective agreements
- Pension and benefit plans, including post-retirement benefit plans
- Major contracts and commitments
- Environmental matters
- Intellectual property rights
- Ongoing litigation
- Insurance coverage and claims

Additional subject matter experts were engaged for the following areas:

- Deloitte, Ernst & Young and PricewaterhouseCoopers performed financial and tax due diligence through review of financial statements, accounting records and tax filings.

- Golder & Associates [see Appendix 9 A] performed environmental due diligence through review of site assessments, environmental compliance approvals and correspondence with environmental authorities.

- Vanry + Associates [see Appendix 9 B] performed a review of the asset condition assessments and capital investment planning process to determine the health of the electrical distribution assets.

Results from Due Diligence Review

All categories of the Due Diligence Review were assessed by the third parties (noted above) and Management from the merging entities. The summary of key findings is as follows:

Financial Due Diligence

The financial due diligence that was performed consisted of a review of taxes, financial accounting and reporting, the pension and post-retirement benefit costs for all entities. It was identified that all organizations have Connection and Cost Recovery Agreements with Hydro One Networks that require true up payments to be made, some of which are significant. Liabilities have been set up for these amounts for most of the organizations and have been fully disclosed on the financial statements. Phase 2 of the financial due diligence will occur post closure where more in depth analysis will occur on the post close adjustments.

Environmental Due Diligence

It was identified that Enersource had recorded an accrual for remediation of transformers containing polychlorinated biphenyl (PCBs) with concentration between 50-500 parts per million. In addition, there were several sites from all entities that did not have sufficient information to assess whether any environmental liabilities exist. However, to mitigate this risk, an indemnification clause is included in the Merger Participation Agreement so that the predecessor Shareholder will have responsibility for significant pre-existing environmental liabilities.

Labour and Employment Matters

There are a total of five collective agreements (with three trade unions) that are currently in place amongst the merging entities. Human Resource teams will work with these unions to ensure the merger transition is completed in compliance with the terms of these collective agreements and applicable legislation.

Distribution system plan and asset condition assessments

Due Diligence Review identified distribution assets that are expected to require repair or replacement post-merger. These include cable rehabilitation, pole replacement and transformer replacement programs. This is a normal operational requirement for electrical distribution companies, and the Asset Management teams plan to prioritize these capital projects to balance system reliability and cost impacts in a manner that best serves the customers of the merged entity.