K1.3

EB-2016-0025

LDC Co. Merger

AMPCO Compendium

Panel 1

September 7, 2016

Attachment 2
Financial Summary

Merger Synergies

($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

- Gross OM&A expense reductions of $355MM
  - ~14% of OM&A during the first 10 years and approximately ~15%/yr thereafter
- Capital investment reductions of $168MM over 10 years
- Transition costs of $96MM
- Total cash savings of $426MM over forecast period (pre-tax)

MUN-CCC-4

Key Aspects of the Business Case

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Key aspects of the business case are reasonable

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

» Hydro One Brampton purchase price

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

» Relative valuation of PowerStream, Enersource, and Horizon

› Relative valuation of PowerStream is ***reasonable***

› PowerStream Solar is ***likely undervalued***

– As a result, management successfully negotiated that the PowerStream Solar assets be carved out and earmarked for only the existing PowerStream shareholders

– Small negative impact to the expected PowerStream Solar cash flows

» Synergies

› Synergies were ***reviewed and determined to be reasonable*** and achievable

– Roughly half of the functional area synergies are likely conservative (i.e. synergies may be greater)

– There are risks associated with the synergies, but PowerStream has a track record of delivering

Customer Value Creation

- The consolidated utility will be focused on reducing operating expenditures and improving productivity through enhanced utilization of existing assets
- It expects to maintain or improve overall service levels of its predecessor utilities through the implementation of new technologies and adoption of best work practices
- Customers will benefit from being served by a larger utility that will have an expanded ability to monitor, report on and improve system reliability and power quality, given its greater resources

B-STAFF-3

Reference(s): Exh B/T5/ Sch 1, p.2
Exh B/T5/Sch.5, p.3-4

Preamble:

It is stated that LDC Co will be focused on reducing operating expenditures. It will improve productivity through better utilization of existing assets. In the description provided on distribution system operations, a distinction is made between decentralized regionalized functions, as those focused on the delivery of service at the asset level in the field and centralized transactional/informational services/functions that are technology focused. Figure 24 provides a listing of centralized and decentralized functions.

a) Please provide the anticipated reduction in operating expenditures in each of the functions listed in Figure 24.

b) Please provide the assumptions that the applicants are making for the anticipated operating expenditure reductions.

c) Please provide the extent of synergies that the applicants expect to be generated from the centralized functions and from the decentralized functions.

Response:

a) Table 1 below identifies the anticipated reductions in operating expenditures by the functions listed in Figure 24.

Table 1 - Anticipated Reductions in Operating Expenditures by Function by Year ($MM)

Functions	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total
Centralized	**2.4**	**7.7**	**16.1**	**19.1**	**20.9**	**20.9**	**20.9**	**20.9**	**20.9**	**20.9**	**170.7**
Asset Management & Engineering	0.9	2.5	2.3	2.5	2.5	2.5	2.5	2.5	2.5	2.5	23.2
Corporate	0.1	0.1	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	6.6
Finance	1.4	2.0	3.6	4.2	4.6	4.6	4.6	4.6	4.6	4.6	38.8
Human Resources	(0.8)	1.4	2.3	3.0	3.0	3.0	3.0	3.0	3.0	3.0	23.9
Information Technology	0.5	0.5	4.3	5.5	6.0	6.0	6.0	6.0	6.0	6.0	46.8
Procurement	0.4	0.6	1.2	1.4	1.4	1.4	1.4	1.4	1.4	1.4	12.0
Regulatory	(0.1)	0.6	1.6	1.7	2.6	2.6	2.6	2.6	2.6	2.6	19.4
De-centralized	**4.8**	**12.4**	**15.6**	**21.5**	**21.6**	**21.6**	**21.6**	**21.6**	**21.6**	**21.6**	**183.9**
Customer Service	-	0.8	2.0	7.6	7.5	7.5	7.5	7.5	7.5	7.5	55.4
Metering	0.3	1.0	1.2	1.6	1.7	1.7	1.7	1.7	1.7	1.7	14.3
Facilities, Logistics, Fleet	0.8	2.9	3.1	3.2	3.2	3.2	3.2	3.2	3.2	3.2	29.2
Construction, Control Room, Trouble Response	3.7	7.7	9.3	9.1	9.2	9.2	9.2	9.2	9.2	9.2	85.0
Grand Total	**7.2**	**20.1**	**31.7**	**40.6**	**42.5**	**42.5**	**42.5**	**42.5**	**42.5**	**42.5**	**354.6**

b) The key assumptions that underlie and support the anticipated operating expenditure reductions are as follows:

- Consolidation of core enterprise applications and processes during years one, two and three post consolidation; including (i) legacy Customer Information Systems will be migrated to a single consolidated Oracle Customer Care and Billing system; (ii) legacy Enterprise Resource Planning systems will be migrated to a single consolidated system; and (iii) legacy Geographic Information Systems and Outage Management Systems will be consolidated to a single system;

- Consolidation of four existing Call Centres to two, and four existing Control Rooms to two;

- Utilization of six existing service centres for Construction and Maintenance, Trouble Response, Logistics, Fleet Services and Metering; and

- The Parties will integrate asset management including: (i) evaluation of long term capital plans; (ii) maintenance practices; (iii) design standards; and (iv) operating standards.

c) Please refer to Table 1 above for the expected synergies that the Applicants expect to be generated from centralized and de-centralized functions.

Unredacted version filed Sept. 6, 2016 in response to Sept. 2, 2016 OEB Decision on Confidentiality Requests

B-STAFF-7

Reference(s): Exh B/T5/ Sch 5, p.8

Preamble:

The Applicants have estimated that sustained operating, maintenance and administration ("OM&A") savings net of transition costs will be approximately $42.5MM in year five and beyond. The OM&A savings will be achieved through $270MM (net of transition costs) in savings over the first ten years post consolidation from payroll reductions and $42MM (net of transition costs) for non-payroll cost reductions. The OM&A budget for LDC Co is therefore anticipated to be approximately 15% lower than the sum of the OM&A budgets for the Parties, three to five years following completion of the consolidation.

a) Please identify the specific operational areas/functions where the planned payroll and non-payroll reductions will occur.

b) Please explain what assumptions have been made by the applicants for the proposed payroll and non-payroll reductions.

c) Please identify risks that could negatively impact the applicants' projected OM&A savings, setting out the applicants' projected savings if those risks materialize.

Response:

a) Table 1 below identifies the specific operational areas/functions where the planned payroll and non-payroll reductions are anticipated to occur.

Table 1 – Payroll and Non-Payroll Reductions by Operational Area/Function ($MM)

Functions	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total
Payroll	**6.7**	**17.5**	**28.0**	**34.5**	**36.7**	**36.7**	**36.7**	**36.7**	**36.7**	**36.7**	**306.9**
Asset Management & Engineering	0.9	2.3	2.1	2.3	2.3	2.3	2.3	2.3	2.3	2.3	21.4
Corporate	0.1	0.1	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	5.8
Customer Service	-	0.8	2.1	7.4	7.4	7.4	7.4	7.4	7.4	7.4	54.7
Finance	1.3	1.7	3.2	3.8	4.2	4.2	4.2	4.2	4.2	4.2	35.2
Human Resources	(1.1)	0.6	1.2	1.7	1.7	1.7	1.7	1.7	1.7	1.7	12.6
Information Technology	0.5	0.9	3.7	3.7	4.2	4.2	4.2	4.2	4.2	4.2	34.0
Metering	0.3	0.9	1.1	1.2	1.3	1.3	1.3	1.3	1.3	1.3	11.3
Procurement	0.4	0.6	1.2	1.4	1.4	1.4	1.4	1.4	1.4	1.4	12.0
Regulatory	(0.1)	0.5	1.5	1.5	2.4	2.4	2.4	2.4	2.4	2.4	17.8
Facilities, Logistics, Fleet	0.8	2.1	2.0	1.8	1.8	1.8	1.8	1.8	1.8	1.8	17.5
Construction, Control Room, Trouble Response	3.6	7.0	9.2	9.0	9.3	9.3	9.3	9.3	9.3	9.3	84.6
Non Payroll	**0.5**	**2.6**	**3.7**	**6.1**	**5.8**	**5.8**	**5.8**	**5.8**	**5.8**	**5.8**	**47.7**
Asset Management & Engineering	-	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	1.8
Corporate	-	-	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.8
Customer Service	-	-	(0.1)	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.7
Finance	0.1	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	3.6
Human Resources	0.3	0.8	1.1	1.3	1.3	1.3	1.3	1.3	1.3	1.3	11.3

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Information Technology	-	(0.4)	0.6	1.8	1.8	1.8	1.8	1.8	1.8	1.8	12.8
Metering	-	0.1	0.1	0.4	0.4	0.4	0.4	0.4	0.4	0.4	3.0
Regulatory	-	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	1.6
Facilities, Logistics, Fleet	-	0.8	1.1	1.4	1.4	1.4	1.4	1.4	1.4	1.4	11.7
Construction, Control Room, Trouble Response	0.1	0.7	0.1	0.1	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	0.4
Grand Total	**7.2**	**20.1**	**31.7**	**40.6**	**42.5**	**42.5**	**42.5**	**42.5**	**42.5**	**42.5**	**354.6**

b) Please see the Applicants' response to Interrogatory B-Staff-3b).

c) The primary risks that could negatively impact the Applicants' projected OM&A savings relate to projected synergies and transition costs in respect of the consolidation of the following core enterprise applications during the three years post consolidation: (i) legacy Customer Information Systems will be migrated to a single consolidated Oracle Customer Care and Billing system; (ii) legacy Enterprise Resource Planning systems will be migrated to a single consolidated system; and (iii) legacy Geographic Information Systems and Outage Management Systems will be consolidated to a single system.

The Applicants expect $270MM (net of transition costs) in savings over the first ten years from payroll reductions. The savings result from redundant positions largely in administration and back-office functions.

Additionally, the Applicants expect $42MM (net of transition costs) in savings in the first ten years from other non-payroll reductions. Savings are related to the elimination of costs due to the duplication of business processes across the four entities and adoption of best practices.

Delays in the completion of one or more of the aforementioned IT systems consolidation projects would likely result in a deferral of projected net OM&A savings; principally from projected savings from redundant administration and "back-office" functions. Additionally, such delays may potentially result in additional transition costs to complete IT system migration and integration.

B-AMPCO-4

Reference(s): Exhibit B, Tab 6, Schedule 1

Preamble:

The evidence indicates the anticipated gross savings of LDC Co. are $354.6 million in operating costs and $167.6 million in capital costs.

a) Please provide a detailed breakdown and description of the gross operating savings by year.

b) Please provide a detailed breakdown and description of the gross capital savings by year.

c) Please provide the assumptions, analysis and calculations used to arrive at the projected annual savings amounts.

d) Please identify any specific factors that may affect the achievement of the expected efficiencies and the recovery of costs associated with the proposed transaction in the timelines projected.

e) Please explain how the forecast savings take into account the forecast productivity savings previously identified in the last rebasing or Custom IR applications of the four LDCs pre-merger.

f) Please provide the total gross payroll reduction savings over the ten year period 2016 to 2025.

g) Please provide the total employee reductions by year for the years 2016 to 2025.

Response:

a) Please see the Applicants' response to Interrogatory B-Staff-7a).

b) Please see Table 1 below for a detailed breakdown of the gross capital savings by year.

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Table 1 - Detailed Breakdown of Gross Capital Savings by Year ($MM)

Capital Synergies	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total
Integration of Asset Management systems	1.4	1.2	0.3	0.2							3.1
Integration of IT systems	17.8	13.8	20.8	15.1	22.0						89.5
Supply Chain discounts and rationalization	0.5	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	29.3
Other Operations economies of scale	3.3	4.4	4.5	4.7	4.8	4.8	4.8	4.8	4.8	4.8	45.7
TOTAL	**23.0**	**22.6**	**28.8**	**23.2**	**30.0**	**8.0**	**8.0**	**8.0**	**8.0**	**8.0**	**167.6**

c) The Applicants have used 2015 Budget numbers as the base for calculating operating and capital synergies.

The following assumptions apply to operating savings categories as identified in section a) above:

- Consolidation of core enterprise applications during years one, two and three post consolidation; to include: i) legacy Customer Information Systems will be migrated to a single consolidated Oracle Customer Care and Billing ("CC&B") system; ii) legacy Enterprise Resource Planning ("ERP") systems will be migrated to a single consolidated system; and iii) legacy Geographic Information Systems ("GIS") and Outage Management Systems ("OMS") will be consolidated to a single system;

- Consolidation of four existing Call Centres to two, and four existing Control Rooms to two;

- Utilization of six existing service centres for Construction and Maintenance, Trouble Response, Logistics, Fleet Services and Metering; and

- The Parties will leverage best practices in Asset Management; to include: i) evaluation of long term capital plans; ii) maintenance practices; iii) design standards; and iv) operating standards.

The following assumptions apply to capital savings categories as identified in section b) above:

<u>Integration of Asset Management systems</u>

- Consolidation of GIS and OMS of the legacy companies is expected to migrate into one common Intergraph GIS and OMS environment;

- All legacy GIS-OMS systems are expected to be migrated to a single consolidated Intergraph GIS-OMS system by the end of Year 3; and

- All legacy SCADA systems are expected to be migrated to a single consolidated SCADA system by mid of Year 2.

<u>Integration of IT systems</u>

- The new company will be standardized on a single set of common best-practices business processes;

- Consolidation of Customer Information Systems of all legacy companies is expected to migrate to one common Oracle CC&B system, by the end of year three, to facilitate integration of Customer Service business functions and improve service to customers;

- Consolidation of the ERP system of all legacy companies into the JD Edwards system environment is expected by the end of year two, to facilitate the integration business operations; and

- To 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.

<u>Supply Chain discounts and rationalization</u>

- Synergies created through contract consolidations, standardization of materials and purchasing volume discounts realized by economies of scales; and

- Rationalization of fleet investments through applying best practices.

<u>Other Operations economies of scale</u>

- Better aligned contractor management strategies will lead to a reduction in contractor costs in the new organization.

d) Please see the Applicants response to Interrogatory B-Staff–9d).

e) As mentioned in c) above, the Applicants used the combined 2015 Budget numbers from each utility as the base for the calculating transition costs and savings. The 2015 Budget figures incorporated productivity savings that were previously identified in the last rebasing or Custom IR applications of each of the LDCs before the merger.

f) As indicated in Figure 28 on page 2 of Exhibit B, Tab 6, Schedule 2, the total gross payroll reduction savings over the ten year period 2016 to 2025 is $306.9MM.

g) Please see the Applicants' response to Interrogatory B-AMPCO-6c).

Undertaking No. JTC1.16

Reference: Page 156 of Transcripts Volume 1

Provide the asset replacement rate as a percentage for each individual LDC for the years 2010 to 2015 and forecast for 2016; and the forecast asset replacement rate for LDC Co. for the 10-year period and show the calculation.

Response:

The asset replacement rate as a percentage of total assets for each of Enersource, Horizon Utilities, Hydro One Brampton ("HOBNI") and PowerStream is not available. The asset replacement rate has not been computed on a historical (2010-2015) or forecast basis (2016) for any of the individual LDCs. The forecast asset replacement rate for the ten year period from 2017-2026 has not been determined, as yet.

As stated in the Applicant's response to Interrogatory B-SEC-17, the Applicants have not prepared a Distribution System Plan ("DSP") for LDC Co, as yet. The Applicants expect to file a DSP for all four rate zones no later than 2019, at which time information on asset replacement for LDC Co will be available.

Individual DSPs have been filed in response to Undertaking JTC1.6. The DSPs for Horizon Utilities and HOBNI are for a five-year term expiring in 2019. The DSPs for Enersource (draft) and PowerStream expire in 2020.

The Applicants expect to continue with the level of capital investment for the distribution system, as identified in each LDC's DSP. In each of the service areas (or rate zones), the electricity distribution system will need to be expanded and refurbished (Exhibit B, Tab 6, Schedule 1, page 1). As identified in the response to Interrogatory B-Staff-8, the Applicants anticipate capital savings to be generated from business areas that do not impact the reliability of the distribution system such as Information Technology and Procurement.

Additionally, Horizon Utilities, in its settlement agreement for its Custom IR (EB-2014-0002), is required to, at a minimum, invest at the same level of capital investment approved in its DSP. It is the Applicants' intention to continue to be compliant with the Settlement Agreement, subject to changes in OEB policy as identified in its response to Interrogatory B-CCC-15.

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

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

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

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

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

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

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

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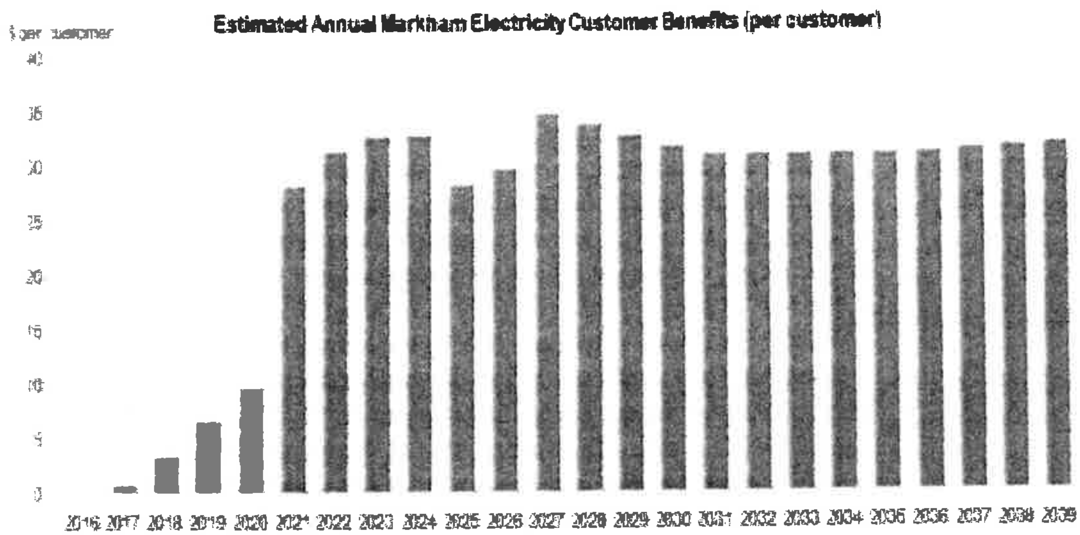

It is important to note that hydro rates are expected to keep increasing over this period due to transmission, commodity, Global Adjustment, and debt portions of their bill, so the projected savings from the Transaction will only partially offset the expected increases.

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

FINANCIAL CONSIDERATIONS:

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

Risks

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

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

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

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

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synergies is reasonable in aggregate, and potentially underestimated in some specific areas. In making its assessment, Navigant noted

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

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

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

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

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

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

Opportunities & Risks

Opportunities:

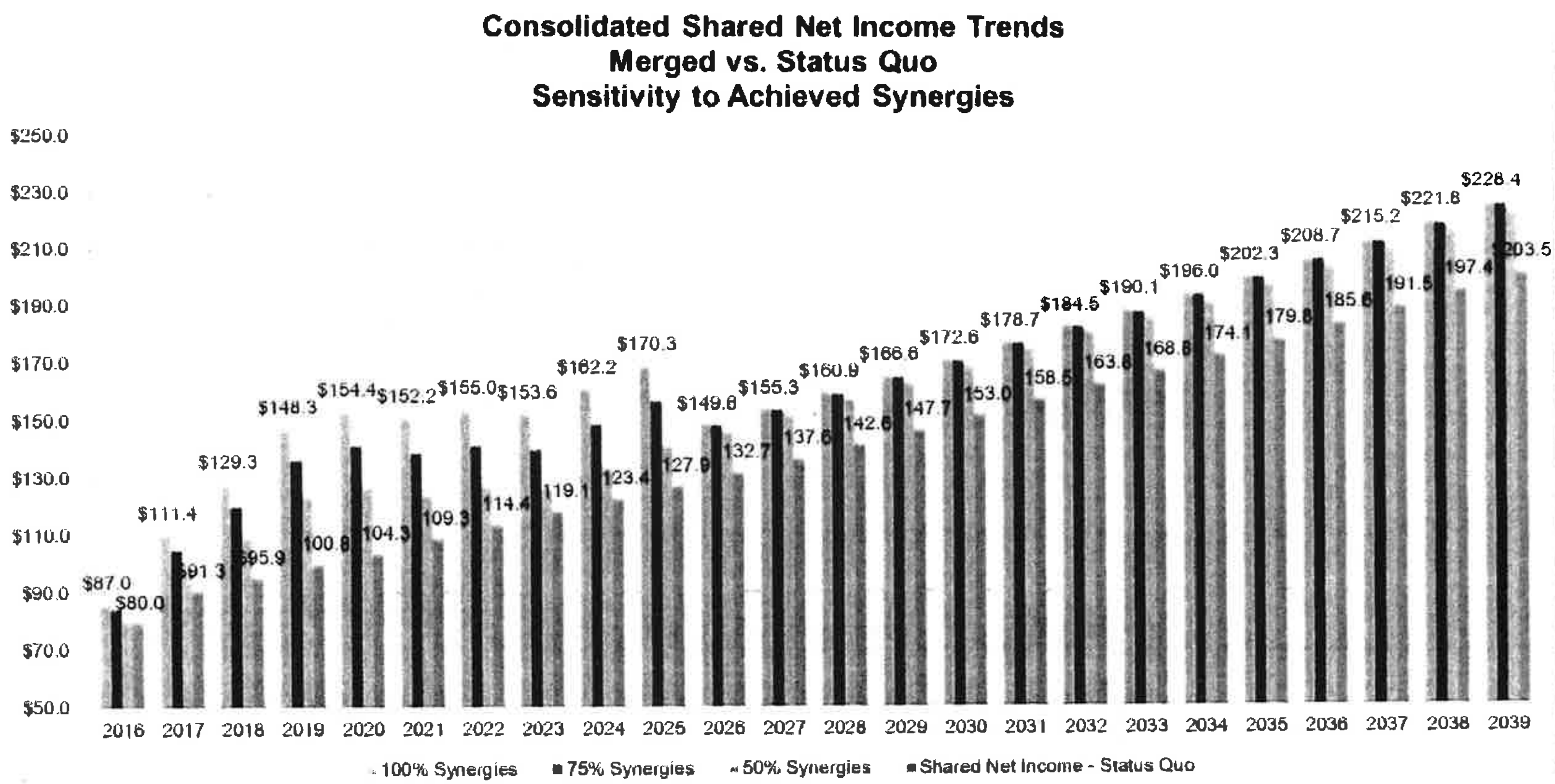
- Interest costs for HOBNI share purchase during bridge period significantly lower than 4% assumed in model
- Greater synergies than planned are achieved

Risks:

- Synergies may not be achieved or are delayed
- Unidentified expenses/liabilities from HOBNI
- Rising interest rate environment
- Debt rating agencies lower Holdco's credit rating below A

8

Holdco Shared Net Income: Sensitivity to Synergies

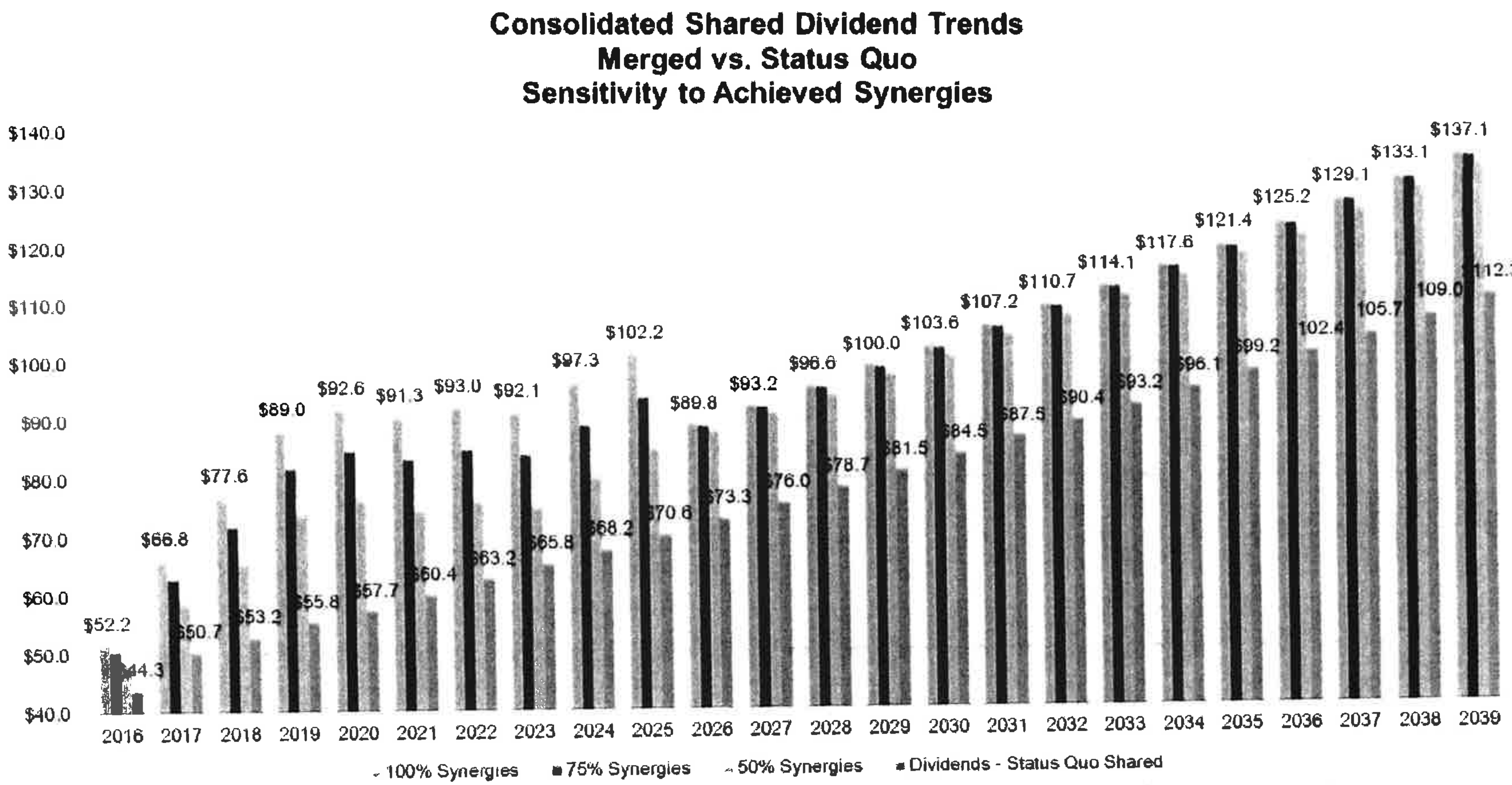


➢ Shared income across the Forecast Period declines by approximately $130MM between scenarios, most of which is within the first 10 years of the merger

➢ Shared income remains above the *Status Quo* under all Merged scenarios given support both from HOBNI net income and achieved level of synergies

➢ Virtually all of the shared income increase beyond the 10 year rebasing deferral period attributed to acquired HOBNI net income

Holdco Shared Dividends: Sensitivity to Synergies



- Total dividends across the Forecast Period decline by approximately $80MM between scenarios, most of which is within the first 10 years of the merger
- Dividends remain above the *Status Quo* under all Merged scenarios given support both from HOBNI net income and achieved level of synergies
- Virtually all of dividend increase beyond the 10 year rebasing deferral period attributed to acquired HOBNI net income

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ATTACH2-AMPCO-21

Reference(s): Attachment 2, Page 12

Preamble:

a) With respect to the analysis regarding sensitivity to achieved synergies, has any analysis been undertaken where achieved synergies are greater than 100%? (i.e. 125% synergies) If not, why not?

Response:

a) No analysis has been undertaken where achieved synergies are greater than 100%.

All identified synergies are a result of analysis conducted by teams of subject matter experts from each party. The analysis was completed to identify the maximum synergies that are attainable within each area of expertise, and as such, the synergies identified are considered to be the maximum savings available in the consolidated utility.

ATTACH2-STAFF-18

Reference(s):

Attachment 2, p. 6, 12

Preamble:

It is indicated that merged net income is higher than status quo net income as a result of Hydro One Brampton's net income plus capital and operating synergies.

Per the 2015 financial statements filed with the OEB in the Reporting and Record-Keeping Requirements (RRR) filings, the applicants' net incomes are as follows:

(In Thousands)	Enersource	Horizon	Powerstream	Hydro One Brampton
2015 Net Income	$ 19,583	$ 25,012	$ 25,445	$ 14,253
2014 Net Income	$ 2,295	$ 4,140	$ 13,874	$ 13,701

a) **Hydro One Brampton had the lowest 2015 net income out of the four distributors. Please explain why Hydro One Brampton's net income is identified as a main contributing driver for the higher merged net income.**

b) **The graph on page 12 presents net income sensitivity, where 100%, 75% or 50% of synergies are achieved.**

   i. **The forecasted synergies throughout the application equate to the 100% of synergies achieved scenario in the sensitivity analysis (e.g. merged net income of $87M). Please indicate whether this means that the forecasted synergies in the application are the most optimistic scenario that can be predicted to be achieved.**

   ii. **Please comment on the reasonableness of the forecast and the assumptions used in the forecast (e.g. whether assumptions are aggressive or conservative).**

   iii. **Please explain the expected likelihood of meeting 50%, 75% and 100% of expected synergies, and key dependencies.**

Response:

a) The comment included in the attachment was related to the consolidated entity, which includes the net income from HOBNI, whereas the stand-alone scenario did not include HOBNI. Existing shareholders will now share the net income of HOBNI and therefore this is indicated as a main driver. The increase in the net income is the result of the net synergies for the first ten years and the contribution of HOBNI's net income for that time period.

b) i) Please see the Applicants' response to Interrogatory ATTACH2-AMPCO-21.

ii) Please see the Applicants' response to Interrogatory ATTACH2-AMPCO-21.

iii) As indicated above, the 100% synergy savings achievement is the most likely scenario and is the scenario included in the Application. The Applicants chose to portray 50-75% attainment of synergies as a sensitivity analysis. There were no estimates of the expected likelihood of the 50-75% scenarios. The achievement of these synergies is dependent on the achievement of system integration in a timely and cost effective manner; and an effective human resource strategy.

Final Report

Decision support for the proposed three-way merger between PowerStream Holdings Inc., Enersource Corporation, and Horizon Holdings Inc., and the joint acquisition of Hydro One Brampton Networks Inc.

Prepared for

Vaughan Holdings Inc.

September 18, 2015

Navigant
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4. Conclusion

Navigant reviewed PowerStream's business case and business plan for the proposed transaction. Based on its review, Navigant expects that the proposed transaction will create value for the residents, taxpayers, and electricity customers in the City of Vaughan.

To effect the proposed transaction, the City of Vaughan will need to invest $56M (plus or minus adjustments due at closing). Navigant estimates that the transaction will create between $71M and $102M of shareholder value, approximately 30% to 80% more than the $56M initial investment. The shareholder value is derived primarily from operating cost synergies realised through the merger and acquisition, which in turn result in an increase in annual dividends and retained earnings.

The expected return on investment for the PowerStream Shareholders is 7.7%, with Navigant's estimates ranging from 4.1% to 10.6%. Under the base case synergy scenario, Navigant estimates that the simple payback period for the initial investment is 10 years.

In addition to the shareholder benefit, over 25 years, Navigant expects that the transaction will create $61M of benefit for electricity customers in the City of Vaughan, equivalent to an average of approximately $40 per year per customer and $30 per year for residential customers. If electricity customer benefits are considered in conjunction with shareholder benefits, the simple payback period for the initial investment is reduced to seven years.

Navigant also analysed two alternatives to the $56M cash investment: funding the transaction through a conversion of shareholder debt for equity, and selling 10% of PowerStream in advance of the transaction and using the proceeds to effect the transaction. Under both of these scenarios the City of Vaughan mitigates some of the risk associated with the transaction. Both scenarios also improve the net cash flow to the City of Vaughan relative to funding the transaction with a cash injection.

The proposed transaction is unlike other transactions that PowerStream has brought to the City of Vaughan for consideration. Based on its independent assessment, Navigant believes that the proposed transaction has more risk and on an expected basis is likely to provide a lower return than investments the City of Vaughan has made to date in PowerStream. That said, Navigant does not have reason to believe that future transactions will achieve the risk-reward profile of the previous transactions. Furthermore, Navigant's analysis suggests that under certain reasonable conditions the return associated with this transaction could be higher than previous investments.

It is Navigant's view that important aspects of the proposed transaction are reasonable, such as the purchase price for Hydro One Brampton, the proposed equity ownership for the PowerStream Shareholders in the new company, and the proposed synergies and transition costs. The price for Hydro One Brampton was found to be within, but at the high end of the valuation range. The relative valuation of PowerStream was found to be within an acceptable range. Synergies were reviewed and determined to be reasonable and achievable. Through its past acquisitions, PowerStream has developed a track record of delivering on synergy targets. Navigant's assessment is that roughly half of the functional area synergies are likely conservative, such that actual synergies may be greater than represented in the business case.

The PowerStream shareholders also asked Navigant to assess the impact of the proposed transaction on the liquidity of their investment in PowerStream. It is Navigant's assessment that the proposed transaction will have a limited impact on the liquidity of the City of Vaughan's existing investment in PowerStream, and could result in a small improvement over the status quo. Note, there may be certain conditions where exiting from the new company could result in a higher tax burden than existing from PowerStream.

MUN-CCC-11
NAVIGANT FINAL REPORT
SEPTEMBER 18, 2015

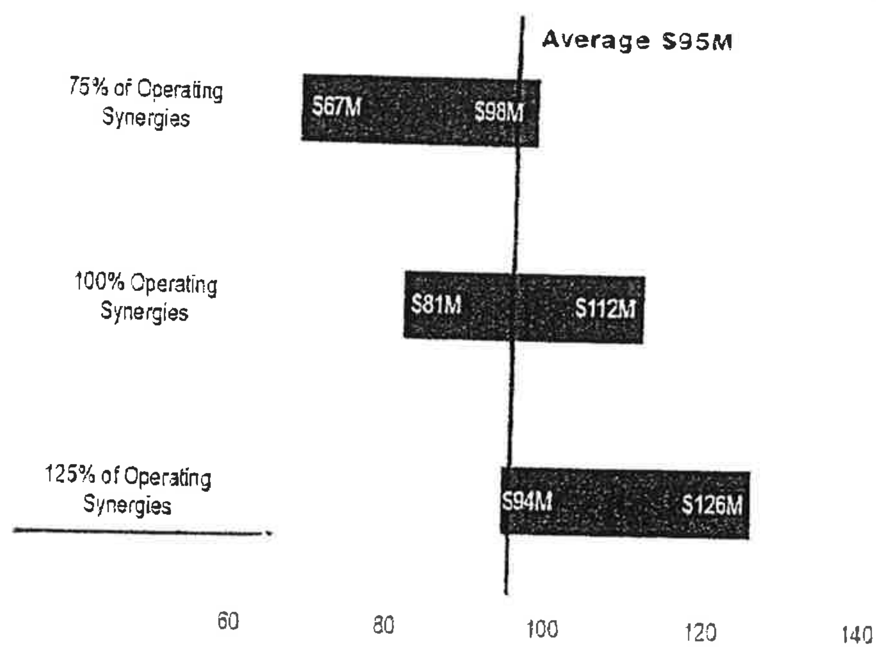
1.3 *Shareholder return on investment*

Navigant developed an independent cash flow and valuation model to assess the PowerStream Shareholders' expected return on investment for the proposed transaction. Navigant used the Free Cash Flow to Equity valuation approach to determine the value the City of Vaughan's ownership in the new company and compared it to the value of the City of Vaughan's ownership in PowerStream. Adjustments were then made to reflect the impact of the proposed transaction on the interest payments the city receives for the shareholder loans to PowerStream and the dividends it receives from previous investments in PowerStream's solar business.

1.3.1 Equity value

To effect the proposed transaction, the City of Vaughan will need to invest $56M (plus or minus adjustments due at closing). Navigant estimates that the transaction will increase the equity value of the City's investment in PowerStream by between $81 and $112M under the base case synergy scenario. Under a low synergies scenario, the equity value is estimated to increase by between $67M and $98M. Under a high synergies scenario, the equity is estimated to increase by between $94M and $126M. The range of values for each synergy scenario are based on different approaches and assumptions for the terminal value of the investment in year 25.

Figure 5: Increase in equity value



Notes:
1) Range for each synergy scenario based on alternative terminal value calculations, e.g., perpetuity growth rate, final year cash flow, and exit multiple
2) Assumes 5% discount rate

The shareholder value is derived primarily from operating cost synergies realised through the merger and acquisition, which in turn result in an increase in annual dividends and retained earnings.

As indicated, the transaction is also expected to impact:

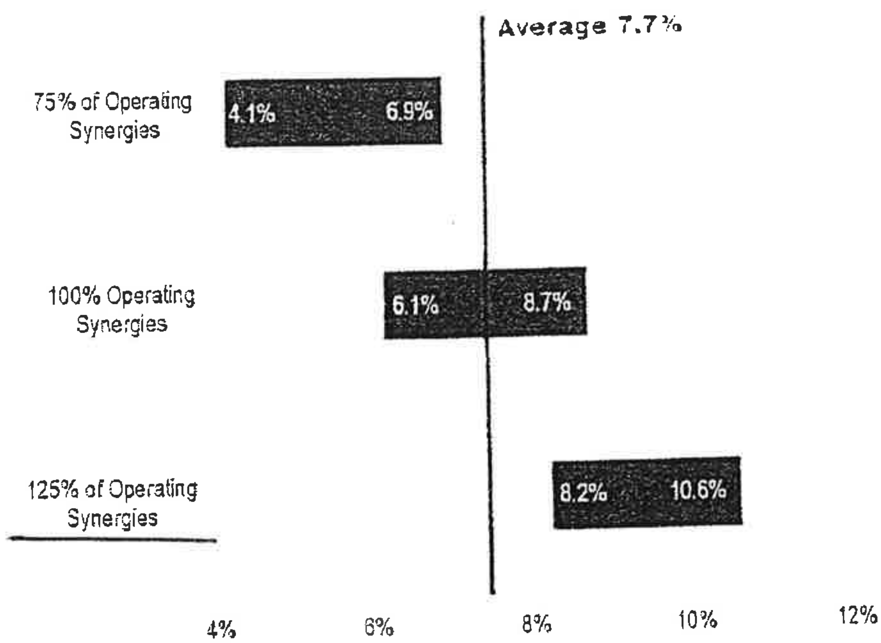
» the magnitude of the interest payments the City of Vaughan receives from its shareholder loans to PowerStream; and
» the dividends received from the PowerStream solar business.

On a present value basis, Navigant expects that the reduction in cash flow could be as high as $10M. Hence, on an adjusted basis, Navigant's analysis suggests that the shareholder value created as a result of the transaction under the based case synergy scenario will be between $71M and $102M, with an average or expected value of $85M ($95M less $10M).

1.3.2 Internal rate of return

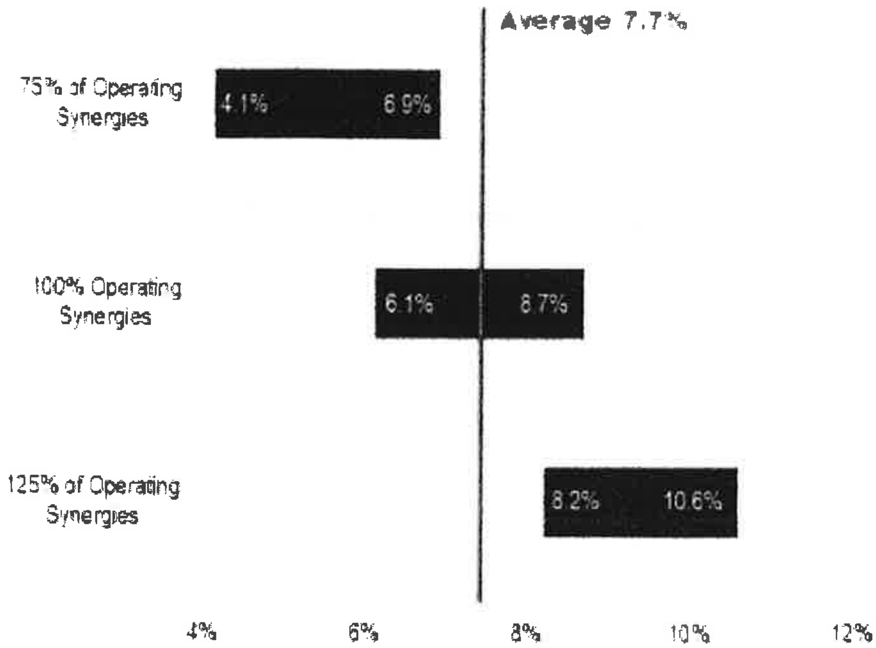
The expected return on investment for shareholders on the Hydro One Brampton acquisition is 7.7%, with estimates ranging from 4.1% to 10.6%.

Figure 6: Expected return on investment



Notes
1) Range of irr for each synergy scenario based on alternative terminal value calculations e.g. perpetuity growth rate, final year cash flow and exit multiple
2) Assumes 5% discount rate

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



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

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

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

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

Basic Transaction Economics

Markham Investment

$38 to 43 million

Return on Investment

7.7%

4.1% | 6.1% | 8.7% | 10.6%

Shareholder Value

+$10 million

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

Additional Upside

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

Customer Benefit

$106 million
$64 million (Y1-24)

30

$24 to $30 per year for an average Markham household starting in 2021

NAVIGANT

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Value Created by the Transaction

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

Total Cash Flow Basis

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

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

Incremental Approach

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

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

The question then becomes, is this range of rates acceptable, given the risks. It is lower than the OEB-allowed return on equity for electricity LDCs, which is currently 9.3%. However, the willingness of investors to purchase Ontario LDCs at premium prices, and the fact that other utility stocks in the market trade at premiums to book value, indicate

PDF 146

synergies is reasonable in aggregate, and potentially underestimated in some specific areas. In making its assessment, Navigant noted

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

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

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

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

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

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

[3] Plus or minus certain adjustments.

PDF
445/523

MergeCo: Due Diligence

For the past several months PowerStream and its merger partners have established working groups, headed by the CFOs, who were tasked with the analysis and review of the merger particulars. Deloitte was engaged to provide a 3rd party valuation of PowerStream, Enersource, and Horizon.

Deloitte produced a business case model to assess the merger and purchase transaction, considering net synergies, capital structure, financing, and regulatory impacts

In addition, the valuation model and Business Case model was reviewed and stress tested over 6 months by each of the following parties:

- Navigant Consulting Inc. - Representing PowerStream Shareholders
- Morrison Park Advisors Inc. – Providing advisory services to PowerStream
- PricewaterhouseCoopers LLP – Representing Enersource Shareholders
- Ernst & Young Global Limited – Representing Horizon Utilities Shareholders

Deloitte's conclusions reached through the various approaches employed produced the following results:

Relative Valuation including PowerStream Solar

(Including Un-regulated)	**Enterprise Value (EV)**	**Market Value (MV)**	**Δ (MV-EV)**
PowerStream	49.1%	47.9%	-1.2%
Enersource	29.2%	30.0%	0.8%
Horizon Utilities	21.7%	22.2%	0.5%

Relative Valuation Excluding PowerStream Solar

LDCs	**Regulated (EV)**	**Reg. & Non-Reg (EV)**
PowerStream	45.9%	46.0%
Enersource	31.6%	31.0%
Horizon Utilities	22.5%	23.0%
	100.0%	100.0%

B-Staff-1
Attach 1

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

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.

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

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c) The Applicants would not be supportive of an ESM that shares the first dollar with its ratepayers above the allowed ROE. The ESM provided in the Application is consistent with and achieves the purpose stated in the Report. Please see the Applicants' response to Interrogatory B-CCC-22a), above.

d) The Applicants would not be supportive of an ESM that gives back all earnings above the allowed ROE to the ratepayers once the transition costs are recovered. The ESM provided in the Application is consistent with and achieves the purpose stated in the Report. Please see the Applicants' response to Interrogatory B-CCC-22a), above.

e) The Business Case Model assumes LDC Co will file successive applications for ICM within the rebasing deferral period, during which time actual ROEs may exceed OEB approved ROEs assumed in the Business Case Model.

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

B-AMPCO-9

Reference(s): Exhibit B, Tab 6, Schedule 1, Page 4, Figure 26

Preamble:

a) Please explain the decrease in distribution revenue in 2026.

b) Please explain the increase in distribution revenue in 2027.

c) Please explain the forecast increases in distribution revenue beyond 2027 (2028 to 2039).

d) Please provide all assumptions regarding an ICM in Figure 26.

e) Please provide the forecast revenue by year to be collected from any ICM recovery rate riders.

f) Please recast Figure 26 without an ICM.

Response:

a) The decrease in distribution revenue in 2026 is the result of the first rebasing following the ten year rebasing deferral period. The rebasing results in a forecast revenue requirement reduction of $69.3MM. On rebasing, the operating and capital synergies will be included in the calculation of the rate base and be incorporated into customers' rates.

b) The Applicants expect and assume that LDC Co will file successive Custom IR applications commencing in year eleven post-consolidation. Distribution rates are forecast to recover prudently incurred costs.

c) Please see b) above.

d) The ICM Assumptions are:

- Average customer growth factors: PowerStream: - 1.7%; Enersource: – 0.6%; Horizon Utilities: – 0.7%; Hydro One Brampton: – 1.3%;
- Price Cap Index increases: PowerStream and Horizon utilities: 1.30%; Enersource: 1.45%; HOBNI: 1.4%; and

- Deadband of 20.0%.

e) The forecast revenue by year to be collected via ICM recovery rate riders is identified in Table 1 below.

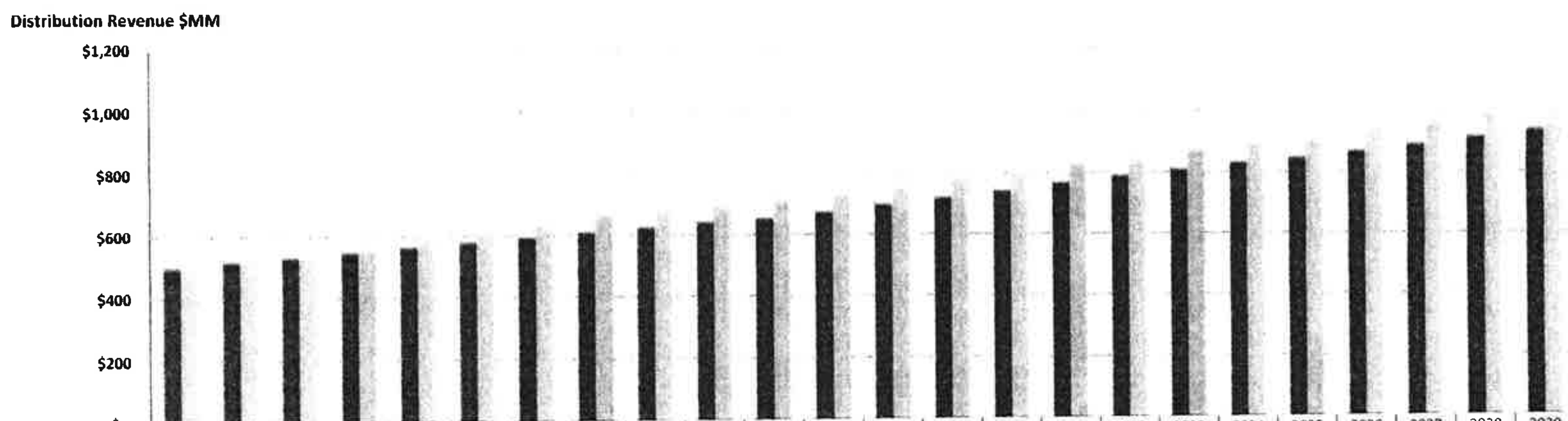
Table 1 - Incremental ICM Revenue

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Incremental ICM Revenue ($MM)	3.7	6.1	7.3	8.9	10.3	12.7	16.0	19.3	21.9	24.3

The aggregate ICM revenue is $130MM.

f) Figure 1 below provides the distribution revenue trends restated without ICM.

Figure 1 – Distribution Revenue Trends – restated without ICM



	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039
MergeCo	$508	$527	$541	$556	$573	$588	$603	$619	$635	$651	$661	$683	$707	$731	$752	$776	$798	$820	$841	$856	$877	$899	$923	$947
StandAlone	$508	$535	$552	$569	$598	$629	$652	$679	$694	$711	$730	$751	$773	$796	$817	$842	$865	$888	$910	$927	$949	$973	$998	$1,023

Unredacted version filed Sept. 6, 2016 in response to Sept. 2, 2016 OEB Decision on Confidentiality Requests

B-AMPCO-6

Reference(s): Exhibit B, Tab 6, Schedule 1

Preamble:

a) Please complete the following Table to show the existing FTE levels of the four Parties pre-merger.

FTEs	Enersource	Horizon	PowerStream	Hydro One Brampton
Executive Management				
Senior Management				
Management				
Non-Union				
Union				
Temporary				
Total				

b) Please provide the number of vacancies for Enersource, Horizon, PowerStream and Hydro One Brampton at December 31, 2015.

c) Please provide the total number of FTEs in the categories in part (a) for LDC Co. for the years 2016 to 2025.

Response:

a) The Applicants have provided the pre-consolidation FTE breakdown for the Parties in Table 1 below.

Table 1 – FTE Breakdown by Party

FTEs	Enersource	Horizon Utilities	PowerStream	HOBNI
Executive Management	7	9	18	1
Management	42	51	61	17
Non-Union	112	77	133	59
Union	260	278	342	166
Total FTEs	421	415	554	243
Temporary	3	3	25	5

The Parties do not have a definition of "Senior Management". The number of FTEs reported for "Management" include all management employees other than Executives.

Temporary staff is not included as FTEs and are hired to provide short-term support on an as-needed basis. The number of temporary staff at PowerStream reflects additional support required during the implementation of the new Customer Service Information System in 2015.

b) The number of vacancies for each of the four Parties at December 31, 2015 is provided in Table 2 below.

Table 2 – Vacancies by Party

Utility	# of Vacancies
Enersource	19
Horizon Utilities	27
PowerStream	31
HOBNI	17
Total	**94**

c) Table 3 below provides a forecast of FTEs for the first five years of the rebasing deferral period, post consolidation. FTEs at the end of year five, post consolidation, for years six to ten are forecast to remain stable.

Table 3 – Forecast of FTEs

Category	Original FTE	Year 1 FTE	Year 2 FTE	Year 3 FTE	Year 4 FTE	Year 5 FTE
Executive Management	34	28	27	27	27	27
Management	202	173	156	150	148	148
Non-Union	351	347	330	314	309	305
Union	1046	987	943	910	881	881
Total	**1633**	**1535**	**1456**	**1401**	**1365**	**1361**