



Halton Hills Hydro Inc. Discussion of Financing Considerations

May 4, 2017

Halton Hills Hydro – Overview of 2016 Cost of Service Filing

- Halton Hills Hydro filed a cost of service application for new rates for the 2016 Test Year.
- The OEB approved these new rates for the period beginning on May 1, 2016. Accordingly, no new cost of service filing is expected for five years (i.e. until the year starting January 1, 2021).
- The OEB-approved rates for Halton Hills Hydro include a low return / blended interest rate (2.892%) on the long-term debt portion of the approved rate base (see following page).
- We note that the OEB-approved rates for Halton Hills Hydro also incorporate no gross-up allowance for payments-in-lieu-of-taxes (as there is sufficient CCA tax shield to eliminate taxable income).
- In order to achieve reasonable financial covenants (e.g. debt service ratios etc.), Halton Hills Hydro may need to file an Interim Capital Module request to capture a temporary return on its capital investment in a new Transformer Station, at least until the cost of the Transformer Station can be formally rolled into rates (i.e. 2021).

Halton Hills Hydro - Approved Rate Base - 2016

The following table outlines the OEB-approved rate base and returns for Halton Hills Hydro for the 2016 Test Year. As noted, the OEB-approved return on long-term debt is 2.892%.

OEB Approved Rate Base for 2016 Test Year		Low	High	Average	
Fixed assets - average balance - 2016	\$	55,757,587	55,757,587		
Working capital allowance @ 7.50%		5,664,968	5,664,968		
Rate Base - 2016 Test Year	\$	61,422,555	61,422,555	61,422,555	

OEB Approved Returns on Rate Base	Deemed Capital Structure	Allocated Rate Base	OEB Approved Returns	Approved Return On Capital	OEB Maximum Rates
LT Debt	56.00%	34,396,631	2.892%	994,618	4.540%
ST Debt	4.00%	2,456,902	1.650%	40,539	1.650%
Total debt	60.00%	36,853,533	2.809%	1,035,157	4.347%
Equity	40.00%	24,569,022	9.190%	2,257,893	9.190%
	100.00%	61,422,555	5.361%	3,293,050	6.284%

OEB Calculation of Interest Rate on LTD	LTD	Deemed Interest Rate	Interest
Existing bank debt (TD Bank)	\$ 9,835,172	1.8100%	178,017
Shareholder loan	16,141,970	4.1200%	665,049
Existing LTD - 2016 Test Year	25,977,142	3.2454%	843,066
Unused debt capacity	8,419,489	1.8000%	151,552
Deemed LTD	\$ 34,396,631	2.8920%	994,618

Financing Options

Private Placement Debenture

- Non-amortizing “bullet” debenture
- Marketed to institutional investors and investment counsellors
- 10 yr. term
- Fixed interest rate based on 10 yr. GOC yields
- Market standard trust indenture for LDC
- Requires at least one credit rating
- Competitive credit spreads

Institutional Loan

- Non-amortizing loan
- Direct placement with private debt teams of lifecos. and small pension funds
- 10 yr. term
- Market standard trust indenture for LDC, but scope for negotiated covenants
- Does not require a credit rating
- Spread premium to private placement

Term Bank Loan

- Typically non-amortizing loans are 364 day committed or 1 yr. renewal
- 10 yr. term achieved through annual renewals
- Does not require a credit rating
- Competitive low short-term interest rates (CDOR)
- Interest rate fixed with an interest rate swap

Interest Rate Environment – Capital Markets

30-year Government of Canada (%)



Last Twelve Months



2.16%

Reference
interest rate
for a 30 yr.
Debenture

10-year Government of Canada (%)



Last Twelve Months



1.55%

Reference
interest rate
for a 10 yr.
Debenture

Source: Bloomberg, all data as of April 28, 2017.

Interest Rate Environment - Bank Markets

10-year CAD Swaps (%)



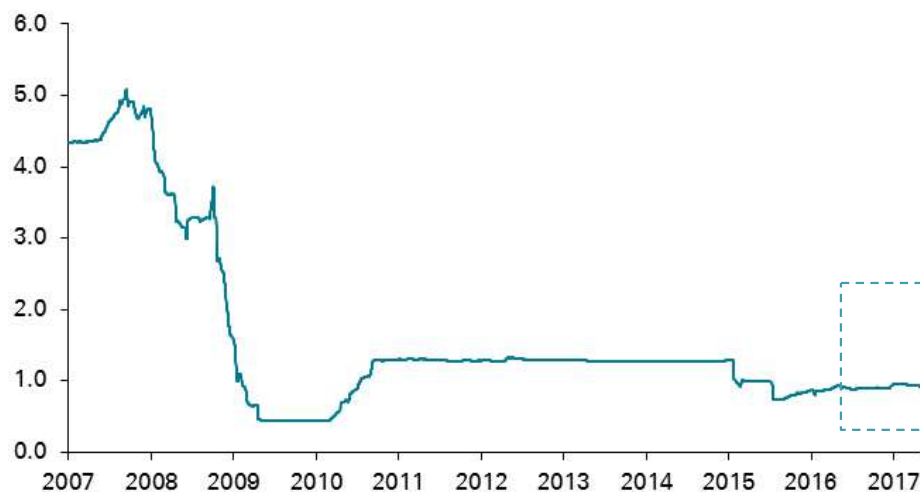
Last Twelve Months



1.78%

Reference
interest rate
for a 10 yr.
fixed term
loan

3-month CDOR (%)



Last Twelve Months



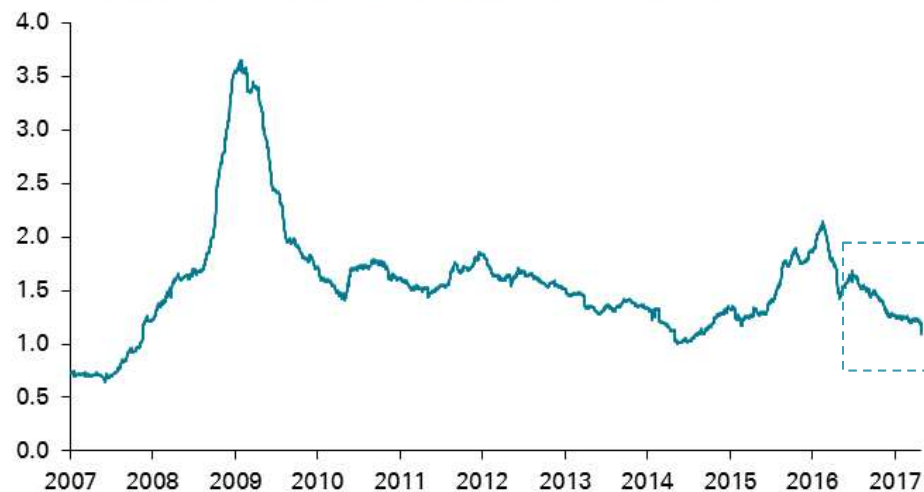
0.92%

Reference
interest rate
for a
variable rate
term loan

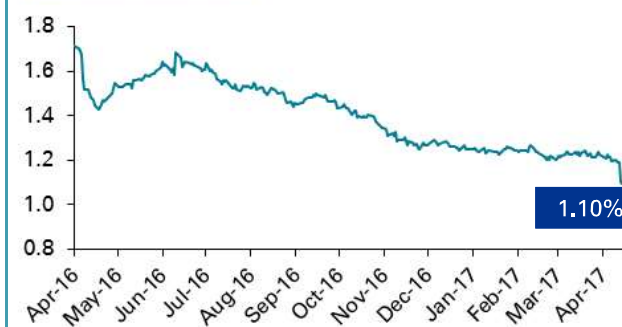
Source: Bloomberg, all data as of April 28, 2017.

Corporate Credit Spreads

10Y Canadian Composite "A" - Spread over 10Y GoC (%)



Last Twelve Months



Reference
credit spread
for a 10 yr.
Debenture

Source: Bloomberg, all data as of April 28, 2017.

Halton Hills Hydro Inc. Indicative Pricing – 10 Yr. Non-Amortizing Debenture

Indicative Pricing – Halton Hills Hydro Inc.	
	10 yr.
GoC Reference Bond*	1.545
+ Issuer Spread	±115 bps
= Indicative Halton Hills Hydro Inc. all-in coupon	2.695

New issue
interest rate
of ± 2.70%

Source: Bloomberg, all data as of April 28, 2017

Selected Comparable Issues - Current Trading Stats			
Issue	Current yield (%)	GoC yield (%)	Spread - GoC
2.52% Toronto Hydro 08/25/26	2.254	1.545*	71 bps
2.77% Hydro One 02/24/26	2.248	1.545*	70 bps
4.12% Guelph Hydro Electric 09/25/45	3.727	2.161**	157 bps
2.61% Hydro Ottawa Holdings Inc. 02/03/25	2.272	1.545*	73 bps
3.93% Cambridge & North Dumfries EPI 01/27/45	3.732	2.161**	157 bps
4.13% Windsor Canada Utilities 11/06/42	3.843	2.161**	168 bps

New issue
spreads are ±
93 bps for TH
and H1

Source: Bloomberg, all data as of April 28, 2017, TD Capital

Selected Comparable Issues - Issuance Stats					
Issue	Issue date	Issue price	Coupon (%)	GoC yield @ issuance	Spread - GoC
2.52% Toronto Hydro 08/25/26	14-Jun-16	99.98	2.520	1.180*	134 bps
2.77% Hydro One 02/24/26	24-Feb-16	99.97	2.770	1.148*	162 bps
4.12% Guelph Hydro Electric 09/25/45	25-Sep-15	100.00	4.121	2.268**	185 bps
2.61% Hydro Ottawa Holdings Inc. 02/03/25	2-Feb-15	100.00	2.614	1.233*	138 bps
3.93% Cambridge & North Dumfries EPI 01/27/45	28-Jan-15	100.00	3.929	1.925**	200 bps
4.13% Windsor Canada Utilities 11/06/42	6-Nov-12	100.00	4.134	2.383**	175 bps

Source: Bloomberg, all data as of April 28, 2017

* 10 yr. Government of Canada Bond

** 30 yr. Government of Canada Bond

Indicative Term Sheet – Debenture Offering

Issuer	Halton Hills Hydro Inc. (the “ Corporation ”)
The Offering	\$● Series A Senior Unsecured Debentures (the “ Series A Debentures ”)
Credit Rating	The Series A Debentures are expected to be rated ● (Stable trend) by ● “Credit Ratings”
Maturity Date	●, 2027
Interest	●% per annum, payable in equal semi annual instalments in arrears
Principal Repayment	Repayment of principal of the Series A Debentures will occur on the Maturity Date, subject to earlier payment in certain limited circumstances
Rank	The Series A Debentures will be direct senior unsecured obligations of the Corporation and will rank equally with all of the Corporation’s other senior unsecured obligations
Covenants	<p><i>Negative Pledge</i> – will not permit any Designated Subsidiary to, create, assume or suffer to exist any Security Interest, other than Permitted Encumbrances</p> <p><i>Limitation on Funded Indebtedness</i> - Consolidated Funded Indebtedness would not exceed 75% of Total Consolidated Capitalization</p> <p>Limitation on Designated Subsidiary Indebtedness – will not permit a Designated Subsidiary to become liable for or in respect of any Indebtedness except in certain circumstances</p> <p><i>Restriction on Mergers and Dispositions</i></p> <p><i>Ownership of Principal Property</i> - not less than 90% of the book value of Principal Property of the Corporation and its Subsidiaries, shall be owned by the Corporation or Designated Subsidiaries</p>
Redemption	The Series A Debentures may be redeemed, at the option of the Corporation: (a) prior to the Par Call Date in whole at any time or in part from time to time, at the greater of par and the Canada Yield Price (Canada Yield plus ● bps); and (b) on or after the Par Call Date, in whole or in part at par, in either case, plus accrued and unpaid interest
Events of Default	Failure to pay principal or interest owing in respect of the Series A Debentures; failure to perform any other covenant; and payments default on, or acceleration of, Recourse Debt exceeding the greater of \$25 million and 10% of the Consolidated Net Worth of the Corporation and its Designated Subsidiaries
Use of Proceeds	Retire the outstanding indebtedness of the Corporation under the Term Facility and Shareholder Note, and to fund capital expenditures

Approach to Credit Ratings

What it is and Who are the Agencies

- Forward-looking statements about relative credit risk of an issuer or its securities
- Assessment of the credit quality of an individual debt issue and the relative likelihood of default
- 3 primary credit rating agencies in Canada that provide ratings to utilities / LDC



MOODY'S

S&P Global

Why is One Required / Benefits

- In order to sell debentures to institutional investors in the private placement market pursuant to exemptions from the prospectus requirements of applicable securities laws in the Provinces of Canada
- Reduction in prudential support / costs paid to IESO with a credit rating
- Not required for bank or institutional loans

Process for Selecting an Agency

- Prepare a "shadow" rating based on the existing methodologies
- Conduct an accelerated RFP process using market tested criteria



Estimated Rating Fees for LDC

Initial Fee	Issuer Fee	Annual
± \$50,000	4.9 bps on amount	± \$50,000

Credit Rating Process

- Estimated 6 week process
 1. Readiness and organization
 2. Initiation
 3. Initial due diligence
 4. Management Presentation
 5. Rating Committee Approval
 6. Publication
 7. Surveillance / maintenance

We assist clients through this process



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