

POWERSTREAM MERGER

**CITY OF BARRIE GENERAL
COMMITTEE MEETING
SEPTEMBER 28TH, 2015**

Industry Consolidation

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

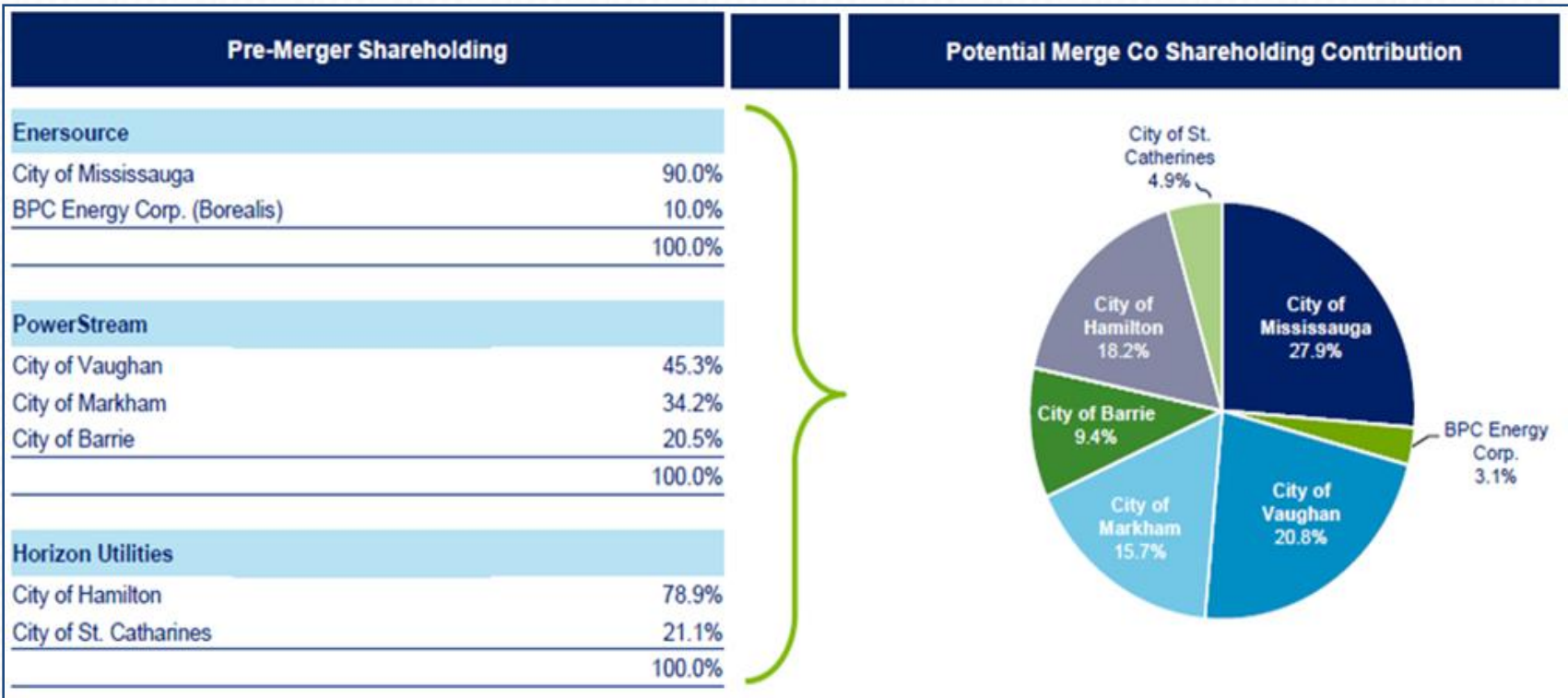
Industry Consolidation

- In January, 2015 PowerStream received unanimous support to enter into a letter of intent for merger with Enersource and Hydro One Brampton, and to respond to the RFI. Horizon Utilities also expressed a desire to pursue a merger.
- On April 16, 2015: the Province announced that it intended to *“proceed with a merger of Enersource Corporation, Horizon Utilities, Hydro One Brampton Networks Inc. and PowerStream Holdings Inc. to ensure value for the Province and to help catalyze Local Distribution Company (“LDC”) consolidation for the benefit of ratepayers..*

Key Aspects of the Business Case

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

Business Case – Relative Ownership



Business Case

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

Business Case

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

Due Diligence

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

Business Case Value to City of Barrie

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

Business Case Value to City of Barrie, Con't

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

Recommended Financing Options

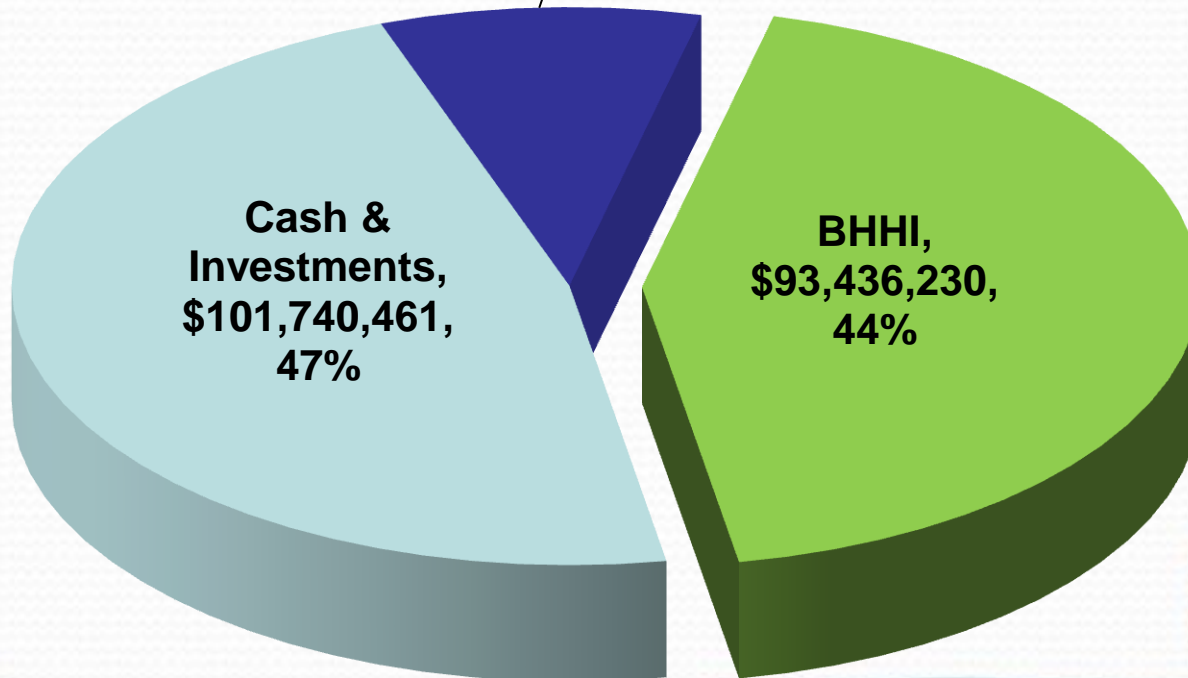
- Staff recommend the transaction and considered the following in recommending a method of financing:
 - Municipal Act & City of Barrie Investment Policy
 - Preservation of principal
 - Liquidity
 - Diversification
 - Return on investment

City of Barrie Investments December 31, 2014

Liquid

Promissory
Note,
\$20,000,000,
9%

Not Liquid



City of Barrie Returns – Status Quo

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

City of Barrie Forecast Returns - Merger

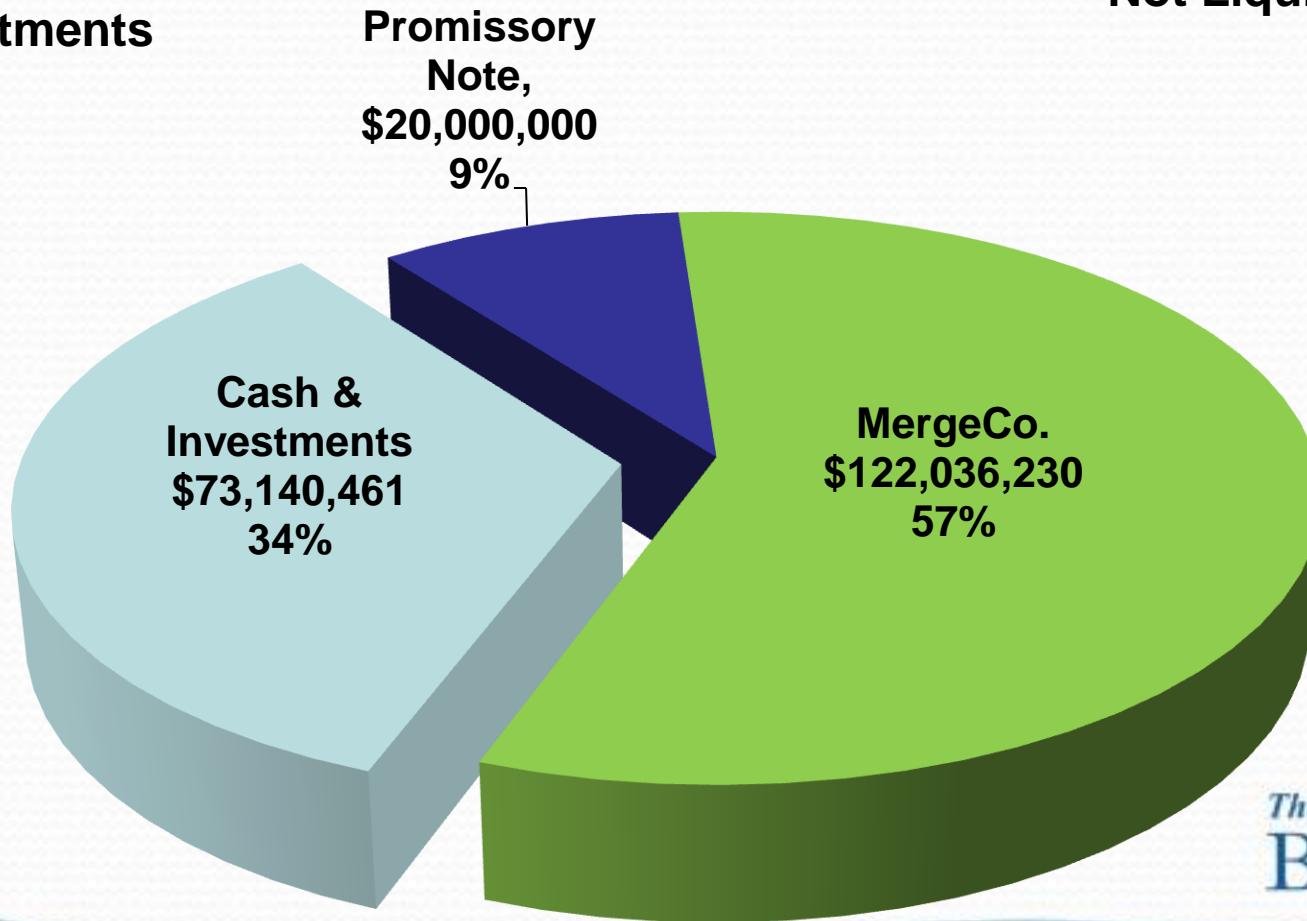
- Merger – based on a cash purchase
 - Core Dividends average \$7.5 M per year, increase of \$2.7M average per year to status quo
 - Interest on Note declines to \$0.8 M per year, reduction of \$0.3 M per year
 - Solar dividends reduced by approximately \$0.12 M per year
 - **Average annual increase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

City of Barrie Investments Post Merger

Cash Purchase

Liquid
Investments

Not Liquid



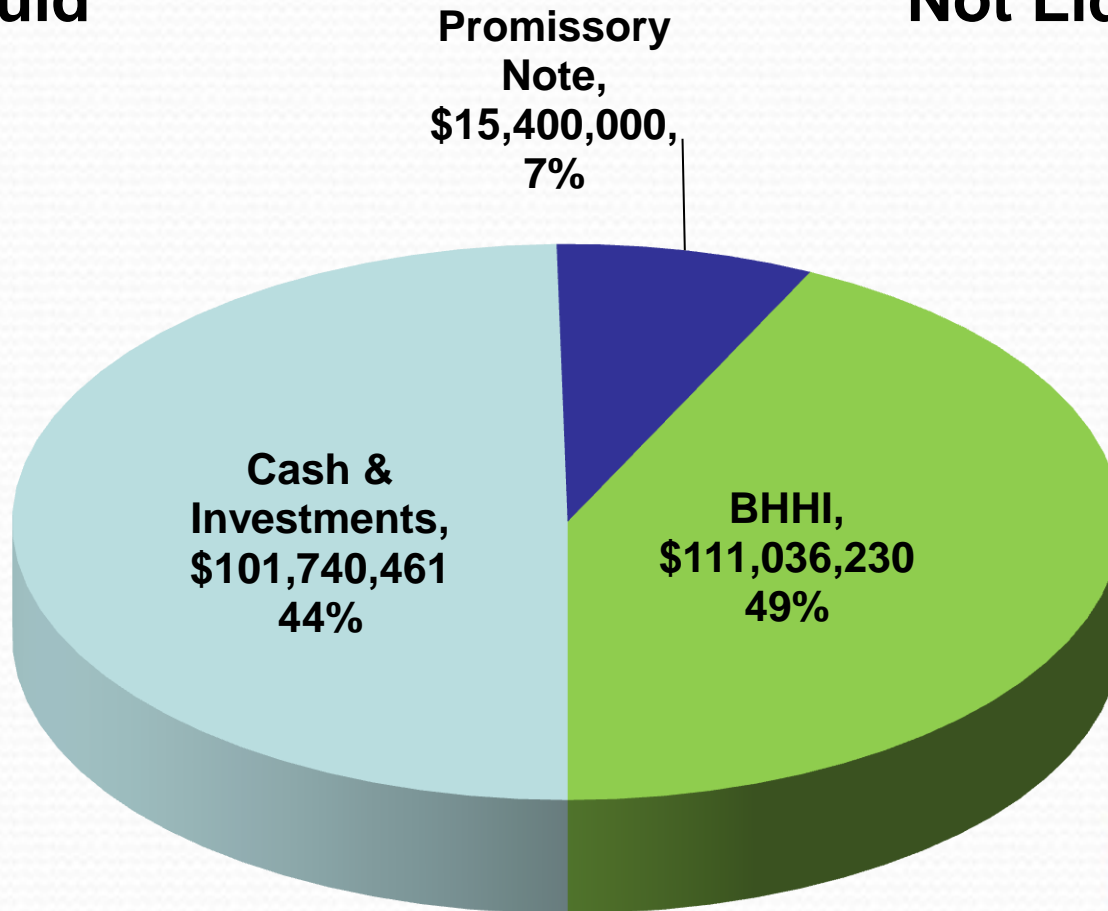
Recommended Financing

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

City of Barrie Investments Post Merger With 10% Sale

Liquid

Not Liquid



Reasons for 10% Sale

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

Recommended Financing If No Sale

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

Process To Approve Merger

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

Innovate Barrie All Staff Forum

Questions?