Merger Overview

Horizon Utilities Corporation

October 7, 2015
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Merger Introduction

In this document, Horizon Utilities Corporation, your local electric distribution company in Hamilton and St. Catharines, is pleased to share the highlights of the business analysis for a proposed new local electricity distribution and services utility with our customers, our shareholders and our employees.

If approved, the new company will be formed with the merger of Horizon Utilities, Enersource, and PowerStream and the acquisition of Hydro One Brampton. This is a very important time for our shareholders, the City of Hamilton and the City of St. Catharines. This transaction represents an exciting opportunity and considerable value to customers and the municipalities.

This plan demonstrates that the new utility Horizon Utilities proposes to create will, first, reduce the rising cost of electricity for our customers and, second, provide significant and enhanced new revenues for our municipal shareholders that are sustainable on an ongoing basis. At the same time, it will allow us to sustain and improve the reliability of our service and our ability to maintain it.

If approved by our shareholders, all other parties to this transaction, and ultimately the Ontario Energy Board, our new utility will ensure that:

- Our electricity rates remain as affordable as possible in the markets we serve
- Our shareholders will see an increased return on investment
- Our organization has deeper financial resources, strengthened human resources – through training and more opportunities, and more investments in technology and innovation
- Our customers’ and shareholders’ voices will have more influence on the energy policies of our province and the regulations that support it.

At Horizon Utilities, we have a history of successful mergers – all of which were focused on reducing upward pressure on rates and increasing shareholder value. We look forward to continuing to build on this history with this proposal.

Merger Synopsis

Utility mergers have been hugely successful in lowering the cost of living and the lowering cost of doing business, resulting in better service for all concerned. Indeed, Hamilton’s own experience in 2000 and Hamilton’s and St. Catharines’ experience in 2005 is consistent with this outcome. Across Ontario, 40% of all customers are currently served by municipally merged companies.

Customer Benefits of this Merger:

- 5.9% lower average annual rates throughout entire 25 year forecast period from cost savings, 8% lower after first 10 years
- No deterioration in service levels or response time – service response will be exactly the same as prior to merger
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- Service Centres will remain in Hamilton and St. Catharines.
- 15% operating cost savings in first 10 years
- $426 million of net cash savings from operating and capital costs in the first 10 years
- $51 million approximately of sustained net cash savings thereafter per year

Community Benefits of this Merger:

- One company with three separate business area head offices in three separate communities
  - Utility head office in Hamilton
  - Corporate head office in Mississauga
  - Sustainability and Innovation head office in Vaughan
- Utility head office to reside in Hamilton downtown core
  - Located at current Horizon office 55 John St. North
  - Utility will have primary responsibility for providing electricity distribution services to 960,000 customers – Horizon currently provides serves 242,000 customers
- Existing operations service centres ideally located, will continue to serve communities from: Hamilton, St. Catharines, Mississauga, Brampton, Barrie, Markham, Vaughan.

Shareholder Benefits of this Merger:

- Maintain existing municipal ownership, just more shareholders of a larger business
- No single controlling shareholder
- 29% average increase in dividends for Horizon shareholders or $4.8 million per year over status quo, from $16.6 to $21.4 million
  - $3.8 million average increase in Hamilton dividend, from $13.0 to $16.8 million
  - $1.0 million average increase in St. Catharines dividend, from $3.5 to $4.5 million

Transaction Specifics:

- A three-way merger of the holding companies of Horizon Utilities, Enersource and PowerStream with joint acquisition of Hydro One Brampton
- Amalgamation of the respective local distribution businesses of Horizon Utilities, Enersource and PowerStream into one local distribution subsidiary company
- Amalgamation of the respective energy services companies of Horizon Utilities, Enersource and PowerStream into one commercially competitive subsidiary company
- New merged regulated local distribution company acquires Hydro One Brampton Networks Inc.
- Necessary human resource efficiencies will utilize voluntary initiatives to the greatest extent possible

In summary, the key aspects of the proposed merger are:

- Affordability/Local Competitiveness
  - Mitigate future rate increases – residents and businesses
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- Municipal Revenue
  - Provide enhanced utility dividend revenues to municipal shareholders to fund other community initiatives

- Stronger Company
  - Financial Resources – more strength and resilience
  - Human Resources – better training and wider opportunities
  - Technology & Innovation – more investment in future

- Industry Leadership
  - Increased influence on Provincial Policy and Regulations

Customer Benefits

Customers will benefit greatly in terms of rates from the creation of the merger for a number of very important reasons.

By regulation, it is mandatory that all of the efficiency savings from the utility merger are transferred to customers when the company files a new rate application that allows new assets to be recognized in its rate base (“rebasing”). The maximum length of time post-merger that a utility can go before being required to rebase with the Ontario Energy Board is no later than 10 years. So on the 11th year the utility would be required to file an application and rebase its assets and reduce its revenue requirements to account for the merger savings. The time period prior to the first re-basing is commonly referred to as the deferral period.

Customers will nonetheless also benefit significantly through the deferral period leading up to the first rate re-basing for a very important reason. During the deferral period, and once Horizon’s approved rates expire, future rate increases will be prescribed by the Ontario Energy Board and will be less than inflation as a result of its productivity targets. This represents a savings to customers who would otherwise experience higher rate increases.

In addition, in the absence of the merger transaction, the three merger partners and Hydro One Brampton would continue to regularly re-base their rates, through successive cost of service applications, in order to recover ongoing increases in their cost structures. Under the merger, no such re-basing occurs during the deferral period. Consequently, as a result of the merger and consolidation generally, customers will benefit from lower rates during the deferral period.

Since each individual merger partner’s cost structures prior to merging is different, the merger partners have agreed to maintain separate community rate zones. This would be in place until such time as rate differences are immaterial.

The overall relative benefit to customers under the “merged” versus “status quo” scenarios is illustrated in Figure 1. It shows the merger is expected to deliver lower distribution costs to its customers averaging:

- 5.9% or $48.6 million per year through the entire Forecast Period
- 3.3% or $19.5 million per year through the Re-basing Deferral Period
- 8.0% or $69.3 million per year following transfer of merger benefits to customers in 2026
The merger rate savings for customers are a result of cost savings from merging. The merger is expected to generate significant savings as follows:

- $355 million or 15% of aggregate gross operations, maintenance and administration expenditure savings over the first 10 years of total OM&A expenditures
- $168 million of aggregate gross capital expenditure savings over the first 10 years
- $96 million of transition costs approximately in the first three years with respect to systems and process integration and human resource costs
- $426 million of net cash savings (pre-tax) in the first 10 years
- $51 million approximately of sustained savings thereafter per year

### Shareholder Benefits

Based on the business analysis, the merger is expected to deliver meaningful shareholder benefits summarized as follows:

*To the benefit of Horizon Holdings Inc. shareholders:*

- 29% increase in the NPV of allocated shared earnings of approximately $73 million from $256 million to $329 million through the Forecast Period relative to the status quo
- 30% increase in the NPV of allocated shared dividends of approximately $47 million from $154 million to $201 million through the Forecast Period relative to the status quo
- $4.8 million average increase in annual dividends across the Forecast Period

The merger expects to adopt a dividend policy with dividend payments to municipal shareholders computed on shared earnings. Earnings would be determined in a manner consistent with that used by the Ontario Energy Board for purposes of its distribution rate-making policies, which uses what is commonly referred to as Modified International Financial Reporting Standards (a modified basis of International Financial Reporting Standards or “IFRS”). The merger’s dividend policy as proposed is to have a target dividend payout of up to 60% of earnings, as it is currently for Horizon Holdings.
Community Perspectives and Benefits

The community perspective is important to consider as part of the overall merger plan. This section deals with how service levels will be maintained, the role and presence that each community will have post-merger, and the impact on employment and equitable treatment of employees.

The merger partners undertook a principled approach in the design of an effective organization plan. The following principles were used in the development of the plan:

- Customer service response levels are to be improved, but will be no less than service levels prior to merging in each community
- Merger would continue to maintain a strong local presence post-merger in each community
- All communities share the merger’s benefits and cost reductions
- All communities treated fairly and equitably
- Centralized and de-centralized functions would continue in each community
- Management will retain management flexibility to fulfill targets for synergies of bringing the four businesses together

The merger will retain management flexibility to fulfill synergy targets. It 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.

Operational Focus

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

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

Employee Focus

The merger’s most important resource is its employees. It 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

The merger partners recognize 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.
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**Governance - Proportionate Representation**

Members of the Board of Directors would be chosen based on proportionate shareholdings of the shareholders. With a board of 13 directors, each shareholder entitled to nominate a proportionate number of individuals as board members as set out Table 1. Each shareholder has the right to nominate one non-independent individual as a board member, if they so wish, from their proportionate number of nominees.

Table 1: Director Appointment Rights

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of Director Nominees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barrie Hydro Holdings Inc.</td>
<td>1</td>
</tr>
<tr>
<td>Enersource Corporation</td>
<td>4</td>
</tr>
<tr>
<td>Hamilton Utilities Corporation</td>
<td>2</td>
</tr>
<tr>
<td>Markham Enterprises Corporation</td>
<td>2</td>
</tr>
<tr>
<td>St. Catharines Hydro Inc.</td>
<td>1</td>
</tr>
<tr>
<td>Vaughan Holdings Inc.</td>
<td>3</td>
</tr>
</tbody>
</table>

**Business Organization Structure**

Being a significant utility business focused on the safe, reliable, and cost-effective delivery of services to its customers, the merger would be focused on both regulated and competitive (non-regulated) businesses.

The regulated business activity would have two principal strategies. First, it would be interested in continuing to add value to its customers through continuous improvement. Second, it would be interested in growing through mergers and acquisition with other local distribution companies.

The unregulated business would have a very significant energy services business and renewable generation portfolio simply through amalgamating the competitive businesses of the merger partners. Its goal would be to pursue additional commercially viable, sustainable, and innovative solutions in new and related fields with competitive energy opportunities.

The organization structure of the merger has been designed with these two focuses in mind, making use of three corporate entities as shown in Figure 2.

- Holding company acting as a corporate entity for all companies
- Utility or local distribution company focused on managing the utility business
- Sustainability and Innovation company focused on the future growth
The head offices for each of the three companies are 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 (for each of the operating companies). At each head office, a strong local executive presence will exist.

The determination of the location for the head office and each of operating entities was based on practical considerations for both current and future requirements. The head office locations in each community will be guaranteed for 10 years and thereafter can only be changed with a two-thirds majority of the shareholders.

**Corporate Head Office**

The corporate head office will be located in Mississauga at Enersource’s Derry Road administration facility. The Mississauga location is central to the merger’s existing business, is readily accessible by multiple highways, is nearly equidistant from the proposed Utility and Sustainability and Innovation offices (noted below), which maximizes efficiency of interaction and travel.

**Utility Head Office**

The Utility head office will be located in Hamilton at Horizon Utilities’ John St. facility. The utility head office in Hamilton will be focused on delivering operational excellence and on future utility consolidations. The Hamilton location aligns well with future consolidation opportunities due to its proximity to a large concentration of local distribution companies.

The priority of the utility business will be to ensure future capital investments and operations occur in a manner that is positioning the utility to be a top performer in terms of customer service, reliability, and cost leadership.

**Sustainability and Innovation Head Office**

The Sustainability and Innovation Head Office will be located in Vaughan at PowerStream’s City View Blvd. facility. The Vaughan Head Office will focus on innovation in such areas as solar, smart grid and new energy services. The Vaughan office has already established a reputation for excellence in innovation.
Service Levels – Utility Business

In merging Horizon, Enersource and PowerStream and acquiring Hydro One Brampton there will be role duplications, given the four utilities have similar business purposes and functions. While all four local distribution companies are leaders in efficiency in the Ontario Energy Board’s efficiency rankings, opportunities for further cost efficiencies will exist.

Operating Regions

The merger will initially have three distinct operating regions. These will be reflected in the organizational design at the operational structure at the operating level. The operating regions are detailed in Table 2.

Table 2: Merger Operating Regions

<table>
<thead>
<tr>
<th>Region</th>
<th>Responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Region</td>
<td>Horizon service territories – Hamilton and St. Catharines</td>
</tr>
<tr>
<td>Central Region</td>
<td>Enersource and Hydro One Brampton service territories</td>
</tr>
<tr>
<td>Eastern Region</td>
<td>PowerStream service territories – Aurora, Markham, Vaughan and Richmond Hill and Barrie and a number of smaller satellite communities</td>
</tr>
</tbody>
</table>

Centralized and Decentralized Services

In developing its operational organizational structure, the merger’s primary considerations will be 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 for efficiency purposes, rather than in the service region, without any degradation of efficiency, effectiveness, and service levels. Centralizing appropriate functions contributes to creating scale and lowering costs, which is a fundamental objective of the merger. A necessary step is to identify what functions can be centralized and what functions are best left decentralized.

Asset Related Services

For the merger, regional functions would be categorized as those focused on the delivery of service at the asset or infrastructure level in the field. Opportunities exist for reduction and rationalization of Asset Related Services. This comes 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 regional aspect of these tasks, and the benefit of delivering them in a decentralized manner. They are intrinsically linked to geographic assets and trade-off of commuting costs, response time and overall productivity that would be lost to centralization.

Transactional / Informational Services

Transactional/informational services, by contrast, are technology focused. The definition of technology includes business processes. These functions utilize technology as leverage for productivity.

The focus is typically on standardization and repeatability and is not tied to the field and thus these functions are prone to be more centralized.
In certain areas, a hybrid approach between centralized and decentralized functions is desirable, and therefore will be employed, such as in Human Resources and Information Technology.

Community Operational Presence – Service Centres

The merger will utilize the six existing 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, would change with regard to Horizon service centres. The implication is that no reduction or alteration of service levels will result from the merger.

Transaction Overview

In this section a quick overview of the transaction is provided, touching on the following areas to outline the financial framework of the merger.

- Corporate Structure
- Valuation
- Tax Environment
- Corporate Finance
- Merger Synergy Savings
- Due Diligence

The merger transaction being proposed comprises the following:

- A merger of the regulated and non-regulated business activities of: PowerStream Holdings Inc., Enersource, and Horizon Holdings Inc. (individually, “a merger partner” and collectively, the “merger partners”)
- An acquisition of the regulated electricity distribution business of Hydro One Brampton Networks Inc. for gross proceeds of $607 million net of any purchase price adjustments as defined in the corresponding Share Purchase Agreement.

Corporate 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 merger structure is shown in Figure 3.
In Figure 3, the Holdco shown is a new holding company for all of the businesses of the merger, both on the regulated and competitive business sides.

The new Local Distribution Company (shown in Figure 3 as “LDC Co”) will be the company that combines all the regulated businesses and their assets as well as the solar generation assets.

The Energy Services Company (shown in Figure 3 as “ES Co”) holds all other competitive services and other non-regulated business interests.

The existing businesses of Enersource Corporation, Horizon Holdings Inc. and PowerStream Inc. would be effectively merged in the new LDC Co and new ES Co. Hydro One Brampton Inc. would be directly acquired into the new LDC Co.

With one exception, the merger would be held directly by municipal holding companies that, in turn, are held directly by respective municipalities as follows:

- Hamilton Utilities Corporation – City of Hamilton
- St. Catharines Hydro Inc. – City of St. Catharines
- Barrie Hydro Holdings Inc. – Town of Barrie
- Markham Enterprises Corporation – City of Markham
- Vaughan Holdings Inc. – City of Vaughan

The exception is Enersource. The City of Mississauga and BPC Energy Corporation (“Borealis”, a wholly owned subsidiary of OMERS, or Ontario Municipal Employees Retirement System) are the current owners of Enersource. Mississauga owns 90% and Borealis owns 10% of Enersource’s shares. They would continue to hold their respective shareholder interests in the merger through Enersource Corporation.

The merger will require financial flexibility, including outside investment, to support its growth objectives or it would effectively be limited to issuing debt. In order to provide this financial flexibility, the merger proposes to adopt a partnership structure for each of its electricity distribution business (the “LDC Co”) and electricity generation in its energy services businesses. 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 would not affect shareholdings.
The partnership structure is expected to be adopted subject to:

- Receipt of appropriate and favourable tax rulings and interpretations, and
- Regulatory acceptability by the Ontario Energy Board

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

Valuation

The merger partners engaged Deloitte LLP to perform a relative (as opposed to absolute) valuation of each merger partners to the transaction for purposes of allocating the merger shareholdings to the respective shareholders of each merger partner.

The merger partners 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 the merger. 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 merger partner is regulated electricity distribution. The asset value or “Rate Base” of the regulated and total business (regulated and non-regulated) of each merger partner is shown in Figure 4 based on 2014 financial statements.

<table>
<thead>
<tr>
<th>Rate Base - Regulated Business ($M)</th>
<th>2014</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>PowerStream</td>
<td>$929.5</td>
<td>45.1%</td>
</tr>
<tr>
<td>Enersource</td>
<td>$654.1</td>
<td>31.7%</td>
</tr>
<tr>
<td>Horizon Utilities</td>
<td>$477.6</td>
<td>23.2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$2,061.2</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Rate Base - Regulated and Non-Regulated Business ($M)</th>
<th>2014</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>PowerStream</td>
<td>$952.6</td>
<td>45.5%</td>
</tr>
<tr>
<td>Enersource</td>
<td>$657.2</td>
<td>31.4%</td>
</tr>
<tr>
<td>Horizon Utilities</td>
<td>$483.8</td>
<td>23.1%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$2,093.6</strong></td>
<td></td>
</tr>
</tbody>
</table>

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 merger partner has non-regulated businesses as follows:

- Horizon Holdings Inc. – solar generation, meter servicing, and water billing
- Enersource Hydro Mississauga – streetlight maintenance, high voltage design and maintenance
- PowerStream – PSSolar, sub-metering, and other energy businesses
The PSSolar business is not included in the relative valuation of the merger partners. PowerStream shareholders will continue to benefit directly from the economics of the underlying solar assets and contracts existing as of the merger date. The contracts, however, will remain in the merger and will be managed by the merger under a management services agreement.

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

- Enterprise Value – uses discounted cash flow analysis to arrive at the value of each merger partner
- Market Multiple – multiple of the asset value determined 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 merger partner after consideration for merger costs and savings.

The Enterprise Value approach was used exclusively to value the non-regulated business investments of each merger partner. The high-level results of the relative valuation by merger partner are shown in Figure 5:

<table>
<thead>
<tr>
<th></th>
<th>Enterprise Value</th>
<th>Market Value</th>
<th>Difference (MM-EV)</th>
</tr>
</thead>
<tbody>
<tr>
<td>PowerStream</td>
<td>46.0%</td>
<td>45.2%</td>
<td>-0.7%</td>
</tr>
<tr>
<td>Enersource</td>
<td>31.0%</td>
<td>31.5%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Horizon</td>
<td>23.0%</td>
<td>23.3%</td>
<td>0.3%</td>
</tr>
</tbody>
</table>

It is evident from the above that both approaches yield very similar results. The merger partners anticipate using the Enterprise Value 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 Enterprise Value approach.
The allocation of shareholdings under the Enterprise Value approach is shown in Figure 6:

Figure 6: Shareholder Allocations of the Merger based on Enterprise Value

NB: Enersource would be the actual shareholder rather than Mississauga and Borealis, since Borealis (a division of OMERS) cannot be a direct shareholder for tax efficiency reasons.

The valuation results indicate that there is no single controlling interest in the merger. The shareholdings are well distributed among shareholders, with Enersource having the largest interest at 31.0% (with the City of Mississauga and Borealis respectively having interests therein of 27.9% and 3.1%).

**Tax Environment**

Under the *Income Tax Act (Canada)*, the merged company is tax exempt. It will make payments in lieu of taxes (PILs) to the Ontario Government, but from an Income Tax Act perspective it is a tax exempt entity. PILs paid to the Ontario Government are credited towards the province’s Provincial Transfer Tax.

The Transfer Tax is applied on the sale of municipal electric utility assets. (It is set at 33% of Fair Market Value of property transferred. Recently, the Ontario Government has communicated a reduction of Transfer Tax that will take effect between January 1, 2016 and December 31, 2018. It has reduced the Transfer Tax 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 person under the Income Tax Act person.

In order for the merger to remain tax-exempt under the Income Tax Act:

- Each municipal holding company which owns shares in the merger must remain at least 90% owned by a municipality, and
- The merger must remain 100% owned by one or a combination of municipalities or municipal holding companies.
Corporate Finance

The merger 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 Hydro One Brampton
- Growth through mergers and acquisitions or logical extensions of the existing business
- Shareholder preferences for monetizing their respective investment interests in the merger

The regulated utility sector 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 rated utilities are in the Standard and Poor’s A-range. Consequently, a long-term A-range outlook is an appropriate target for the merger at this time and considering the nature of its combined business.

Sustainment-Based Investment

The financial plan has been modelled on the basis that the ongoing sustainment and growth requirements of the electricity distribution system in the merger 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 merger partner 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. These plans will be maintained under the merger.

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

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

Acquisition of Hydro One Brampton

Acquisition Financing

Hydro One Brampton Networks Inc. is effectively being acquired by the merger without the assumption of any debt, other than debt-like obligations not severable from the business.
These debt-like obligations include customer deposits, regulatory liabilities, and employee benefit liabilities.

On this basis, the acquisition of Hydro One Brampton is to be financed by:

- Borrowing against Hydro One Brampton’s Rate Base to the extent such borrowing supports an A-range rating overall for the merger
- Contributions of borrowing capacity and/or new equity capital by each Party in proportion to its relative shareholding in the merger

The level of borrowing to support the transaction will be set at between 70% and 75% of the Hydro One Brampton purchase price to optimize the cost of financial capital for the merger, 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 summarized in the Table 3, assuming an overall 70% level of debt financing to finance the Hydro One Brampton purchase price. While Enersource and PowerStream will need to contribute new capital to acquire Hydro One Brampton, Horizon Holdings has sufficient debt room to pay for its portion of the acquisition.

Table 3: Borrowing and Capital Contribution Requirements by local distribution company

<table>
<thead>
<tr>
<th>($ millions)</th>
<th>Debt Capacity</th>
<th>New Equity</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hydro One Brampton Networks Inc.</td>
<td>201.6</td>
<td>-</td>
<td>201.6</td>
</tr>
<tr>
<td>PowerStream Inc.</td>
<td>61.6</td>
<td>124.7</td>
<td>186.3</td>
</tr>
<tr>
<td>Enersource Corporation</td>
<td>61.1</td>
<td>64.6</td>
<td>125.7</td>
</tr>
<tr>
<td>Horizon Holdings Inc.</td>
<td>100.6</td>
<td>($7.2)</td>
<td>93.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>424.9</strong></td>
<td><strong>182.1</strong></td>
<td><strong>607.0</strong></td>
</tr>
</tbody>
</table>

The acquisition of Hydro One Brampton represents a long-term investment by the merger. Such investment is properly financed by corresponding long-term financial instruments such as long-term debt and/or new shareholder equity.

**Growth Investment**

As a result of the tax regimes within which local distribution companies operate, growth capital has been substantially limited to an ability to raise new debt capital. The tax status of local distribution companies and their investment interests was described earlier.

Following the acquisition of Hydro One Brampton and with consideration for its ongoing sustainment investment requirements, the merger 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 the merger 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 contemplated use of the partnership structure is consistent with the existing tax regimes imposed on local distribution companies and does not result in any tax leakage to the taxing authorities with respect to the tax basis of the merger investment interests. Consequently, the merger partners 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 local distribution companies. 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.