

Markham Special Council Meeting

PowerStream Update - M&A Transaction

November 19, 2015



Utility Landscape

- ✓ Technology is evolving rapidly
- ✓ Consumer demands are increasing
- ✓ Competition and regulation are impacting the industry
- ✓ We are at a “watershed moment”



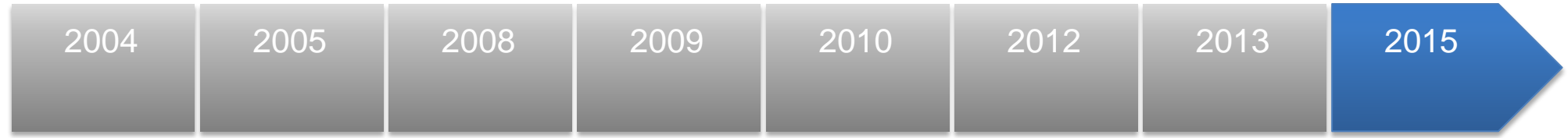
Our History

Hydro Vaughan, Markham Hydro and Richmond Hill Hydro merge to become PowerStream

PowerStream and Barrie Hydro merge to create the 2nd largest municipally-owned LDC in Ontario; PowerStream Solar photo voltaic (PV) business is launched

PowerStream acquires a 50% stake in Collingwood's Collus Energy Corp - creates Collus PowerStream Corp

PowerStream Inc. pursues a mega-merger with Enersource Corporation and Horizon Utilities; proposes to purchase Brampton Hydro



PowerStream purchases Aurora Hydro

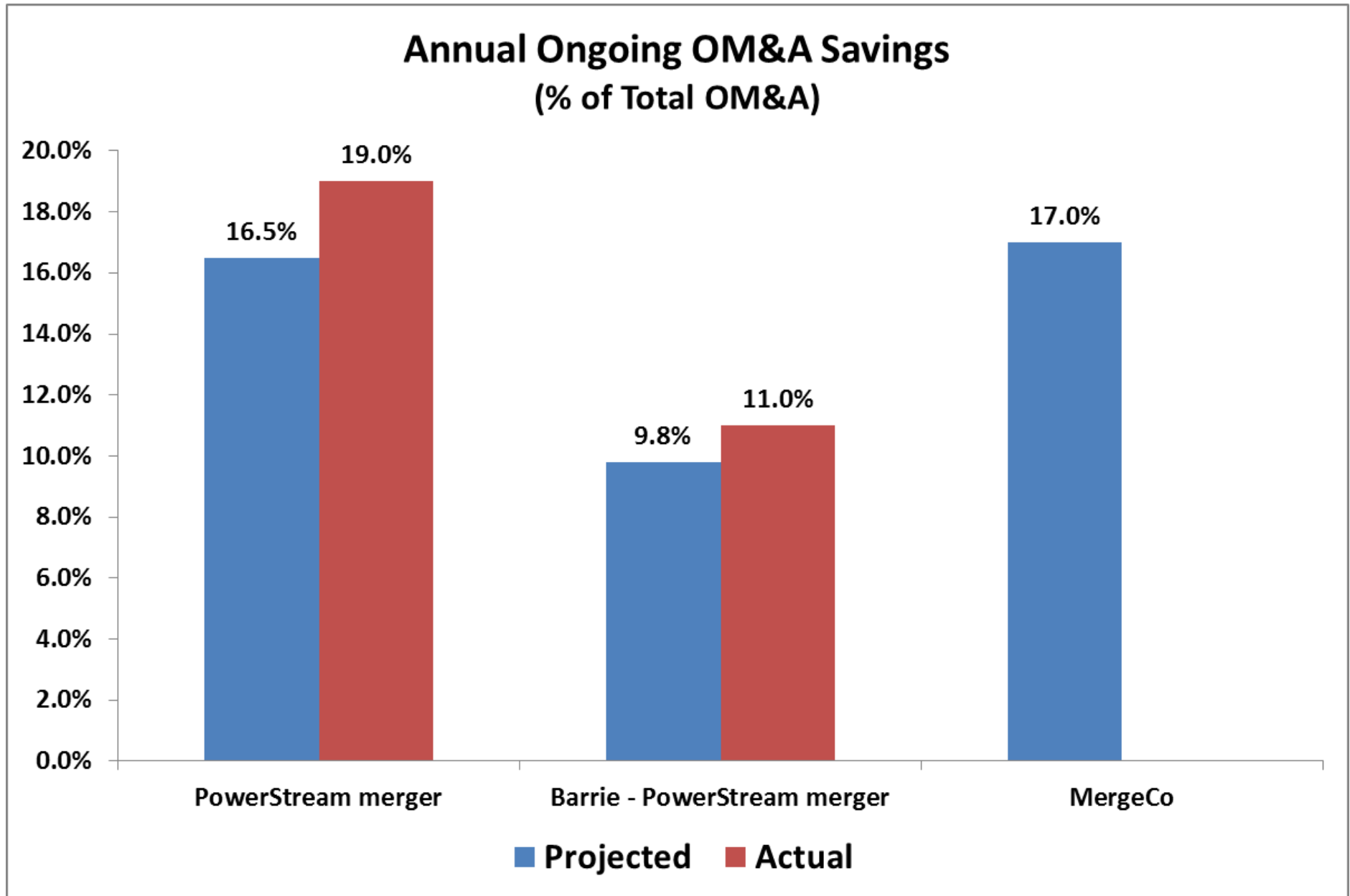
Gold LEED certified head office is built in Vaughan

Gold LEED certified service centre is built in Markham

PowerStream launches PowerStream Energy Services Inc (PESI) affiliate, offering new products and services to customers



PowerStream Historic Mergers



LOWER COSTS for YOU

Your electricity distribution just got cheaper by up to \$100 per year!

Thanks to PowerStream, if you are a typical residential customer located in Barrie or Simcoe County, you may see savings of up to **\$100 per year**.

Why? PowerStream applied for new 2013 distribution rates and received approval from the Ontario Energy Board to reduce rates. This is the only charge on your bill that PowerStream directly controls. PowerStream achieved distribution system efficiencies by gaining more customers and are passing the savings along to you.

PowerStream distribution rates are among the lowest in Ontario. For more information on our lower rates and our safe and reliable service, visit:

www.PowerStream.ca



Distribution costs were also reduced by \$20 per year for customers in Markham



PowerStream Successes

- ✓ PowerStream Solar – largest municipally-owned solar generation business
- ✓ Individual metering of condominiums – largest municipally owned sub-metering business
- ✓ Advantage Power Pricing
- ✓ PowerHouse
- ✓ Other opportunities to grow

A Multi-Faceted Organization





Broad Support For Consolidation

Industry and political support for consolidation of Ontario's Local Distribution Companies has been consistent and wide-spread:

Energy Competition Act, 1998: set the stage for rapidly reducing the number of LDCs supported by the Electricity Transition Committee

Queen's Park today: both the Ontario PCs and the Liberals have repeatedly encouraged voluntary consolidation (e.g. 2012 PC White Paper, Ontario Government 2015 Budget)

Since 1998, four successive Premier's have supported concept of LDC Consolidation (Harris, Eves, McGuinty, Wynne)

Government Reports: 2012 multi-partisan Ontario Distribution Sector Review Panel, 2014/2015 Premier's Advisory Panel on Government Assets Report (review of optimization of government owned assets including Hydro One)

Ontario Energy Board: consistent policy support for industry consolidation for rate-payer benefit (reviews and policy changes in 2004, 2007, 2014 and 2015)

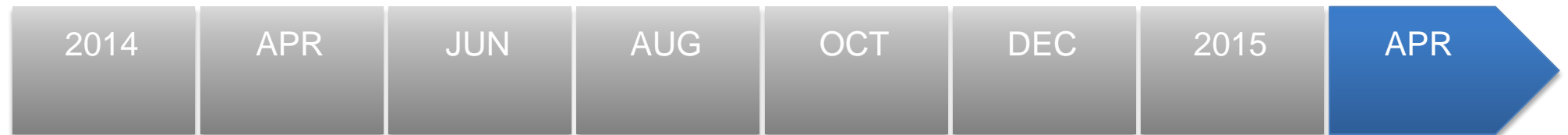
Industry Associations: Ontario Energy Association, Electricity Distributors Association, all supportive of voluntary consolidation for benefit of ratepayers.

Why Status Quo Is Not An Option

- ✓ Regulatory expectations for productivity
- ✓ Liquidity for sustainable investment in a sector that requires considerable renewal and ongoing incremental investment in renewable generation
- ✓ Keeping pace with technological change
- ✓ Managing the risk of disruptive technologies

- **Apr, 2014** - Premier created an Advisory Council, Chaired by Ed Clark, to provide recommendations to unlock the full value of provincial assets, including Hydro One Distribution Networks.
- The Advisory Council acknowledged the huge challenges in the electricity system:
 - Too many LDCs, many of which are inefficient, unable to adapt to the changing environment and modernize appropriately
 - Barriers to much needed private sector investment in distribution
- Liberal Campaign Platform committed to looking into maximizing the value of provincial assets.

- **Apr, 2015** - Advisory Council released final report and announces potential merger of 3 GTA area utilities with Hydro One Brampton, as well as recommendations for Hydro One.
- Provincial budget includes plans for Hydro One and industry consolidation through tax reforms



- **Nov, 2014** - Advisory Council released interim report. Government indicated notional support:
 - Province should retain Hydro One Transmission but should reduce its ownership in Hydro One Brampton and the rest of their distribution business
 - Province should adjust ownership structures and use Hydro One Brampton and the remaining distribution business to spur consolidation

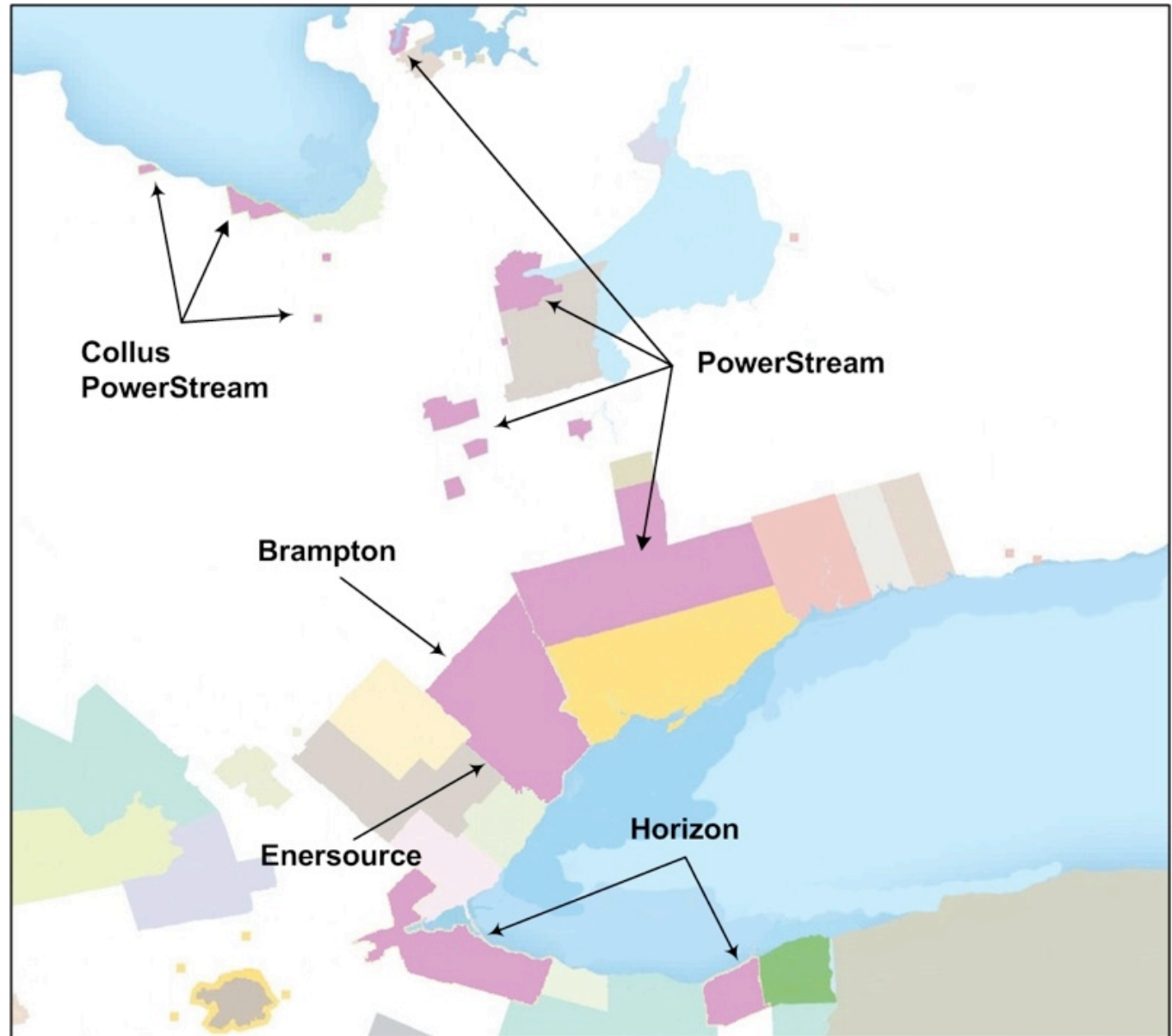


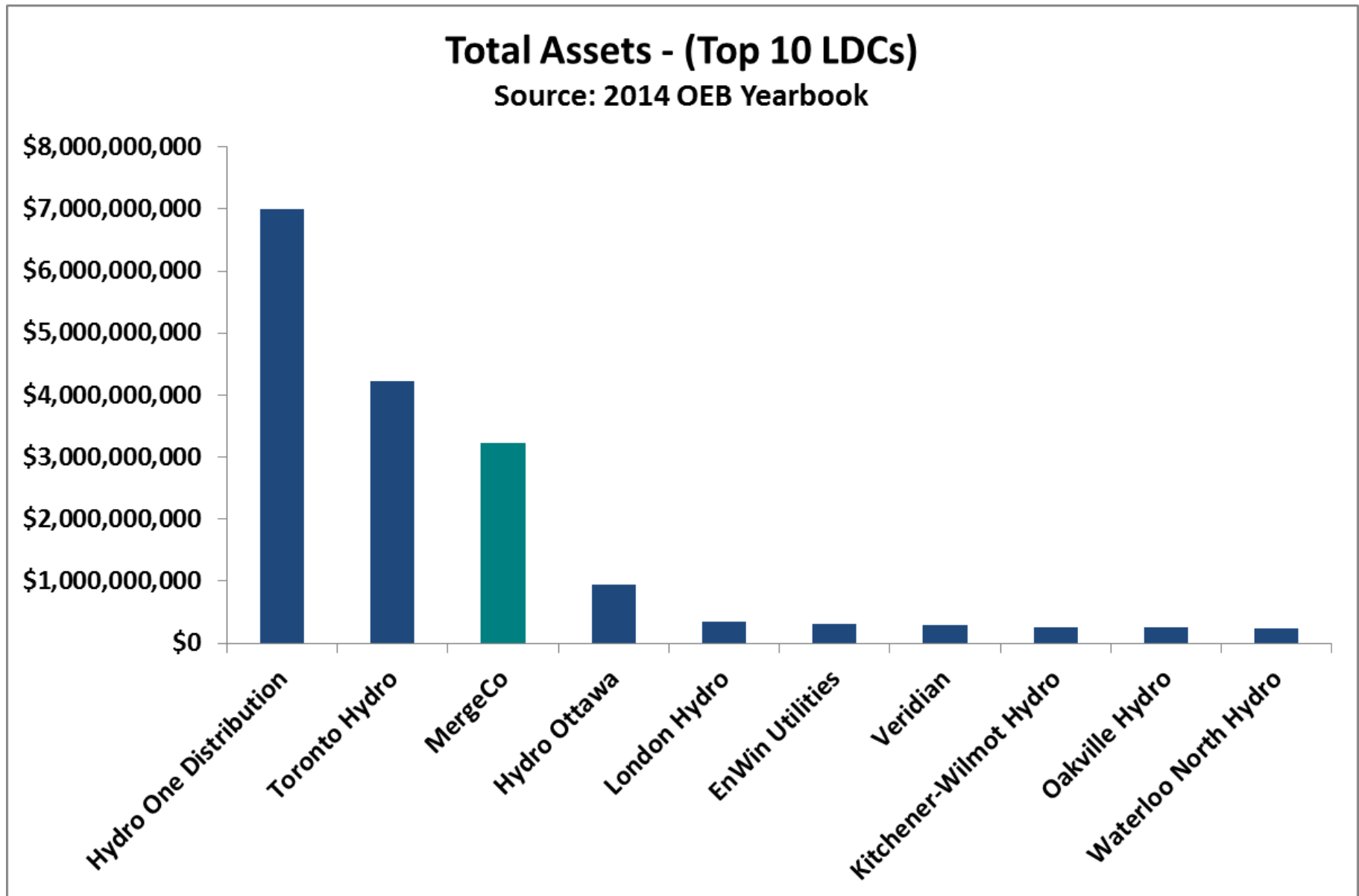
Hydro One Brampton Purchase

- ✓ The purchase of Hydro One Brampton, while announced in conjunction with the province intention to proceed with Hydro One IPO, is a separate transaction that advances the distinct public policy goal of consolidation in the electricity energy sector
- ✓ After completion of purchase, Hydro One Brampton will maintain municipal ownership ; it will NOT be privately owned

Where Will We Be

- ✓ 970,000 customers
- ✓ \$2.7 billion in assets
- ✓ \$2.5 billion rate base





MergeCo will be the third largest LDC in the province, based on assets



Proposed Transaction Financing

- ✓ Hydro One Brampton purchase is financed through debt, at the OEB prescribed debt/equity ratio
- ✓ After the transaction is completed, MergeCo will keep a 60/40 debt/equity ratio which will allow it to keep an A credit rating
- ✓ It is the same capital structure that PowerStream currently maintains



Value To Shareholders

Overall

- ✓ Steady and growing dividend stream at a level higher than the Status Quo
- ✓ Investment has a payback of 11 years
- ✓ Investment will increase in value, due to synergy savings and Brampton dividends

Markham

- ✓ Markham is being asked to invest up to \$43M , with an expected return on investment of 7.7%



Value To Customers

- ✓ All customers will share in merger efficiencies and Markham customers will benefit by approximately \$64M over the first 24 years, or approximately one month of distribution charges/residential customer annually
- ✓ Better ability to serve customers through enhanced and shared systems and range of products/services available
- ✓ Increased resources to respond to reliability issues
- ✓ Investment in new business opportunities improves economic development in our communities



Markham Commercial And Industrial Customers

Examples

- ✓ Industrial Customer: Annual Savings of \$26,000 or a 19% reduction in the distribution (i.e. PowerStream) portion of the bill
- ✓ Commercial Customer: Annual Savings of \$8,100 or a 16% reduction in the distribution (i.e. PowerStream) portion of the bill
- ✓ Municipal, University, School and Hospital (MUSH) Sector Customer: Annual Savings of \$10,300 or a 17% reduction in the distribution (i.e. PowerStream) portion of the bill



Markham “MUSH” Sector

	Annual savings, \$
City buildings	\$63,000
Universities/Colleges	\$10,000
Schools	\$2,000
Hospitals	\$16,000
Region of York buildings	\$44,000
Total	\$135,000



Teaming Up With Quality Partners

Measure	PowerStream	Enersource	Horizon	Hydro One Brampton
Customer Satisfaction	88%	88%	87%	Excellent
Billing Accuracy	99.93%	98.73%	99.65%	99.61%
Outage Hours per Customer	1.41	1.49	1.59	0.55
Outages per Customer	1.66	1.13	1.65	0.9



Significant Benefit To Customers

- ✓ Unique opportunity to combine four leading distributors
- ✓ 3 million residents in 18 communities that will be served by MergeCo save about \$1B over the next 25 years
- ✓ Rate harmonization impact to be managed and minimized

- ✓ *Unique opportunity to generate customer savings on this large a scale*
- ✓ *The Transaction will deliver more customer benefit than **any possible alternative**, including the Status Quo*
- ✓ *Scale and opportunity to innovate and grow*
- ✓ *Increased Shareholder value and cash flows*
- ✓ *Strategically positioned to take advantage of opportunities in a changing industry landscape*