

PowerStream Merger Update



GENERAL COMMITTEE

MAY 26, 2015

Background



- On April 16, 2015 the Premier of Ontario announced:
 - that Hydro One's transmission and rural distribution business would be privatized via an initial public offering
 - that the Province is in talks with:
 - ✦ PowerStream Holdings Inc. (Markham, Vaughn, Barrie) – Markham, through its holding company, Markham Enterprises Corporation (MEC) owns 34.185% of PowerStream
 - ✦ Enersource Corporation (Mississauga, Borealis); and
 - ✦ Horizon Holdings Inc. (Hamilton, St. Catharines)
 - to merge with or acquire 100% of Hydro One Brampton Networks Inc.
- The Province has targeted July 31, 2015 as the deadline for shareholder approval

Due Diligence



- The shareholders have retained industry experts to assist with the analysis:
 - Navigant
 - Gowlings
 - BDR North America Inc.
- Key questions:
 - Does a merger/purchase of Hydro One Brampton create value (return on investment, cashflows, enterprise value growth) for the PowerStream shareholders?
 - Should the shareholders consider a full, or partial, divestiture?

Decision Criteria



- Markham is utilizing the City's Investment Policy objectives as a framework to evaluate the different options. The Policy's four investment objectives, in order are:
 - Legality of Investments
 - Preservation of Principal
 - Maintenance of Liquidity
 - Competitive Rate of Return
- Impact on stakeholders:
 - Future hydro rates of Markham residents/ businesses
 - Local jobs
- The City of Markham relies on the annual dividend and interest revenue earned from PowerStream, estimated to be approximately \$12 million in 2015.

Process



- Markham Enterprises Corporation (MEC) will receive and consider a recommendation from PowerStream's Board on the proposed merger/purchase option for Hydro One Brampton. Independent advisors Navigant, BDR and Gowlings will offer their analysis and recommendations. MEC will make a decision.
- MEC's recommendation will proceed to its shareholder, the City of Markham via General Committee for consideration and decision.
- General Committee's decision on the merger and purchase option will be considered again at Council. Council's decision will be final.

Timelines/Next Steps



- **May 31, 2015:** Final Business Case completed.
- **Mid-July:** General Committee (GC) receives recommendation from MEC Board on PowerStream merger with Enersource and Horizon including whether to acquire Hydro One Brampton. GC discusses and makes recommendation to Council.
- **Late-July:** Council meeting regarding merger and acquisition decision following recommendation from GC.
- **July 31, 2015:** Provincial Target date for approval of merger/purchase option including the Merger or Purchase Agreement.
- **August, 2015:** Mergers Acquisitions Amalgamations and Divestitures (MAADs) Application to the Ontario Energy Board.
- **Dec. 31, 2015:** Target date for closing pending favourable MAAD response. Closing may move into 2016 (by March 31, 2016). Final report to City Council to follow closing of the transaction.