Hydro One IPO Active Bookrunner and Syndicate Selection Overview

The selection of active bookrunners for the Hydro One Initial Public Offering (IPO) and the selection of the underwriting syndicate was administered by two separate selection panels. The panels were assembled to ensure a balance between specialized financial expertise required for the selection processes and input from the Province.

The selection panel for the active bookrunners (the Bookrunner Panel) included representatives of the Ministry of Energy, the Secretariat for the Premier's Advisory Council on Government Assets, the Ontario Financing Authority and three independent advisors with expertise in financial and securities matters.

Denis Desautels, a former Auditor General of Canada, reviewed both Panels' processes as a special advisor to the Minister of Energy to ensure fairness.

The process for the selection of active bookrunners and evaluation criteria were communicated to eight competing banks: Goldman Sachs Canada, Barclays Canada and the investment banking sections of each of the Royal Bank of Canada Capital Markets (RBC), TD Securities (TD), Scotiabank Global Banking and Markets (BNS), Bank of Montreal Capital Markets (BMO), CIBC World Markets (CIBC) and National Bank Financial (NB). These eight investment dealers were invited to compete on the basis that they represent all of the major Canadian dealers and reflected international interest in the transaction.

Each of the eight participant banks submitted a proposal responding to specific topics of interest requested by the Panel and met with the Bookrunner Panel. Written responses to any inquiries from all participants were shared with all firms. Each Bookrunner Panel member fully and independently reviewed the submission from each bank based upon pre-determined evaluation criteria, prior to attending a Bookrunner Panel meeting for discussion of the proposals. Selection criteria included:

- Recommendations regarding the appropriate debt and capital structure for Hydro One as a publicly traded company;
- Recommendations regarding appropriate syndicate structure and sales strategy for the Hydro One offering;
- Qualifications and experience with similar transactions (e.g. markets of interest, substantial IPOs, public market privatizations and large syndicates); and
- The specific experience and capabilities of the individuals that would be responsible for the day-to-day management of the Hydro One offering.

Regarding the selection of active bookrunners, Mr. Desautels determined that the process was fair and carried out in a fair and professional manner, which he reported in an interim report to the Minister, dated July 21, 2015 (attached). Mr. Desautels reported that the Bookrunner Panel's evaluations were thorough; the Bookrunner Panel's deliberations led to a clear consensus within the group regarding the recommended lead underwriters; and that care was taken to ensure that there were no conflict of interest issues.

Upon the Bookrunner Panel's recommendation, the Ministry of Energy announced the selection of RBC and BNS on June 17, 2015.

The composition of the panel charged with the selection of the underwriting syndicate (the Syndicate Panel) varied slightly from the Bookrunner Panel given the business requirements of the process. The Syndicate Panel included representatives of the Ministry of Energy, the Secretariat for the Premier's Advisory Council on Government Assets and the Ontario Financing Authority. The Syndicate Panel also included two independent advisors and a representative of Hydro One Inc. RBC and BNS participated in the process on a non-voting basis in their role as the active bookrunners.

The active bookrunners RBC and BNS identified 44 investment banks (in addition to the banks that competed to be active bookrunners) that they believed could be potential participants in the Hydro One IPO as part of the syndicate. The list of potential participants was expanded to larger than was necessary at the request of the Province and included all of those banks that had expressed interest in a transaction involving Hydro One.

All 44 of the additional investment banks received a written invitation letter to participate in the syndicate selection process. They were asked to provide details of their firms, their retail business, their experience and their research profile. At the deadline set by the invitation letter, replies were received from 33 of these investment banks, with an additional 2 banks indicating an interest only at the selling group level to investors.

Information for the Syndicate Panel was drawn from a number of sources:

- From the detailed proposals received from each of the banks: RBC, BNS, BMO, CIBC, TD, NB, GS, and Barclays during the lead bookrunner competition. The level and type of information provided as part of the competitive process to be one of the active bookrunners also provided detail that allowed the Syndicate Panel to determine that each of these banks should be eligible to participate in the syndicate, without requiring any further information from them.
- Publicly available data about the other 44 banks that were invited to submit information to participate in the syndicate.
- RBC and BNS provided to the Panel, in their role as the active bookrunners, a summary of the responses that were received from the investment banks.

At the request of the Province and on the advice of Mr. Desautels, all of the Syndicate Panel members completed an assessment of the potential syndicate banks in a standard form to help facilitate discussion and recommendations on a syndicate structure.

Consistent with the process followed during the active bookrunner selection process, members of the Syndicate Panel made initial recommendations individually, without collaboration or discussion, until the Syndicate Panel members met as a group on August 17, 2015 under the observation of Mr. Desautels.

In working toward a consensus about the membership and participation levels of the syndicate, Syndicate Panel members considered a wide range of factors and weighted factors based upon their individual financial experiences and professional judgment:

a. Providing a fair allocation of fees to the active bookrunners commensurate with the effort that was being expended, which the Panel believed to be consistent with the reduced fee structure for the Hydro One IPO recommended by the Advisory Council and achieved by the Province.

b. Providing a level of economic participation to the other large Canadian banks that were expected to be the largest traders and researchers for the shares in the after-market, which the Panel believed to be helpful in achieving on-going value for the Province.

c. Rewarding those firms that showed one or both of good retail distribution in Canada, and research coverage of peer companies in the industry, which the Panel believed would help the Province achieve its intended retail allocation and on-going value.

d. Providing support to a sufficient number of international banks such that subsequent U.S. or global distribution could be enhanced, which the selection panel believed would help the Province’s long-term strategic position and better achieve value in subsequent offerings.

e. Providing a resulting syndicate size that was manageable and consistent with precedent large privatizations in Canada, which the Panel balanced with competing needs to be comparable with other IPOs, large enough to achieve its intended retail allocation, and practical to both the value of the IPO and long-term strategic value of the Province.

In a report dated October 23, 2015 (attached), Mr. Desautels concluded that the process followed for the selection of the members of the IPO syndicate and for determining the structure of the syndicate was a fair process and was carried out in a fair and professional manner. Mr. Desautels also concluded that no conflict of interest issues were identified, whether in relation to members of the Panel or members of the syndicate.