



1 **1-Staff-1**

2 **Ref: Application, p. 31**

3 The proposed transaction is expected to result in reductions in operating, maintenance and
4 administration (OM&A) costs. Table 3 sets out the EPCOR Collingwood Distribution Corp.'s
5 (EPCOR) projected cost savings on a yearly basis for the five years following the closing of the
6 transaction. The projected savings are shown as the difference in costs between the status quo
7 forecast, i.e., in the absence of the transaction and EPCOR's forecast, post transaction.

8 a) Please identify the specific areas of the distribution business where the projected cost
9 savings are expected to be generated as a result of the proposed transaction.

10 b) Please provide a breakdown of the costs by the identified business areas in a) which
11 explains the difference between the status quo forecast and EPCOR's forecast.

12 c) Please explain what assumptions have been made by the applicants with respect to
13 the expected cost savings.

14 d) Please identify risks that could negatively impact the projected cost savings, setting out
15 the projected savings if those risks materialize.

16

17 **Response:**

18 a) The specific areas of the distribution business where the projected cost savings are
19 expected to be generated include Leadership, Operations, Finance, Regulatory, IT
20 and Shared Services.

21 In addition to these identified efficiencies, EPCOR Collingwood Distribution Corp.
22 ("EPCOR") expects over the long-term, that it will be able to leverage efficiencies
23 gained through EPCOR Utility Inc.'s ("EUI") extensive experiences operating utilities
24 across North America that may further lower the cost structure of the utility relative to
25 the status quo. These future cost savings would be over and above the projected cost
26 savings presented in the application.

27 b) A breakdown of the net efficiencies by business area is as follows:



\$000's CAD	Year	Year	Year	Year	Year	Year
	1	2	3	4	5	6
	2019	2020	2021	2022	2023	2024
Leadership	-149	-151	-154	-157	-159	-162
Operations & HR	-117	-119	-320	-325	-331	-337
Finance & Regulatory	-125	-127	-129	-132	-134	-136
IT	-142	-145	-147	-150	-152	-155
Shared Services Provided by Affiliates	314	308	341	336	331	326
Transaction Costs	760	0	0	0	0	0
Total	541	-234	-409	-427	-446	-464
Cost of 1% Rate Rider	48	49	51	52	54	0
1 Total	589	-185	-358	-375	-392	-464

1

2 **c) Assumptions**

3 **General Assumptions**

4 Future changes to regulation, legislation, standards, or industry best practices could impact
 5 costs. EPCOR assumes that any such changes would impact the Status Quo and the
 6 EPCOR forecast equally. This has the effect of preserving the identified efficiencies which
 7 are relative to the Status Quo.

8 Once acquired by EPCOR all services provided to Collus PowerStream Corp. (“EPCOR
 9 LDC”)¹ by EPCOR affiliates will be performed in accordance with ARC and other applicable
 10 regulations and legislation.

11 All services provided by EPCOR LDC to EPCOR affiliates will be performed in accordance
 12 with ARC and other applicable regulations and legislation.

13 **Leadership Assumptions**

14 Board Costs: CollusLDC currently has six directors, two of which are independent and are
 15 compensated directly by the utility. Following close of the proposed transaction, EPCOR
 16 LDC proposes to have three directors, one of which will be independent and compensated
 17 by the utility.

18 CEO: CollusLDC has been without a CEO since mid-2016. While the position is critical to
 19 the ongoing health of the utility, hiring of a new CEO was delayed as a result of the

¹ As detailed in Schedule B of the Application, once acquired by EPCOR, the name of Collus PowerStream Corp. will be amended through the Ontario corporate registry to reflect EPCOR’s ownership and it the entity will be EPCOR Collingwood Local Distribution Corp. In these responses, the term EPCOR LDC refers to Collus PowerStream Corp. after its acquisition by EPCOR.



1 anticipated changes to the ownership of the entity. If CollusLDC were to remain a
2 standalone entity it is understood that a CEO would be hired.

3 The new CEO for EPCOR LDC will have responsibility for all of EUI's operations in Ontario.
4 The costs of this position will therefore be allocated across EUI's Ontario businesses on a
5 full-cost basis and in accordance with ARC regulations. Sharing this cost across EUI's other
6 Ontario business reduces the cost to CollusLDC that otherwise would have incurred the
7 entire cost of this position.

8 **Operations & HR Assumptions**

9 EPCOR understands that two senior CollusLDC Managers are eligible to retire within two
10 years following close of the pending transaction. The current intent is that these positions
11 will not be filled following retirement. Efficiencies resulting from this include the following.

12 A number of the responsibilities of the CEO currently delegated to these two senior
13 managers will revert to the new CEO.

14 Additionally, following close, IT oversight will be provided by EUI's corporate IT group.

15 Following close, the HR function will be provided by an affiliate of EPCOR through a service
16 level agreement. The HR Manager will report into this affiliate but remain an embedded
17 resource within EPCOR LDC. Following retirement of the senior manager responsible for
18 this function, the EPCOR affiliate will continue providing this service using its existing pool of
19 resources. The fully allocated cost of providing HR services to EPCOR LDC from the affiliate
20 produces additional savings of relative to the Status Quo forecast.

21 **Finance & Regulatory Assumptions**

22 Following close, responsibilities of the CEO currently delegated to the CFO will revert to the
23 new CEO.

24 The CFO and Regulatory Manager will have responsibility for assisting other EUI
25 subsidiaries in Ontario. Time spent on businesses other than the utility will be tracked and
26 charged at full-cost and in compliance with all ARC regulations. As CollusLDC would have
27 otherwise incurred the entire cost of these positions, sharing these costs across EUI's other
28 Ontario subsidiaries will reduce the costs to EPCOR LDC relative to the Status Quo.

29 EPCOR will upgrade existing financial systems and processes used by CollusLDC to
30 increase efficiency and free up time for designated staff to provide services to EPCOR
31 affiliates. As an example, an automated time-card process will be implemented that will
32 reduce the time currently spent manually processing time-cards.

33 Insurance: EPCOR LDC's cost of insurance will be less than what the utility currently pays
34 as coverage from EUI's existing insurance program will be extended to the utility.



1 **IT Assumptions**

2 EUI is able to generate economies of scale within its IT Corporate Service group by
3 servicing multiple business units. Efficiencies will be achieved by having existing CollusLDC IT
4 resources report through this corporate group. As part of the Corporate IT group their time
5 and cost will be shared amongst EUI's other businesses through a combination of directly
6 assignable and allocable costs. Because of the virtual nature of IT, there is no need to
7 physically relocate these individuals.

8 **Shared Services Provided by Affiliates**

9 At close, EPCOR affiliates will either replace or supplement services related to the following
10 functions of the utility:

- 11 - Legal;
- 12 - Health & Safety;
- 13 - Training;
- 14 - Environmental;
- 15 - Public & Government Affairs; and
- 16 - Supply Chain

17 For the most part CollusLDC either outsources these functions or has allocated
18 responsibility for them across a number of individuals. EPCOR LDC will reduce costs by
19 accessing in-house EUI resources for functions that are currently outsourced including Legal
20 and components of Health & Safety and Public & Government Affairs. EPCOR expects to
21 realize cost savings by using internal resources to provide these services.

22 Responsibility for the remaining functions is generally distributed across existing staff
23 including management of the utility, that have varying levels of expertise and/or availability
24 given their core responsibilities. Having these services provided by an affiliate resource that
25 specializes in the area allows existing staff to focus on their core responsibilities, frees up
26 some of their time and increases the likelihood that forecast efficiencies are achieved.

27 **Transaction Cost Assumptions**

28 While included in Table 3 for completeness, these costs will be recorded in an affiliate of
29 EUI and not EPCOR LDC. These costs will not be charged to the utility.

30 d) Risks

31 **Leadership Risks**

32 Board: EPCOR is aware of the guidance of the Board proposed in the draft Report of the
33 Board in EB-2014-0255 dated March 28, 2018. Should this guidance become regulation,
34 this could reduce the efficiencies relative to the Status Quo forecast. This is based on the



1 assumption that the costs under Status Quo forecast would increase by one extra
2 independent director, while EPCOR LDC's costs would increase by two independent
3 directors.

4 **Operations & HR Risks**

5 The primary risk is the timing of when these individuals choose to retire versus EPCOR's
6 assumption that they will both retire within two years following close. The cost difference will
7 be limited to the salary of the individual for the time differential.

8 **Finance & Regulatory Risks**

9 EPCOR's ability to achieve synergies by charging portions of the costs of these resources
10 for time spent working on EUI's other Ontario business is dependent on ensuring that they
11 have the time available to do so. This risk is mitigated through the implementation of
12 systems and processes meant to increase efficiency as well as outsourcing non-core
13 responsibilities to affiliates.

14 EPCOR is comfortable that over the long-term these savings will be achieved. However,
15 there is a risk that in the first year or two following close of the proposed transaction there
16 may be less time available to spend providing the identified services to affiliates if
17 implementing these systems and processes takes longer than anticipated.

18 **IT Risks**

19 The underlying cost of providing IT to EPCOR LDC is predicated on the status-quo needs of
20 the business. The savings identified are based on a forecast using the utility's 2018 budget
21 as a starting point. The needs of the business may be materially impacted by changes in
22 law, regulation, standards, and industry best practices. However, the impact of these types
23 of changes is independent of the transaction and will be similar under both the status quo
24 and EPCOR forecasts, with EPCOR potentially having a greater ability to mitigate the costs
25 of unforeseen changes due to the economies inherit in its shared services structure.

26 If there's more IT support required than expected for an organization of this size and
27 complexity then it's possible that not all of the efficiencies identified will be realized.

28 **Risks Summarized**

29 The following table quantifies the impact of incurring each of the risks identified above on
30 the proposed cost savings relative to the Status Quo forecast.



\$000's CAD	Year	Year	Year	Year	Year	Year
	1	2	3	4	5	6
	2019	2020	2021	2022	2023	2024
Leadership	-119	-121	-123	-125	-127	-130
Operations & HR	54	55	-320	-325	-331	-337
Finance & Regulatory	40	-43	-129	-132	-134	-136
IT	-39	-39	-40	-41	-41	-42
Shared Services Provided by Affiliates	314	308	341	336	331	326
Transaction Costs	760	0	0	0	0	0
Total	1,010	160	-271	-286	-303	-318
Cost of 1% Rate Rider	48	49	51	52	54	0
Total	1,058	209	-220	-234	-249	-318

1
 2 EPCOR considers this to be the worst case scenario and to be an extremely unlikely
 3 outcome. The potential of any one of the scenarios underlying each risk taking place is
 4 considered modest. Incurring the costs of all of the risks is significantly less likely. This worst
 5 case scenario still identifies a net savings of \$318k by year 6 following the transaction.

6 Furthermore, this outcome does not consider the potential for additional savings that might
 7 be gained through EUI's extensive experiences operating utilities across North America but
 8 that have not yet been identified. These future cost savings would be over and above the
 9 projected cost savings presented in the application.



1 **1-Staff-2**

2 **Ref: Application, pp. 35,36**

3 It is stated that EPCOR has committed to retain all current Collus PowerStream Corp. (Collus)
4 staff for a period of two years. EPCOR has also stated that it has no plans to lay off any staff
5 and that following the close of the proposed transaction, EPCOR intends to re-organize the
6 management structure of Collus PowerStream Corp. to align with that of EPCOR Utilities Inc.
7 (EUI) (the parent company of EPCOR).

8 a) Please describe EPCOR's plans for the existing Collus staff after the two year period.

9 b) Please comment on how the proposed re-organization is expected to impact the roles
10 and functions of the existing Collus staff, and in particular all of the positions directly
11 responsible for the maintenance of service quality and reliability of the distribution
12 system
13

14 **Response:**

15 a) In response to 1-Staff-1, and 1-Staff-4 EPCOR identified how it intends to structure
16 EPCOR LDC in order to obtain efficiencies and ensure that staff will be able to devote
17 the time and effort necessary to effectively operate the utility. EPCOR views these
18 changes to be for the long-term benefit of the utility and ratepayer as it reduces the
19 cost structure of the utility. While there may be a requirement to fine-tune the
20 organization over time, EPCOR has no plans to make changes that would be triggered
21 by the expiry of the two year commitment to retain current staff.

22 b) Other than the roles identified in 1-Staff-1 and 1-Staff-4, EPCOR currently has no plans
23 to modify the roles, functions or immediate reporting structure of front-line staff directly
24 responsible for the maintenance of service quality and reliability of the distribution
25 system. This includes field crews, customer service, billing, and other customer facing
26 functions.
27



1 **1-Staff-3**

2 **Ref: Application, pp. 19, 20**

3 EUI's business activities and operations are described.

4 a) Please state whether EUI is considered an Energy Service Provider as defined under
5 the ARC.

6 b) If EUI is not considered an Energy Service Provider, please explain why.
7

8 **Response:**

9 a) EUI does not consider itself an Energy Service Provider as it does not provide any of
10 the functions listed in the definition of "energy service provider" under the ARC.

11 b) EUI, through its subsidiaries, builds owns and operates electricity transmission and
12 distribution networks, water and wastewater facilities and infrastructure in Canada and
13 the U.S. and also sells electricity and natural gas to Alberta residential consumers
14 under contracts through its Encor brand.

15 EUI has no plans to sell electricity or natural gas in Ontario, but should the opportunity
16 arise, it would meet the definition of Energy Services Provider and would be subject to
17 the Affiliate Relationship Code. There are no inter-affiliate services contemplated
18 between EPCOR and the affiliate that offers the Encor brand.
19



1 **1-Staff-4**

2 **Ref: Application, pp. 37**

3

4 EPCOR has stated that efficiencies will be gained by having the CEO of Collus also have
5 responsibilities that will include all of EUI's Ontario operations. Collus finance staff will have free
6 time to provide similar services to other EUI Ontario based affiliates. Also Collus regulatory staff
7 will become responsible for assisting affiliates of EUI with similar services. EPCOR states that
8 this sharing of staff will reduce the overall OM&A costs of Collus.

- 9 a) Please describe what safeguards are in place to ensure Collus staff will be able to
10 devote the time and effort necessary to effectively operate Collus.
- 11 b) Please report if the expected efficiencies will still be gained if these Collus staff are not
12 able to devote time to providing service to the other EUI Ontario based affiliates, in
13 order to maintain their obligations to Collus.
- 14 c) Please explain how EPCOR plans to apportion costs between the various entities.
15

16 **Response:**

- 17 a) The first safeguard is that the Directors of EPCOR LDC will each have a fiduciary
18 responsibility to that business which requires them to act in good faith to promote the
19 success of EPCOR LDC. Allowing staff to spend time working for another entity, to the
20 detriment of EPCOR LDC contravenes this responsibility.

21 Secondly, EUI has reviewed the responsibilities, and the requisite time commitments,
22 related to being the CEO of EPCOR LDC and managing all of EUI's Ontario operations
23 with the Ontario based individual who is intended to assume that position. That
24 individual is comfortable they will have the capacity to effectively undertake that role. It
25 will be that senior individual's responsibility to ensure that they are able to devote the
26 time and effort necessary to effectively manage EPCOR LDC. If they determine they
27 are unable to do so then EUI and that individual will work together to determine a
28 prudent solution.

29 The shared service delivery model that EPCOR will implement for EPCOR LDC has
30 been used by EUI for many years and incorporates a number of safeguards that have
31 proven effective over time. Safeguards specific to ensuring that embedded staff are
32 able to devote the time and effort necessary to effectively operate EPCOR LDC include
33 two interlocking elements: use of a matrix reporting structure and implementation of an
34 annual goal setting and evaluation process for staff.



1 As an example of how the matrix reporting structure functions, the reporting structure
2 for the finance staff includes the use of dotted line reporting to the EPCOR LDC CEO
3 and direct reporting to EUI's financial leadership, expected to be a Business Unit
4 Controller. The Controller has a working knowledge of the requirements, and
5 associated time and effort, to support the financial function for Collus. It will be the
6 Controller's responsibility to ensure that sufficient resources are available to meet
7 those requirements as they are defined by EPCOR LDC's CEO and Board of Directors.
8 The dotted line reporting to the EPCOR LDC CEO ensures that the CEO has
9 immediate access to the financial information he or she requires to operate the
10 business and also that if there is a concern regarding access to the resources required
11 the CEO is immediately aware of it and has the authority to obtain those resources.

12 Staff annual goal setting will include clear statements that operational support for
13 EPCOR LDC takes precedence over other tasks. There will be follow-up to ensure
14 these goals are achieved. Follow-up includes a regular performance evaluation
15 process in which specific outcomes listed as steps necessary to achieve goals are
16 measured against actual outcomes. If there is a gap then that gap will be addressed by
17 re-allocating or reprioritizing the responsibilities of individual resources of EPCOR LDC.

18 b) In the short term realization of the expected efficiencies for these EPCOR LDC staff
19 are largely dependent on providing service to other Ontario based affiliates. In 1-Staff-
20 (d) EPCOR has identified what it considers to be the worst case outcome associated
21 with the expected efficiencies. Even in the absence of providing services to Ontario
22 based affiliates EUI expects its shared service model to contribute to a permanent
23 reduction in the cost structure of EPCOR LDC in the medium and long term. As an
24 example, as a standalone entity CollusLDC would be required to hire additional staff
25 one individual at a time e.g. one new accountant or regulatory individual as the utility
26 grows. This would be the case even if the work load had not increased sufficiently to
27 require a fulltime individual. However, as part of the shared service model, the utility
28 will have access to the exact level of resources it requires. Therefore, if the work load
29 has increased such that half of an additional person is required, the cost will reflect that
30 need, rather than the cost of a fulltime individual. In addition, access by the embedded
31 staff to the larger pool of specialized knowledge, practices and experience inherent in
32 the shared service model is expected to increase the effectiveness of individual staff.
33 This could defer any requirement to increase staff as the utility grows.

34 Therefore, in the unlikely event that no short term efficiencies are realized, the utility's
35 long term cost structure will still benefit from the ability to access the precise level of
36 trained resources and knowledge and system transfer. As a result, EUI is confident that



1 the utility's cost structure will not be higher versus a scenario in which CollusLDC was
2 not acquired by EPCOR.

3 c) Any services provided by EPCOR LDC to affiliates will be governed by service level
4 agreements. These agreements will clearly detail the type, quantity and quality of
5 services provided, how they will be priced and invoiced, the cost allocation
6 mechanisms used, and the timeframe in which they will be delivered. The intent is to
7 track time individuals spend providing services to non-EPCOR LDC entities. This time
8 will then be charged out on a full cost basis to ensure that there is no cross
9 subsidization among entities. EPCOR's template form of service level agreement is
10 attached as Attachment 1.

11 EUI has worked in an open and transparent manner with regulators, such as the Alberta
12 Utilities Commission, in other jurisdictions on the cost allocation mechanisms used in a
13 shared services model. The result has been agreement that the resulting apportionment of
14 costs is acceptable so long as it is driven by the underlying cost causation to provide the
15 service.



1 **1-Staff-5**

2 **Ref: Application, pp. 36, 37**

3

4 EPCOR has stated that it plans to re-organize the reporting structure of leadership and
5 administrative functions such that the employees undertaking certain functions (finance,
6 regulatory, human resources, information technology) within Collus will become integrated with
7 EUI groups responsible for those functions. It is stated that these relationships will be formalized
8 by service level agreements that will be in compliance with the OEB's *Affiliate Relationships*
9 *Code for Electricity Distributors and Transmitters* (ARC).

10 Please provide the following information:

11 a) Please provide a copy of the service level agreements contemplated by EPCOR in the
12 application.

13 b) Please confirm the length of the term of service level agreement.

14 c) Please explain how EPCOR's plans are compliant with section 2.1.1 of the ARC, which
15 requires that a utility ensure accounting and financial separation from all affiliates and
16 the maintenance of separate financial records and books of account.

17 d) With section 2.2.3 of the ARC,

18 a. Please confirm whether EPCOR plans involve the sharing of employees who
19 are directly involved in collecting, or have access to, confidential information
20 with an energy service provider.

21 b. If so, please explain how EPCOR plans to meet the requirements of the OEB
22 as set out in section 2.2.3 of the ARC.

23 e) Please explain how EPCOR's plans are compliant with section 2.3.2.1 of the ARC,
24 which requires that a utility first undertake a business case analysis, before entering
25 into an affiliate contract for the receipt of a service, product, resource, or use of asset
26 that it currently provides to itself.

27 f) Please explain how EPCOR's plans are compliant with sections 2.3.3.1, 2.3.3.6,
28 2.3.4.1 and 2.3.4.2 of the ARC.

29 g) Please confirm whether section 2.3.5.1 applies to the shared services arrangement
30 contemplated by EPCOR. If so,

31 a. Please explain why EPCOR considers this section applies to its arrangement.

32 b. Please explain how EPCOR's plans are compliant with this section.

33

34



1 **Response:**

2 a) All strategic decisions of the business, including corporate planning, corporate
3 financing and approval of EPCOR LDC's annual budget will be the responsibility of
4 EPCOR LDC's CEO and Board of Directors. As a member of the EUI group of
5 companies, EPCOR LDC will structure its business and operations to reasonably and
6 prudently take advantage of economies of scale and scope through the appropriate
7 use of affiliate services.

8 EPCOR's template form of service level agreement is attached as Attachment 1. At this
9 time, EPCOR is unable to provide executed service level agreements but expects to
10 draw upon its affiliates in respect of the following functions: accounting, treasury, tax,
11 legal, internal audit, human resources, supply chain management, communications
12 and public affairs, health and safety, environment, training, regulatory, insurance and
13 risk management, and information services. To the extent that certain services do not
14 meet the definition of shared corporate services under the ARC, a business case will
15 be completed to determine how best to provide the respective service to EPCOR LDC.

16 For services that are defined as shared corporate services under the ARC, costs will
17 be allocated on a fair and reasonable basis (at full cost), and in any event, the Board
18 will have the opportunity to scrutinize the allocations prior to those costs being reflected
19 in the approved revenue requirements in future Tariff proceedings involving EPCOR
20 LDC.

21 b) All initial service level agreements will expire on December 31, 2019. At that time, all
22 shared services will be reviewed and those which no longer meet the test of continued
23 prudence will be revised or terminated in accordance with the terms of the Services
24 Agreement.

25 c) EPCOR is not proposing a consolidation of EPCOR LDC with any other entity and will
26 provide stand-alone audited annual financial statements in compliance with ARC and
27 the OEB's *Electric Reporting and Record Keeping Requirements*. As such there will be
28 financial separation from all affiliates and separate financial records and books of
29 account will be maintained.

30 To discharge its responsibility for financial reporting, EPCOR LDC management will
31 maintain systems of internal controls designed to provide reasonable assurance that its
32 assets are safeguarded, that transactions are properly authorized and that relevant
33 financial information is reliable, accurate and available on a timely basis. The internal
34 control systems are monitored by management, and evaluated by an internal audit
35 function that regularly reports its findings to management and EPCOR LDC's Board of
36 Directors.



- 1 Further, as described in the application, EPCOR is an entity registered in the Province
2 of Ontario. The majority of the financial services necessary to carry on business in
3 accordance with IFRS Standards and the Accounting Procedures Handbook for
4 Electricity Distributors will continue to be performed by existing finance resources of
5 CollusLDC.
- 6 d) Not confirmed. As noted in response 1-Staff-3 above, there are no plans for EPCOR to
7 obtain or provide inter-affiliate services nor share employees with the affiliate that
8 offers ENCOR branded services.
- 9 e) As indicated in response a) above, EPCOR is in the process of undertaking business
10 case analyses as necessary for services it proposes to receive from affiliates. It is
11 EPCOR's intent to demonstrate respect for the spirit and intent of the ARC and will
12 ensure compliance with its objectives, standards and rules.
- 13 f) The results of any business case analyses referenced in part e) above will determine if
14 a reasonably competitive market exists for services, products, resources or use of
15 assets by the utility, and will determine if the annual value is less than \$100,000 or
16 0.1% of the EPCOR's revenue, whichever is greater. Based on that determination,
17 EPCOR will enter into service level agreements that fully comply with sections 2.3.3.1,
18 2.3.3.6, 2.3.4.1 and 2.3.4.2 of the ARC.
- 19 g) Confirmed.
- 20 a. Under the ARC the definition of shared corporate services captures many of the
21 services contemplated in EPCOR's application, including those identified in the
22 response to 1-Staff-5(a) above. While EPCOR LDC's Board of Directors and
23 Management will be responsible for defining the strategic direction and
24 governance of the utility, including corporate planning and financing, certain
25 shared corporate services will be provided to EPCOR LDC by affiliates. This
26 includes services identified in the response to a) above.
- 27 b. EPCOR's plans are compliant under section 2.3.5.1 of the ARC because the
28 cost of having these services be performed by or for affiliates will be done on a
29 fully-allocated cost basis. In addition, EPCOR will comply with section 2.3.4.3 of
30 the ARC.



1 **1-Staff-6**

2 **Ref: Application, p. 39**

3

4 The application states that EUI's incremental transaction and integration costs are estimated to
5 be \$760,000. EUI expects to finance these costs during the five year rate rebasing deferral
6 period through productivity gains associated with the transaction.

7 According to the evidence, the incremental transaction costs and the premium will not be
8 included in Collus' future revenue requirement, and will not be funded by ratepayers.

- 9 a) Please state how EPCOR will ensure that these costs will not be included in its
10 ratepayer funded revenue requirement.
- 11 b) Please identify any factors that may affect the recovery of costs associated with the
12 proposed transaction.
- 13 c) Please confirm how these costs will be financed if they are not fully recovered from the
14 anticipated productivity gains
15

16 **Response:**

17 a) All of the incremental transaction and integration costs will be recorded within an
18 affiliate of EPCOR that is not EPCOR LDC. None of the transaction or integration costs
19 will be incurred or recorded by EPCOR LDC. As a result these costs will not be
20 included in any future revenue requirements and will not be funded by ratepayers.

21 b) There are three major factors that could affect the recovery of costs associated with the
22 proposed transaction. The first is that the transaction and integration costs may be
23 higher than forecast which could result in an under recovery as the total is greater.
24 Increased costs could be the result of a higher than expected level of effort to integrate
25 the utility. EUI has experience in these types of integrations and is comfortable with the
26 current forecast.

27 The second major factor impacting recovery is if the efficiency gains realized are not as
28 high as forecast, or that they take longer than anticipated to materialize. This could be
29 the result of a higher level of effort required by staff to effectively operate the utility after
30 system upgrades and knowledge transfer than currently understood, or that it takes
31 additional time to transition to upgraded systems.

32 A third factor is if an external event, such as change in regulation, increased the cost to
33 operate the utility during the requested five year rate rebasing deferral period. If



- 1 EPCOR LDC was unable to recover such a cost it will reduce EPCOR's ability to
2 recover costs associated with the transaction.
- 3 c) No incremental transaction and integration costs will be recorded by the EPCOR LDC.
4 If for whatever reason the costs are not fully recovered they will be financed by the
5 affiliate of EPCOR that recorded them. There will be no recovery of these expenses by
6 ratepayers.



1 **1-Staff-7**
 2 **Application, p. 39 and Schedules F and H**

3
 4 It is stated that EPCOR will be assuming outstanding debt and working capital of Collus at the
 5 close of the proposed transaction.

6 a) Please provide a listing of liabilities EPCOR will assume and for each debt item, please
 7 provide the date, amounts and interest rates. Please describe the impact, if any, on
 8 EPCOR’s financial viability after the proposed share purchase transaction, if approved.

9 b) Please explain what EPCOR’s plans are with regards to the assumed debt (i.e.
 10 maintain or pay off the debt). If EPCOR plans to settle the debt, please explain the flow
 11 of transactions to settle the debt, including where the funds to settle the debt are from
 12 and how the funds will flow through the relevant parties to settle the debt.

13 c) Please show the calculation of the “premium” EPCOR is paying above the book value
 14 of Collus’ assets, factoring in Collus’ debt assumption.

15 d) Please confirm that the debt (including the interest expense) related to the premium
 16 being paid will **not** be included in the regulated entity’s financial statements, either in
 17 Collus’ existing financial statements or in the future in EPCOR Collingwood Local
 18 Distribution Corp. financial statements.

19 e) Please confirm that EPCOR will continue to maintain separate audited financial
 20 statements for Collus or for EPCOR Collingwood Local Distribution Corp., going
 21 forward.
 22

23 **Response:**

24 a) The following debt is identified on Collus PowerStream Utility Services Corp.’s audited
 25 2017 balance sheet. All debt issued by Infrastructure Ontario will be transferred to the
 26 Town of Collingwood at close of the proposed transaction and as detailed in the Share
 27 Purchase Agreement.
 28

Issuer	Date	Long Term Debt Balance as of Dec 31, 2017	Interest Rate
Infrastructure Ontario	April 2025	1,500,000	4.67%
Infrastructure Ontario	September 2037	5,426,279	3.84%
Infrastructure Ontario	December 2043	651,933	4.58%
Infrastructure Ontario	April 2035	875,000	2.76%



TD Bank	December 2025	2,994,024	3.65%
TD Bank	March 2027	3,048,746	3.59%
Current Portion of LT Debt		-573,858	
Total Debt Transferred		13,922,124	

1

2 In addition to these balances, EPCOR understands that in Q1, 2018, Collus borrowed
3 a further \$2.0 million from TD Bank with a 3 year term at a rate of 3.45%.

4 Transferring these liabilities will not impact EPCOR's financial viability following the
5 proposed transaction. As identified in the response to (d) below, the magnitude and
6 terms and conditions of this debt will not be materially changed from that under which
7 CollusLDC currently operates. As CollusLDC is considered to have adequate
8 resources to satisfy these liabilities there is no reason that EPCOR's financial viability
9 would be impacted as it will have at least equal access to financial resources. In
10 addition,

11 EPCOR's parent company, EUI, is a public issuer of debt with current credit ratings of
12 A- (S&P) and A (low) stable (DBRS). In fiscal 2017, EUI's consolidated revenue was
13 \$2.074 billion with \$356 million in operating income and \$478 million in funds from
14 operations. Presently, EUI maintains a \$600 million committed credit facility totaling
15 \$600 million of which \$600 million is undrawn. EUI also has the ability to issue long-
16 term debt in the Canadian public debt market through an existing \$2 billion short-form
17 base shelf prospectus, of which the entire \$2 billion capacity is presently available.

18 b) EPCOR has no plans to pay off the debt issued by Infrastructure Ontario early. As
19 described in the share purchase agreement between the Town of Collingwood and
20 EPCOR Collingwood Distribution Corp. dated November 30, 2017 (the "EPCOR
21 Agreement"), the existing debt will be transferred at close. The debt previously issued
22 by Infrastructure Ontario to the utility will be transferred to the Town of Collingwood
23 who will enter into a credit agreement with EPCOR LDC. Under the terms of this
24 agreement EPCOR LDC will make payments to the Town equivalent to what the
25 payments under the existing agreement with Infrastructure Ontario requires.

26 Any decision to settle the TD Debt will be made by EPCOR LDC's CEO and will likely
27 require approval of EPCOR LDC's Board of Directors. If it is determined that the TD
28 Debt should be repaid, a request to EUI will be made to fund the repayment and
29 replace it with intercompany debt, equity, or a combination of both. The funds will then
30 be passed down from EUI through to EPCOR LDC and the LDC will repay the amounts
31 to be settled to TD.



1 c) The EPCOR Agreement identifies the price of the equity of Collus to be \$25 million as
2 of January 1, 2017 and is subject to adjustments following close. This is based on the
3 transfer to EPCOR of \$11,447,235 in debt and adjusted net working capital of
4 \$2,254,792.

5 The premium as of the January 1, 2017 valuation date is calculated to be
6 approximately \$17.1 million. This calculation is as follows:

7

Value of Equity	25,000,000
Value of Transferred Debt	11,447,235
Enterprise Value	36,447,235
Net PP&E	19,736,310
Plus: Intangibles (software)	105,883
Less: Contributions in Aid of Construction	-2,769,851
Net Fixed Assets	17,072,342
Net Working Capital	
Current Assets	11,235,013
less: Cash	-949,653
plus: Regulatory Deferrals	1,566,053
SPA Current Assets	11,851,413
Current Liabilities	8,796,073
plus: Long-term Customer Deposits	278,020
plus: Regulatory Liabilities	522,528
SPA Current Liabilities	9,596,621
Net Working Capital	2,254,792
Net Fixed Assets	17,072,342
Net Working Capital	2,254,792
Total	19,327,134
Enterprise Value	36,447,235
less: Book Assets	-19,327,134
Premium	17,120,101



- 1 d) Confirmed. EPCOR will not include the incremental intercompany debt sourced to fund
2 the transaction premium on EPCOR LDC's balance sheet. As such EPCOR would like
3 to restate the 2019 financial pro forma of EPCOR LDC (Schedule H) as follows:
4

<i>\$ 000's CAD</i>	
EPCOR LDC	
BALANCE SHEET	2019 Pro Forma
<u>ASSETS</u>	
Current Assets	7,482
PP&E	27,033
Goodwill	21,482
Other long-term asset	440
Total Assets	<u>56,437</u>
Total Regulatory Debits	1,598
Total Assets and Regulatory Debits	<u>58,035</u>
<u>LIABILITIES</u>	
Current Liabilities	8,225
Long-term Liabilities	15,682
Deferred Revenue	3,525
Total Liabilities	<u>27,432</u>
<u>SHAREHOLDER'S EQUITY</u>	
Share Capital	29,429
Retained Earnings	601
Total Shareholder's Equity	<u>30,030</u>
Regulatory Credits	573
Total Liabilities, Shareholder's Equity and Regulatory Credits	<u>58,035</u>

<i>\$ 000's CAD</i>	
INCOME STATEMENT	
2019 Pro Forma	
Revenue	45,391
Cost of Sales	<u>-38,231</u>
Net Distribution Revenue	7,160
less: Operating Expenses	<u>-5,112</u>
Income before undernoted items and income taxes	2,048
Other Income (Expenses)	579
EBITDA	<u>2,627</u>
less: Depreciation	-1,166
less: Interest Expense	<u>-643</u>
EBT	818
Income Tax	<u>-217</u>
Net Income	<u>601</u>



- 1 e) Confirmed. EPCOR will continue to maintain separate audited financial statements for
- 2 EPCOR LDC, going forward.



1 **1- Staff-8**

2 **Ref: Application, pp. 38 and 39 and Schedules F and H**

3

4 Collus' 2016 financial statements reflect that total liabilities amount to approximately \$24 million.
5 The 2019 pro-forma statement shows that total liabilities are expected to be approximately \$40
6 million.

7 a) Please provide a detailed explanation, setting out reasons for the increase from \$24
8 million to \$40 million.
9

10 Collus' 2015 and 2016 financial statements reflect positive net income for Collus for both years,
11 of \$988K and \$864K, respectively. The 2019 pro-forma statement reflects a loss of \$438K. In
12 the pro-forma statement, it is stated that operating expenses include one-time transaction costs.
13 The interest expense in the pro-forma is \$1.1 million as compared to \$507K in the 2016 financial
14 statement.

15 b) Please explain what the loss in the 2019 pro-forma statement represents, including an
16 explanation for the discrepancy between the net income stated in the 2015 and 2016
17 financial statements and the loss shown in the pro-forma statement. In addition, please
18 include in the explanation all assumptions that have been made with respect to interest
19 expenses, financing costs, etc.

20 c) Please identify how much of the transaction costs referred to on pages 38 and 39 of
21 the application are included in the pro-forma statement.

22 d) Please provide a detailed explanation, setting out reasons for the increase in the
23 interest expense from \$507K in the 2016 financial statement to \$1.1 million in the pro-
24 forma statement.
25

26 **Response:**

27 a) Please see the re-stated 2019 pro-forma financials for EPCOR LDC in the response to 1-
28 Staff-7. The liabilities presented in the restated financials in 1-Staff-7 were calculated based
29 on the value of the debt as of December 31, 2017 expected to be transferred plus debt
30 subsequently incurred by the utility to finance capital investments.

31 b) Please see the re-stated 2019 pro-forma financials for EPCOR LDC in the response to 1-
32 Staff-7. Following close, EPCOR LDC will target a debt capitalization ratio of 60% relative to
33 the underlying rate base. EPCOR LDC will borrow funds required to meet the capital needs
34 of the business from EUI. It is EUI's practice that the terms of the inter-company note will be



- 1 comparable to lending arrangements with third party financial institutions at the time the
- 2 funding is to occur.
- 3 c) The restated financials do not include any of the transaction costs referred to on pages 38
- 4 and 39 of the application.
- 5 d) Please see the re-stated 2019 pro-forma financials for EPCOR LDC in the response to 1-
- 6 Staff-7.



1 **1- Staff-9**

2 **Ref: Application, pp. 39, 40**

3

4 It is stated that EUI confirms it will provide all funding required to complete the share purchase.

5 a) It is indicated that EPCOR has the financial capacity to fund the purchase price, other
6 payments included in the share purchase agreement and any capital projects in the
7 future to ensure system reliability and service quality is maintained across Collus'
8 system. Please confirm whether EUI will provide funding for future capital projects as
9 well.

10 b) Please explain what financial capacity EPCOR has to fund the purchase transaction
11 and any future capital projects on its own, and without EUI.

12 c) Please confirm whether EPCOR has separate audited financial statements from EUI. If
13 yes, please provide the most recent audited financial statements.
14

15 **Response:**

16 a) EUI provides funding support to its subsidiaries on an ongoing basis through an annual
17 capital budgeting process and ongoing capital management. EUI has confirmed that it
18 will provide funding for future capital projects that have been approved by the OEB.
19 EUI's consolidated revenues and other income for 2017 was \$2.074 billion (\$1.9 billion
20 for 2016) with \$356 million in operating income (\$379 million for 2016) and \$478 million
21 in funds from operations (\$412 million for 2016). The requirement to fund future capital
22 projects for the system will not impact the financial viability of EUI.

23 b) EPCOR was formed for the purpose of purchasing the shares of Collingwood
24 PowerStream Utility Services Corp. ("Collus Holdco"), the parent company to the
25 regulated entity, Collus PowerStream Corp. Aside from the EPCOR Agreement with
26 the Corporation of the Town of Collingwood, EPCOR will not hold assets or carry on
27 business until the transaction has closed, which is subject to the approval of the Board.
28 EUI has committed to funding the purchase price to EPCOR for the purchase of Collus
29 HoldCo. Regarding future capital requirements, EPCOR will have financial capacity
30 through ownership of the utility, EPCOR LDC. This will include the revenue earned
31 through distribution rates paid by customers and, as an indirect wholly owned
32 subsidiary of EUI, EPCOR will have access to funding from EUI as described in
33 paragraph (a) above.

34 c) For the reasons described in paragraph (b) above, EPCOR does not currently have
35 audited financial statements. On a go forward basis EPCOR LDC will prepare audited



1 financial statements for the utility, separate from EUI, for the purposes of complying
2 with the requirements to file audited financial statements under the OEB's *Electricity*
3 *Reporting and Record Keeping Requirements* rules and section 2.1.1 of the ARC.
4



1 **1-Staff-10**

2 **Ref: Application, p. 41, 42**

3

4 It is stated that EPCOR will fund the purchase from a combination of its partner's equity and
5 long term note payable to EUI.

6 a) Please confirm whether the terms of the note payable have been established. If so,
7 please provide the details of the terms.

8 b) If not, please explain when EPCOR will be expected to repay the note payable. Please
9 provide a repayment schedule and the source of funding to repay the note payable.

10 c) Please explain how EPCOR will ensure that it has sufficient funds to repay the note
11 payable at that time.

12

13 **Response:**

14 a) The terms of the note payable have not been finalized.

15 b) It is expected that the note payable will have a 30 year term and be non-amortizing
16 with a bullet payment at the end of that term. Interest payments on the note will be
17 funded through the income generated by EPCOR LDC's earnings. Generally the bullet
18 payment at the end of the term would be satisfied with the issuance of a new long term
19 intercompany note. It is EUI's practice that the material terms of an inter-company note
20 payable will be comparable to lending agreements with third party financial institutions
21 at the time the funding is to occur.

22 c) Given the planned rollover of the principal at the maturity of the note, it is not
23 anticipated that a material portion of the principal would be repaid.

24



1 **1-Staff-11**

2 **Ref: Application, p. 43**

3 Approval is requested to continue to track costs to the regulatory asset accounts currently
4 approved by the OEB for Collus and to seek disposition of the balances at a future date.

5 Regarding the EPCOR's plans for deferral and variance accounts:

6 *The Report of the Board on Electricity Distributors' Deferral and Variance Account Review*
7 *Report* provides that under the Price Cap IR, the distributor's Group 1 audited account
8 balances will be reviewed and disposed if the pre-set disposition threshold is met. In the
9 letter *Update to EDDVAR Report, released July 2009*, dated July 25, 2014, distributors may
10 seek to dispose Group 1 balances that do not exceed the threshold.

11 a) Please confirm that EPCOR's plan to request their deferral and variance accounts for
12 disposition is consistent with this policy.

13

14 **Response:**

15 a) EPCOR confirms that its plan to seek disposition of the balances of the deferral and
16 variance accounts at a further date is consistent with this policy.



1 **1-Staff-12**
 2 **Ref: Schedule E**

3
 4 It is stated that the purchase price is subject to adjustment, within 90 days following closing.

5 a) Based on the most current information available, please provide an estimate of the final
 6 purchase price after these adjustments.

7
 8 **Response:**

9 a) If financial close had occurred on January 1, 2018 the purchase price adjustments
 10 would have reflected an approximate \$1.9 million increase to the value of the shares as
 11 shown below:

12

	CPS 2016 F/S Dec. 31/16	CPS 2017 F/S Dec. 31/17	Purchase Price Adjustment
Cash	N/A	N/A	
Accounts receivable	4,712,668	4,109,277	
Unbilled revenues	4,852,979	3,863,870	
PILs Receivable	53,507	74,002	
Inventories	310,242	288,487	
Prepaid expenses and deposits	355,964	364,344	
Regulatory assets	1,566,053	3,057,416	
Current Assets	11,851,413	11,757,396	
Accounts payable and accrued Liabilities	7,693,162	7,077,303	
Current portion of Long-term debt	503,495	573,858	
Current portion of customer deposits	599,416	634,824	
Long-term customer deposits	278,020	265,077	
Regulatory liabilities	522,528	11,999	
Current Liabilities	9,596,621	8,563,061	
Working capital	2,254,792	3,194,335	939,543
NFA Calculation			
Property Plant & Equipment	19,736,310	22,131,745	
Intangibles (software)	105,883	86,194	
Less: Contributions in aid of construction	-2,769,851	-3,225,522	
NFA	17,072,342	18,992,417	1,920,075
NFA Index			1.8
			3,456,135
Long-term Debt Calculation			
Long-term Debt	11,447,235	13,922,124	-2,474,889
Working capital calculation	2,254,792	3,194,335	939,543
NFA calculation	17,072,342	18,992,417	3,456,135
Long-term debt calculation	11,447,235	13,922,124	-2,474,889
Total Adjustment			1,920,789

13



1 **1-Staff-13**

2 **Ref: Application, p. 31, 42**

3

4 Approval is requested to implement a negative rate rider for residential customers, the effect of
5 which would be an immediate 1% reduction of residential customers' base distribution delivery
6 rates as approved by the OEB in EB-2016-0064. This rate rider would be effective for five years
7 from the closing of the transaction. The cost of providing this rate rider is \$50,000 per year and
8 EPCOR has stated that it will not seek to recover this in future rates.

9 The application requests that the proposed rate rider apply to the OEB-approved residential
10 customers' base distribution delivery rates in EB-2016-0064. However, the OEB issued a
11 decision approving rates for 2018 in Collus' IRM application (EB-2017-0034).

12 a) Please confirm whether EPCOR intends to forego the rate increase approved in EB-
13 2017-0034. If so, EPCOR is required to confirm **prior to May 1, 2018** that this is what it
14 is seeking. If not, please confirm that EPCOR intends the proposed rate rider to apply
15 to the OEB-approved residential customers' base distribution delivery rates in EB-
16 2017-0034.

17 b) Please confirm whether the costs of the negative rate rider have been included in
18 Table 3. If so, please confirm the quantum included per year. If not, please provide an
19 updated Table reflecting the projected savings, taking into account the costs of the
20 negative rate rider.

21

22 **Response:**

23 a) EPCOR does not intend to forego the rate increase approved in EB-2017-0034.
24 EPCOR intends for the proposed rate rider to apply to the delivery rates in EB-2017-
25 0034

26 b) The costs of the negative rate rider have not been included in Table 3. The revised
27 table is shown in response to 1-Staff-1 b)

28



1 **1-Staff-14**

2 **Ref: Application, p. 10, 31**

3

4 The application refers to Collus' existing Distribution System Plan (DSP) for 2017-2022. It is
5 stated that EPCOR has reviewed this plan and finds it reasonable and that EPCOR is not
6 expecting to generate any substantial savings relative to that of the current DSP. It is also stated
7 that EPCOR intends to use an Incremental Capital Module (ICM) during the five year deferred
8 rebasing period.

9 a) Please confirm whether Collus' DSP has been filed with the OEB and whether the DSP
10 has been accepted by the OEB.

11 b) Please provide a detailed explanation for why EPCOR considers that it will require an
12 ICM during the deferred rebasing period, providing a list of known or potential capital
13 projects for which EPCOR intends to use an ICM

14 c) Please comment on how the intended use of an ICM is consistent with OEB policy as
15 set out in the Handbook to Electricity Distributor and Transmitter Consolidations¹ and
16 as described in the Report of Board: New Policy Options for the Funding of Capital
17 Investments².

18

19 ¹ Issued January 19, 2016

20 ² Issued September 18, 2014 and Supplemental Report issued January 22, 2016

21

22 **Response:**

23 a) The Draft 2018 – 2022 DSP is available on the Collus PowerStream website at
24 www.colluspowerstream.ca/dsp. Collus PowerStream has not been requested by the
25 OEB to file their DSP yet. Therefore, it has not been reviewed or accepted by the OEB.

26 b) The intent of the statement on page 10 of the Application is to confirm that EPCOR has
27 the availability of applying for an ICM during the deferred rebasing period. EPCOR
28 does not presently plan to apply for ICM relief for the LDC during the deferred rebasing
29 period.

30 c) EPCOR does not presently plan to apply for ICM relief for EPCOR Collingwood Local
31 Distribution Corp. during the deferred rebasing period. If an ICM were required, the
32 details pertaining to the ICM would be provided in a subsequent application consistent
33 with the referenced Board policies.



1 **1-Staff-15**

2 **Ref: Exh A/T2/Sch1/p.15**

3

4 *The Handbook for Utility Rate Applications*, dated October 13, 2016 indicates that in the first
5 cost of service or custom IR application following consolidation, the OEB will consider the
6 savings that have been generated through a consolidation.

7 a) Please confirm if EPCOR is planning to track any costs or savings associated with the
8 acquisition. If so, please explain how EPCOR will present information on the savings.

9 b) Please explain how EPCOR will ensure that the transaction and integration costs are
10 not included in Collus' revenue requirement.

11

12 **Response:**

13 a) EPCOR is not proposing to consolidate EPCOR LDC with another entity. EPCOR LDC
14 will have separate audited financial statements and as such, cost savings will be
15 directly observable, all else remaining equal.

16 b) Please see response to 1-Staff-6.



Attachment 1

SERVICE LEVEL AGREEMENT

THIS AGREEMENT made effective as of **ENTER EFFECTIVE DATE** (the “**Effective Date**”).

BETWEEN:

SELECT SERVICE PROVIDER NAME., a corporation formed under the laws of the Province of [•], (hereinafter referred to as the “**Service Provider**” or “**SELECT SERVICE PROVIDER ABBREVIATION.**”)

- and -

EPCOR Collingwood Local Distribution Corp., a corporation formed under the laws of the Province of Ontario (hereinafter referred to as the “**Service Receiver**”)

WHEREAS the Service Receiver has requested the Service Provider to provide, and the Service Provider is willing to provide the Contract Services (as hereinafter defined) to the Service Receiver upon the terms and conditions set forth in this Agreement.

AND WHEREAS the Service Provider, the Service Receiver, or both, have created a compliance plan to describe the systems, policies and mechanisms that such party intends to use to ensure that all of its officers, employees, agents and contractors comply with the *Affiliate Relationship Code for Electricity Distributors and Transmitters* as established by the Ontario Energy Board as it may be amended from time to time.

AND WHEREAS such compliance plan is intended to concurrently comply with the requirements of the *Affiliate Relationship Code for Electricity Distributors and Transmitters* which require that a services agreement be executed between the Parties to support the regulatory process.



NOW THEREFORE THIS AGREEMENT EVIDENCES that in consideration of the mutual covenants and agreements contained in this Agreement and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties do hereby covenant and agree as follows:

ARTICLE 1

INTERPRETATION

1.1 Definitions

In this Agreement, including all recitals, schedules and attachments hereto, unless otherwise indicated or the context otherwise requires, the following words and expressions shall have the following meanings:

“**Act**” means the *Ontario Energy Board Act, 1998*;

“**Affiliate**” means an affiliate as defined in section 3 of the Act;

“**Agreement**” means this agreement and all schedules and addenda attached hereto;

“**ARC**” means the *Affiliate Relationships Code for Electricity Distributors and Transmitters*;

“**Board**” means the Ontario Energy Board;

“**Board of Arbitrators**” shall have the meaning ascribed to that term in Section 8.3;

“**Business Day**” means any day except a Saturday, Sunday or statutory holiday in the Province of Ontario;

“**Canadian Prime Rate**” means the rate of interest expressed as a rate per annum which the Royal Bank of Canada establishes from time to time at its main office in Toronto, Ontario as its posted prime rate;

“**Conduct Requirements**” means the requirements outlined in the ARC, and the requirements contained in the associated compliance plan;

“**Contract Services**” means, collectively, the services more particularly described in Schedule “A” to this Agreement;

“**Force Majeure**” shall have the meaning ascribed to that term in Section 7.2;

“**Indemnified Party**” shall have the meaning ascribed to that term in Section 4.1;

“**Indemnifying Party**” shall have the meaning ascribed to that term in Section 4.1;

“**Information**” shall have the meaning ascribed to that term in Section 6.1;



“**Party**” or “**Parties**” means a Party or Parties to this Agreement; and

“**Person**” means an individual, corporation, partnership, joint venture, association, trust or unincorporated organization;

“**Term**” shall have the meaning ascribed to that term in Section 5.1.

1.2 Number and Gender

Words used herein importing the singular number only shall include the plural and vice versa and words importing the use of any gender shall include all genders.

1.3 References

References to the words “Article” and “Section” herein shall, unless the contrary be expressly stated, refer to an Article or Section of this Agreement, and references to “hereof”, “herein”, “hereby”, “hereunder” and “this Agreement” refer to the whole of this Agreement including the Schedules and Addendum attached hereto.

1.4 Amendments to Agreements and Law

References herein to any agreement or document shall be deemed to be a reference to such agreement or document as varied, amended, modified, supplemented, or replaced from time to time. Any specific reference herein to any enactment of law shall be deemed to be such enactment as the same may be amended or re-enacted from time to time and every statute that may be substituted therefore and, in any such event reference to such enactment shall be read as referring to such enactment as so amended, re-enacted or the statute substituted therefore, as the case may be.

1.5 Headings

The division of this Agreement into Articles, Sections and other subdivisions, the provision of a table of contents and the insertion of headings are for convenience of reference only and are not to be used in construing or interpreting this Agreement or any portion thereof.

1.6 Governing Law

This Agreement shall be governed by and interpreted in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

1.7 Severability

Each provision of this Agreement is intended to be severable and, if any provision is determined by a court of competent jurisdiction to be illegal or invalid or unenforceable for any reason whatsoever, such provision shall be severed from this Agreement and will not affect the



legality or validity or enforceability of the remainder of this Agreement or any other provision hereof.

1.8 Next Business Day

In the event that any date on which any action is required to be taken hereunder by any of the Parties hereto is not a Business Day, such action shall be required to be taken on the next succeeding day which is a Business Day.

1.9 Entire Agreement

This Agreement including the annexed Schedules constitutes the entire agreement among the Parties relating to the matters set forth herein and in the Schedules and shall supersede and cancel any and all pre-existing agreements and understandings among the Parties relating thereto. Any and all prior contemporaneous negotiations, prior memoranda of understanding or position, and preliminary drafts and prior versions of this Agreement or the Schedules, whether signed or unsigned, shall not be used to construe the terms or affect the validity or interpretation of this Agreement or the Schedules.

1.10 Schedules

The following Schedules are attached to and form part of this Agreement:

- Schedule "A" – Contract Services for Services Rendered **ENTER BEGIN DATE – ENTER END DATE**
- Schedule "B" – Basis of Payment for Contract Services for Services Rendered **ENTER BEGIN DATE – ENTER END DATE**

If there is any conflict between the body of this Agreement and the attached Schedules, the body of this Agreement shall prevail.

ARTICLE 2

CONTRACT SERVICES

2.1 Contract Services

Commencing on the Effective Date, the Service Provider shall provide to the Service Receiver the Contract Services more particularly described in Schedule "A" in accordance with this Agreement.

2.2 Warranty

The Service Provider represents and warrants that it is capable of providing the Contract Services as required by this Agreement. The Service Provider further represents and warrants that the Contract Services provided by the Service Provider pursuant to this Agreement will be



performed with reasonable skill, care, and diligence and in accordance with generally accepted, utility operating standards and practices.

2.3 Laws and Regulation

The Service Provider shall comply with all laws and regulations governing the Service Receiver and the Service Provider which are applicable to the performance of the Contract Services at the place or places at which the Contract Services are performed, including, but not limited to the Conduct Requirements. The Service Provider confirms that it has been provided with full disclosure of the Service Provider's obligations under the ARC

2.4 Policies

The Service Provider shall comply with all applicable policies and procedures established by the Service Receiver from time to time including, without limitation, the Service Receiver's compliance plan, Privacy Policy, Alcohol and Drug Policy, Ethics Policy and any health, safety and security policies (the "**Policies and Procedures**"). The Service Provider confirms that it has been provided with full disclosure of all the Service Receiver's applicable Policies and Procedures.

2.5 Services

The parties acknowledge that this Agreement shall be subject to any rule application to the Service Provider made by the Ontario Energy Board pursuant to the *Ontario Energy Board Act*, S.O. 1998, c. 15, Sched. B., s. 44, including without limitation, the *Affiliate Relationships Code for Electricity Distributors and Transmitters* (the "Code"), as amended from time to time. Specifically, without limited the generality of the foregoing, the Service Receiver agrees to comply promptly with all requests either made or authorized by the Ontario Energy Board for information with respect to the services provided pursuant to this Agreement. This Agreement shall also be subject to any valid, applicable federal, provincial or other governmental regulatory body or authority having jurisdiction over a party or the subject matter of this Agreement.

ARTICLE 3 PAYMENT

3.1 Compensation

As full consideration for performance of the Contract Services, the Service Receiver shall pay the Service Provider the compensation ("**Compensation**") provided in Schedule "B" at the times and in the manner provided in Section 3.2. All fees payable to the Service Provider are exclusive of the federal goods and services tax and, if applicable, provincial sales taxes and harmonized sales tax but are inclusive of all other taxes, customs, duties, excise taxes and non-resident withholding taxes (if applicable).



3.2 Invoicing and Payment

The Service Provider shall invoice the Service Receiver each month, no later than the thirtieth (30th) calendar day of the following month. The appropriate manager within the Service Receiver shall review, and if appropriate, approve and forward the invoice to Accounts Payable within thirty (30) days of receipt. Accounts payable shall enter the invoice into Oracle and each invoice shall be paid on the next available payment run.

3.3 Method of Payment

Each invoice shall be paid in full in Canadian funds by Electronic Funds Transfer (EFT) from the Service Receiver to the Service provider. Direct charges shall be handled in accordance with the Service Receiver's standard accounting policies and practices.

3.4 Invoice or Charge Errors

If an error is found in any invoice or record of direct charge, the Party identifying the error shall immediately advise the other Party. Any adjustment necessary to correct such error shall be made as soon as practical or, in the case of an error in a direct charge, in accordance with the Service Receiver's standard accounting policies and practices.

3.5 Records

The Service Provider shall maintain complete and accurate books, records, and accounts of and supporting documents for all work performed and items billed for Contract Services. The Service Provider shall ensure that the books, records, accounts, and documents are not destroyed without the Service Receiver's written authorization for a period of seven (7) years after the termination or expiration of this Agreement. The Service Provider shall, on demand, make available to the Service Receiver or its respective duly authorized representatives for inspection, reproduction, and audit or any other reasonable purposes, every such book, record, account, and document.

3.6 Invoice or Charge Disputes

In the event that the Manager within the Service Receiver disputes in good faith any part of a monthly invoice, such dispute shall be resolved, in accordance with the provisions of Article 8. If, after following the provisions of Article 8, it is determined that the invoice ought to be paid by the Service Receiver, the Service Receiver shall pay to the Service Provider the amount owing under the disputed invoice within fifteen (15) days of the date of such final determination.



ARTICLE 4

INDEMNITIES AND LIMITATION OF LIABILITY

4.1 Indemnity

Each Party (the “**Indemnifying Party**”) shall indemnify, defend and save harmless the other Party (the “**Indemnified Party**”) from and against any and all losses, claims, damages, liabilities or expenses (including legal expenses on a solicitor and his own client basis) suffered or incurred by the Indemnified Party as a result of, arising out of, or in connection with, the gross negligence or willful misconduct of the Indemnifying Party in the performance, purported performance, or non-performance of this Agreement, or the Indemnifying Party’s breach of this Agreement, except to the extent caused by the gross negligence or will-full misconduct of the Indemnified Party or to the extent that any such act or omission was done or omitted pursuant to the specific instructions of the Indemnified Party.

4.2 Limitation of Liability for Consequential Damages

Notwithstanding anything to the contrary contained in this Agreement, neither Party will be liable to the other Party for any damage, cost, expense, injury, loss or other liability of an indirect, special or consequential nature suffered by the other Party or claimed by any third party against the other Party which arises due to such Party's failure to perform its obligations under this Agreement or for any other reason (including negligence on its part or on the part of any person for whose acts it is responsible), howsoever and when-so-ever caused, and whether arising in contract, negligence or other tort liability, strict liability or otherwise. Without limiting the generality of the foregoing, damage, injury or loss of an indirect or consequential nature shall include loss of revenue, loss of profits, loss of production, loss of earnings, loss of contract, cost of purchased or replacement capacity and energy, cost of capital and loss of the use of any facilities or property owned, operated, leased or used by the other Party or a third party.

ARTICLE 5

TERM

5.1 Term

This Agreement shall commence on the Effective Date and shall continue in full force until **ENTER TERM END** unless otherwise agreed to by the Parties in writing.



ARTICLE 6

CONFIDENTIALITY

6.1 Confidentiality

Subject to Section 6.2, each Party shall keep confidential and shall not:

- (a) use, except for the purpose of performing its obligations or exercising its rights under this Agreement; or
- (b) disclose, except as contemplated or permitted in this Agreement;

any confidential information (including without limitation Confidential Information as defined in the ARC), trade secret or confidential financial, technical, scientific, business or other confidential or proprietary information or document of the other Party or its Affiliates received by it or any of its Affiliates in the course of, or as a result of, the relationship established between the Parties pursuant to this Agreement (herein referred to collectively as the “**Information**”).

6.2 Exceptions

A Party shall be entitled to disclose any Information to the extent:

- (a) such Information is or becomes generally known to the public other than through a breach of this Agreement or any other obligation of confidentiality between the Parties;
- (b) such Information is lawfully obtained by that Party from a third party or parties without breach of this Agreement or any other obligation of confidentiality between the Parties, as shown by documentation sufficient to establish the third party as the source of such Information and to the knowledge of the disclosing Party, without such disclosure constituting a breach by such third party or parties of an obligation of confidentiality;
- (c) such Information is comprised of technical Information and was known to the disclosing Party prior to receipt thereof from the other Party, as shown by documentation sufficient to establish such knowledge;
- (d) such Information was developed by the receiving Party independently of the disclosures made by the disclosing Party under this Agreement;



- (e) such disclosure is required in connection with any regulatory, legal or administrative proceeding; provided that where circumstances permit prior to disclosure, the disclosing Party shall notify the other Party in writing of such proposed disclosure and at the other Party's request (and expense) apply for appropriate court or other orders to preserve the confidentiality of such Information;
- (f) that such disclosure is required by law or by order of any governmental body having competent authority; provided that where the circumstances permit prior to disclosure (other than any disclosure required by applicable securities laws) the disclosing Party shall notify the other Party in writing of any such proposed disclosure and shall at the other Party's request (and expense) apply for appropriate court or other orders to preserve the confidentiality of such Information; and
- (g) the other Party shall have provided its prior written approval for such disclosure by the disclosing Party.



ARTICLE 7

FORCE MAJEURE

7.1 Relief from Obligations

Subject to Section 7.3, if by reason of Force Majeure either Party to this Agreement is unable, wholly or partially, to perform or comply with its covenants and obligations hereunder, then the Party so affected by Force Majeure shall be relieved of liability and shall suffer no prejudice for failing to perform or comply during the continuance and to the extent of the inability so caused from and after the happening of the event of Force Majeure; provided that the Party invoking Force Majeure gives to the other Party prompt notice, written or oral (but if oral, promptly confirmed in writing) of such inability and reasonably full particulars of the cause thereof. If notice is not promptly given then the Party suffering the Force Majeure shall only be relieved from such performance or compliance from and after the giving of such notice. The Party invoking Force Majeure shall use all reasonable efforts to remedy the situation and remove, so far as possible and with reasonable dispatch, the cause of its inability to perform or comply; provided, however, that settlement of strikes, lockouts and other industrial disturbances shall be wholly within the discretion of the Party involved. The Party invoking Force Majeure shall give prompt notice of the cessation of the event of Force Majeure. Nothing in this Article 7 shall relieve a Party of its obligations to make payments when due hereunder.

7.2 Force Majeure

For the purposes of this Agreement, force majeure ("**Force Majeure**") shall mean any event beyond the reasonable control of the Party invoking Force Majeure, including therein but without restricting the generality thereof:

- (a) lightning, storms, earthquakes, landslides, floods, washouts, and other Acts of God;
- (b) fires, explosions, ruptures, breakage of or accidents to pipelines, plants, machinery, equipment or storage facilities;
- (c) strikes, lockouts, or other labour disturbances;
- (d) civil disturbances, sabotage, war, blockades, insurrections, vandalism, riots, epidemics;
- (e) acts of terrorism;
- (f) arrests and restraints by governments or governmental agencies;
- (g) the order of any court;



- (h) inability to obtain or curtailment of supplies of feed stocks or of electric power, water, fuel or other necessary utilities or services to operate any facilities or of any materials or equipment; or
- (i) inability to obtain or revocation or amendment of any permit, authorization or approval of any governmental authority required to perform or comply with any obligation under this Agreement, unless the revocation or modification of any such necessary permit, authorization or approval was caused by the violation of the terms thereof or consented to by the party holding the same.

7.3 Exclusions from Relief

No Party shall be entitled to the benefits of the provisions of this Article 7 under any of the following circumstances:

- (a) if the failure to perform or comply with any of the covenants or obligations herein imposed upon it was caused by arrest or restraint by governments or governmental agencies or the order of any court and such arrest, restraint or order was the result of a breach by the Party claiming suspension of the term of a permit, license, certificate or other authorization granted by a governmental or regulatory body having jurisdiction or of any applicable laws, regulations or orders;
- (b) if the failure to perform or comply with any of the covenants or obligations herein imposed upon it was caused by the Party invoking Force Majeure having failed to use all reasonable efforts to remedy the situation and remove, so far as possible and with reasonable dispatch, the cause of its inability to perform or comply with such covenants or obligations; or
- (c) if the failure to perform or comply with any of the covenants or obligations herein imposed upon it was caused by lack of funds or other financial cause for whatever reason.



ARTICLE 8

DISPUTE RESOLUTION

8.1 Dispute Resolution

Any matter in dispute under or relating to this Agreement, unless settled in the manner provided by Section 8.2, will be finally resolved by binding arbitration in the manner provided in Article 8.

8.2 Arbitration

All disputes arising out of or in connection with this Contract, or in respect of any legal relationship associated with or derived from this Contract, will be finally resolved by arbitration under the Arbitration Rules (the "Rules") of the ADR Institute of Canada, Inc. (the "Institute"), with the following exceptions:

- the arbitrator, and not the Institute, will administer the arbitration on an *ad hoc* basis;
- the Seat of Arbitration (as such term is defined in the Rules) will be Toronto, Ontario;
- the location of the arbitration will be in Toronto, Ontario; and
- the language of the arbitration will be conducted in English.

8.3 Continuing Obligations

The supply and purchase of Contract Services and payment therefore under this Agreement shall continue during the dispute resolution proceedings contemplated by this Article 8.

ARTICLE 9

NOTICE

9.1 Notice

Any notice, consent, request or other communication to be given in connection with this Agreement shall be in writing and shall be given by:

- (a) personal delivery or registered mail, postage prepaid, to the following address for the recipient; or
- (b) facsimile transmission to the following facsimile number (confirmed by a copy delivered by personal delivery to the following address) for the recipient;



addressed to the recipient as follows:

To Service Provider:

Select Service Provider's Name

Enter Service Provider's Address.

To Service Receiver:

EPCOR Collingwood Local Distribution Corp.

Enter Service Receiver's Address.

or to such other address, facsimile number or individual for notice as may then have been designated by the respective Party pursuant to Section 9.2. Any communication given to a Party as aforesaid shall be deemed to have been given at the time and upon the date of the receipt at the address of such Party.

9.2 Change of Address

Any Party may, from time to time, change its address, facsimile number or individual for notice by a notice given to the other Party in accordance with Section 9.1.

ARTICLE 10

GENERAL

10.1 Time of Essence

Time shall be of the essence in this Agreement and of all of its terms.

10.2 Further Assurance

The Parties shall with reasonable diligence perform all acts, execute and deliver all documents and instruments, do all such things and provide all such reasonable assurances as may be necessary or desirable to give effect to the provisions of this Agreement.



10.3 Amendments or Waiver

This Agreement may not be amended except by written instrument signed by all of the Parties hereto. No indulgence or forbearance by any Party hereunder shall be deemed to constitute a waiver of its rights to insist on performance in full and in a timely manner of all covenants of each of the other Parties hereunder and any such waiver, in order to be binding upon a Party, must be express and in writing and signed by such Party, and then such waiver shall be effective only in the specific instance and for the purpose for which it is given. No waiver of any term, condition or covenant by any Party shall be deemed to be a waiver by such Party of its rights to require full and timely compliance with the same term, condition or covenant thereafter, or with any other term, covenant or condition of this Agreement at any time.

10.4 No Discharge on Termination

Any provision of this Agreement under which an obligation of one Party hereto has accrued but has not been discharged shall not be affected by termination of this Agreement, nor shall the Party liable to perform be discharged as a result of any such termination, nor shall termination prejudice any right of one Party against the other in respect of anything done or omitted hereunder prior to such termination or in respect of any right to damages or other remedies.

10.5 Enurement

This Agreement shall enure to the benefit of and be binding upon the Service Provider and the Service Receiver and their respective successors and permitted assigns.

10.6 Assignment

This Agreement shall be assignable by either Party as necessary in connection with any bona fide financings, financing leases, reorganizations and mergers, but this Agreement shall not otherwise be assigned by either Party without the prior written consent of the other Party, which consent each of the Parties covenants not to unreasonably withhold. Notwithstanding any permitted assignment, the assignor shall continue to remain liable for the performance of obligations under this Agreement unless such assignor is released therefrom by instrument in writing signed by the other Party.

10.7 Counterparts

This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which when taken together shall constitute one and the same agreement.

10.8 Compliance Representations

Service Provider and Service Receiver represent to each other for the purpose of the ARC that each Party intends to comply with the Conduct Requirements and that this Agreement does comply with all Conduct Requirements.



10.9 Termination on Sale

In the event of the sale of the Service Provider to an unrelated Person who is not an Affiliate, the Service Receiver may unilaterally terminate this Agreement on 90 days' notice without penalty. Any termination notice must be given to the Service Provider a minimum of 90 days prior to the closing date of the sale. The Parties must, after the receipt of the termination notice from the Service Receiver to the Service Provider, negotiate transitional costs and additional resources required during the termination period in good faith, but any failure of the Parties to come to an agreement on these aforementioned costs and resources will not affect the Compensation payable to the Service Provider for the Contract Services provided up to the termination date.

IN WITNESS WHEREOF this Agreement has been duly executed by the Parties hereto under their respective corporate seals attested by the signatures of their respective officers duly authorized in that behalf effective as of the day and year first above written.

Select Service Provider Name.

Per: _____

Enter Name of Signing Authority.

Enter Title.

EPCOR Collingwood Local Distribution Corp.

Per: _____

Enter Name of Signing Authority.

Enter Title.