THE CORPORATION OF THE TOWN OF GODERICH
BY-LAW NO. 84 OF 2000

A By-law to authorize the placement of interest and lease payments from the Goderich Public Utilities Commission (West Coast Huron Energy Inc. – Goderich Hydro) based on fair market value into the Town of Goderich Infrastructure Reserve Fund.

WHEREAS, the Province of Ontario in 1998 passed Bill 35, Electricity Act 1998,

AND WHEREAS, this Bill will transform the electricity monopoly situation in Ontario into a competitive market,

AND WHEREAS the Bill is designed to achieve three (3) economic and financial goals:

A. to create a competitive electricity market that provides the lowest possible prices and supports job creation;
B. to put the new electricity companies on a sound financial footing; and
C. to ensure that stranded debt (as it pertains to Ontario Hydro) is paid off efficiently, fairly and expeditiously.

AND WHEREAS, the firm BDO Dunwoody, Chartered Accounts and Consultants have determined that the fair market value for the "wires" company, based upon information available at this time, is estimated at $3,250,000.00,

AND WHEREAS, in addition to the estimated fair market value, the Town will be able to take back a promissory note of $2,599,188.00, (attached thereto) as adjusted by final audit, from the "wires" company,

AND WHEREAS, the "wires" company should achieve a 50/50 capital structure deemed appropriate by the Ontario Energy Board,

AND WHEREAS, ownership of the following properties will be transferred to the Town of Goderich, from the Goderich Public Utilities Commission: 64 West Street, Plan 457 Pt. Lot 995 and MacEwan Street, Maitland Concession, Part Lot 107 as 22R-1992 Part 7,

AND WHEREAS, fair market value for the leases pertaining to the above properties is deemed to be 10% of book value approximating $2,200.00 per month plus G.S.T., net of taxes, insurance, etc.,

AND WHEREAS, pursuant to By-law No. 38 of 2000 the Treasurer of the Corporation of the Town of Goderich has prepared a transfer document, appended hereto, to be adjusted subject to final audit,

AND WHEREAS, the Town of Goderich will retain a promissory note in the amount of $2,599,188.00, as adjusted by final audit, representing the estimated fair market value to be removed from the "wires" company, holding said note at a rate of 7.25% per annum,

AND WHEREAS, this note will be retained for the period of up to 4 years and reviewed subject to open market competition,

THE CORPORATION OF THE TOWN OF GODERICH
BY-LAW NO. 84 OF 2000

NOW, THEREFORE, THE COUNCIL OF THE CORPORATION OF THE TOWN OF GODERICH ENACTS AS FOLLOWS:

1. That Council hereby confirms, based on BDO Dunwoody submission, that the Goderich Public Utilities value be approximately $6,187,649.00 (cash of approximately in the amount of $2,599,188.00, as adjusted by final audit, assets to be retained by the Town of Goderich $259,774.00, and a "wires" company with a value of $3,250,000.00). It should be noted that the assets retained by the Town are net of fibreoptic costs ($338,461.00 less $78,687.00 = $259,774.00)

2. That the interest from a promissory note based on the estimated fair market value as adjusted by final audit, be calculated at the rate of 7.25% per annum approximating $188,000.00 ($2,599,188.00 x 7.25%). That the said interest be deposited to the Infrastructure Reserve Fund of the Town of Goderich

3. That the lease payments for 64 West Street and property located on MacEwan Street approximating $26,400.00 per annum be deposited to the Infrastructure Reserve Fund of the Town of Goderich.

4. That the Mayor and Clerk of the Town be and are hereby authorized and instructed to sign all necessary documents to complete the above and to meet all requirements of Bill 35.

READ A FIRST, SECOND AND THIRD TIME AND FINALLY PASSED THIS TWENTY-THIRD DAY OF OCTOBER, 2000.

MAYOR

CLERK

PROMISSORY NOTE

Date: DECEMBER 1, 2000

FOR VALUE RECEIVED the undersigned hereby unconditionally promises to pay on demand to the order of The Corporation of the Town of Goderich (the "Town"), in lawful money of Canada, the sum of **$ 2,599,188.00**.

The principal amount of this note shall bear interest at a rate of 7.25% per annum and shall be repayable at any time by the undersigned upon written notice of demand by the Town. Interest payments shall be made monthly to the Town. The undersigned hereby agrees to grant to the Town, as consideration for the amounts due and payable hereunder, a general security interest over all of its present and future assets. It is further the intention to have this note retained for the period of up to four (4) years and reviewed, by the Town and the undersigned, subject to open market conditions.

The undersigned hereby acknowledges that the term "Event of Default", as defined in such general security agreement, shall be deemed to be any failure by the undersigned to repay the principal amount outstanding under this promissory note within fourteen (14) business days from the date of demand by the Town in accordance with the preceding paragraph.

The undersigned waives presentment for payment, notice of non-payment, protest and notice of protest of this promissory note and diligence in collection of bringing suit.

This promissory note shall be governed by and construed in accordance with the laws of the Province of Ontario.

WEST COAST HURON ENERGY INC.

By: ______________________
Name: R. CORNISH
Title: CHAIR

By: ______________________
Name: L. J. MCCABE
Title: SECRETARY

BDO

BDO Dunwoody LLP
Chartered Accountants
and Consultants

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Telephone (519) 376-6110
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Personal & Confidential

October 2, 2000

Mr. Larry J. McCabe, B.A. AMCT
The Corporation of the Town of Goderich
57 West Street
Goderich, Ontario
N7A 2K5

Dear Mr. McCabe:

Re: Price Range – Goderich Public Utilities Commission

Assignment

1. You have requested that we determine an estimate of fair market value for Goderich Hydro Electric Commission (Goderich HEC) as at the current date (the "valuation date") for strategic planning purposes.

2. Fair market value is defined as the highest price, in terms of money or money's worth, obtainable in an open and unrestricted market between informed and prudent parties, acting at arm's length, neither party being under any compulsion to transact. Stated differently, we will determine what we believe the intrinsic value would be of an equity interest in Goderich HEC at the valuation date. Intrinsic value is a notional value which we believe would prevail based upon rates of return required by investors, given the economic and business conditions existing at the valuation date.

3. Fair market value is a term used in the context of a notional market place because of the absence of open market transactions. Fair market value, as defined in paragraph 2, involves a notional vendor and a notional purchaser with equal negotiating strengths and equal knowledge of the business. In addition, in the absence of specific information to the contrary at the date of valuation, a valuator will assume that a notional purchaser will not realize any synergistic benefits or economies of scale. In an open (actual) market transaction, vendors and purchasers transact with varying degrees of knowledge and negotiating strengths. In addition, one or more purchasers may perceive economies of scale from a

potential acquisition, causing them to offer a price in excess of fair market value. Generally it is the purchaser who perceives and thus identifies these possible economies of scale and, as a result, is the party best equipped to quantify their value and impact on the price offered.

4. A deregulated hydro utility will likely find itself in a special purchaser market place where the potential acquirers will realize different synergies from an acquisition. We have identified possible synergies based upon discussions with potential acquirers, which could result in one of these acquirers offering a price higher than fair market value. These synergies are discussed in paragraphs 26 to 31, together with the concerns raised regarding the proposed deregulation, which will affect the decision to acquire a deregulated utility.

5. We understand that you require this valuation as a result of the proposed deregulation of Goderich HEC under Bill 35.

Conclusion

6. Based on the information and documents reviewed, we have developed several scenarios to estimate the fair market value of the "wires" company (Appendix A). Since the regulations are not yet promulgated, these scenarios are based upon a number of assumptions, which we have analyzed and discussed in detail in this report. We believe that we have identified the key issues that need to be addressed in order to estimate the fair market value of the "wires" company. We caution the reader to read the entire report in order to gain an understanding of the difficulty in determining a more precise value range at this stage of the deregulation process. Our estimated fair market value, based upon information available at this time, is estimated at $3,250,000 (Schedule A-1). The assumptions as set out in Appendix A, paragraph 43 must be read in conjunction with this price range.

In addition to the estimated fair market value, the Town will be able to remove $2,599,188 from the "wires" company prior to incorporation. This excess cash will arise if the Town refinances the "wires" company to achieve the 50/50 capital structure deemed appropriate by the Ontario Energy Board (Appendix A, paragraph 27). Also the Town plans not to transfer assets with a net book value of $338,461 to the wires company. As a result, the total value of Goderich HEC to the Town would be approximately $6,187,649 (cash of approximately $2,599,188, assets retained by the Town of $338,461, and a "wires" company with a value of approximately $3,250,000). We caution the reader that if the Town does leverage the wires company prior to the transfer and removes the cash, the value of the "wires" company for transfer purposes is $3,250,000.

We have also reviewed recent transactions in Ontario (Appendix A, paragraph 42 and Appendix D). Based upon these findings, the fair market value lies within the range of approximately $5,635,000 and $8,300,000. Accordingly, our estimated fair market value of $5,849,188, calculated using an investment analysis approach, falls in the lower half of this range.

Restrictions and Qualifications

7. Our report is not intended for general circulation or publication, nor is it to be reproduced or used for any purpose other than that outlined in paragraph 5 without our prior written permission in each specific instance. We will not assume any responsibility or liability for losses occasioned to Goderich HEC or third parties as a result of the circulation, publication, reproduction or use of this report contrary to the provisions of this paragraph.

8. We reserve the right, but will be under no obligation, to review all calculations included or referred to in this report and, if we consider it necessary, to revise our report in light of any information existing at the valuation date which becomes known to us subsequent to the date of this report.

9. In view of the nature and scope of our engagement, we were unable to expose Goderich HEC to the marketplace to determine if some purchasers, for their own particular reasons, might have been prepared to entertain values other than those noted in this report.

10. All values in this report are expressed in Canadian dollars unless otherwise stated.

Scope of Review

11. In determining an estimate of fair market value we have reviewed and relied upon documentation and information set out in Appendix C to this report.

The Electricity Act 1998

12. In 1997, the Ontario government presented a White Paper, *Direction for Change: Charting a Course for Competitive Electricity and Jobs in Ontario*, which proposed a plan of action for reforming the way electricity is provided in Ontario. As a result, in June 1998 Bill 35, *The Electricity Act 1998*, was introduced. This bill was passed October 30, 1998. This bill will transform the electricity monopoly situation in Ontario into a competitive market. Bill 35 is designed to achieve three economic and financial goals:

   a. to create a competitive electricity market that provides the lowest possible prices and supports job creation;

   b. to put the new electricity companies on a sound financial footing; and

c. to ensure that stranded debt (as it pertains to Ontario Hydro) is paid off efficiently, fairly and expeditiously.

Impact of Bill 35 on Goderich HEC

Structure

13. Based on our review of Bill 35, Goderich HEC will incorporate a separate company under the Ontario Business Corporations Act and transfer its distribution business into the successor company (the "wires" company). The "wires" company will own and operate the assets associated with the distribution of electricity to the end user. The "wires" company will remain a regulated entity.

Customer Base

14. The "wires" company will service the existing customer base of Goderich HEC, known as its authorized area. We have been advised that at the valuation date, Goderich HEC had 3,620 customers. We were also advised that historical growth in this area was less than 1.0% and that there is no expectation of increasing their rate in the future.

The Fair Market Value Model for Goderich HEC

a) Valuing Electricity Line Businesses – The New Zealand Experience

15. The *Energy Markets Information and Services Group of the Ministry of Commerce in Wellington, New Zealand, published the Handbook for Optimised Deprival Valuation of Electricity Line Businesses May 28, 1998*. Based on our review of this handbook and discussions with the Ministry, it is our understanding that the value of electricity line businesses in New Zealand are based upon the lesser of two amounts. The two amounts are referred to as the Optimised Depreciated Replacement Cost ("ODRC") and Economic Value[1]. ODRC represents the maximum amount an investor would be prepared to pay to duplicate the network required to service a specific location. If overcapacity exists, this overcapacity has no value. Overcapacity is determined based upon the engineering situation and projected future growth.

16. The second component, economic value, is the present value of the future cash flows generated by the electricity line business. Future cash flows are based on a maximum sustainable tariff, which is the amount that could be charged when

[1] "Handbook for Optimised Deprival Valuation of Electricity Line Businesses", May 28, 1998, Ministry of Commerce, p. 3.

consumers become indifferent. A consumer who is indifferent can choose from an alternative means of supply. In New Zealand, the consumer has three options:

a. build an alternative bypass, by linking from the existing network to another network (not an option in Ontario);

b. supply own generator; or

c. choose not to have hydro. We understand that the Ministry did not consider this a realistic option and, therefore, this option was not included as an assumption.

17. A representative of the Ministry advised us that it is a very problematic process to determine the tariff because it is difficult to forecast the tariff before customers become 'indifferent'. We were also advised that in most cases the economic value is usually lower than the ODRC and, therefore, the economic value becomes the value of the electricity line business.

b) Applicability of the New Zealand Experience to Goderich HEC

18. Our review of the financial statements for Goderich HEC indicates that the net book value of the capital assets at December 31, 1999 was approximately $3,616,374 (Schedule A-2). This amount reflects the removal of specific assets (paragraph 25) that will not form part of the "wires" company. If we assume that the fair market value (depreciated replacement cost) of these assets was equal to their net book value at that date, then this finding would seem to suggest that the fair market value of the "wires" company would be approximately $3,616,374 comparable to the New Zealand approach described in paragraph 15. This finding is based upon the assumption that all of the capital assets will be transferred into the "wires" company upon deregulation. We have made the assumption that no over capacity existed at the valuation date. Therefore, consistent with the New Zealand experience, the $3,616,374 would also represent the ODRC of the capital assets.

19. The ODRC represents one component of the New Zealand formula; however, in order to determine whether the New Zealand approach is applicable, it is important to understand the nature of the capital assets of Goderich HEC.

20. The capital assets consist of a number of asset pools: land and buildings, furniture and computer equipment, and transmission and distribution equipment. The distribution equipment constitutes a significant portion of the capital assets. When determining the value of an asset using standard valuation methodology, a valuator should consider the value in use of each asset pool in question. Value in use is determined referable to the contribution of the asset pool to the ongoing

business. The lands and buildings do not have to be used by the "wires" company to generate income from the distribution business. These assets could be leased to generate rental income. On the other hand, the network serves only one purpose, to generate income from the distribution of electrical power to the residents of Goderich. Therefore, based upon the assumption that the network cannot be moved, Goderich HEC can only generate income from this one source. If the network is not used to service the electrical users of Goderich, it has virtually no value. Therefore, we believe that the value of the "wires" company is dependent upon the future earnings generated by the network rather than the fair market value of the assets that comprise the network.

21. We have discussed our rationale and conclusions with a representative of the Ministry of Commerce, New Zealand and we have reviewed the rate-setting process currently being established by the Ontario Energy Board. Therefore, we have concluded that our rationale and findings are consistent with their valuation approach.

c) Valuation Methodology

22. As discussed in paragraphs 18 to 21, we believe that an earnings based approach is appropriate for determining a fair market value for the "wires" company. Since future operations will differ significantly from historical operations, because of the change in the rate structure and revenue requirements of the "wires" company (as discussed in Appendix A), we have used a discounted cash flow method to determine the fair market value of the "wires" company.

23. The discounted cash flow technique involves an estimation of future annual net discretionary cash flows and the selection of an appropriate discount rate (rate of return). The discounted cash flow approach is simply the present value of future cash flow expectations determined by applying the discount rate to projected cash flows. The approach is consistent with the economic value component of the New Zealand approach. This approach requires that where the company is expected to operate beyond the cash flow projection period, the future expected earnings be capitalized at the end of the cash flow projection period. The resultant amount is then discounted to determine the present value.

24. When a business interest is valued using an earnings-based approach, such as discounted cash flow, it is necessary to establish whether there are any assets that are surplus or redundant to the operations of the company. By definition, redundant assets are an adjunct to and are not required to generate a company's earnings from operations. For purposes of a notional valuation, generally a valuator assumes that a prudent vendor would either extract such redundant assets from the business prior to a sale, or require compensation from the purchaser for

the fair market value of the net redundant assets to arrive at an overall fair market value for each company's shares.

25. We have made the assumption that no redundant assets will be transferred to the "wires" company upon deregulation other than the excess working capital (Appendix A paragraph 23).

In connection with this, land and buildings have been identified that will not transfer to the "wires" company upon deregulation. These assets will be retained by the Town. A description and the net book value (NBV) as recorded in Goderich HEC's general ledger are as follows:

Description	NBV
Land	$ 64,937
Buildings	192,137
Water Heaters	2,700
Fibre Optics	78,687
	$ 338,461

These items have been removed from the Balance Sheet – "Day Preceding Deregulation" (Schedule A-2).

Potential Synergistic Benefits

26. As set out in Appendix B, six companies tendered for the acquisition of Cornwall Electric, which included IPL, TransAlta, and TransCanada Pipeline Ltd. We spoke with a number of representatives from these companies to determine their interest in the acquisition of utilities upon deregulation and the perceived synergies from such an acquisition.

27. In all instances, we were advised that these companies had an interest in both the wires and generation side of the utility businesses in Ontario. One representative of IPL's subsidiary company, Consumers' Gas Energy (the new parent company of Cornwall Electric) advised us that the company would have an interest in the wires side of the business because of the potential overlap of services between gas and electricity. We spoke with a representative in the acquisitions group of IPL who advised us that IPL would be interested in moving into the market and that the purchase of Cornwall Electric was just the start. This individual again identified the combination of natural gas and electricity as a possible synergy, stating that the bigger the utility (i.e. the number of customers attached to the system), the more attractive the opportunity. The opportunity would be assessed

on the basis of the amount of administrative effort required to operate the utility as it related to the size of the utility acquired.

28. We were informed that purchasers would assess its rate of return objective for each acquisition based upon the risks associated with the utility to be acquired. These risks included the following factors:

a. competing energy forms;

b. legislation (i.e. pricing formula, environmental impacts);

c. the regulatory climate surrounding the distribution side of the business. (We were advised that the regulatory climate is the main driver of the distribution business.);

d. the competitive market place and how deregulation comes to pass. (We were advised that this factor is the main driver of the generation side of the business.); and

e. labour issues, such as efficiency of the work force.

29. We spoke with a representative from another company who advised us that although the company is interested in the utility business in Ontario, the company was adopting a "wait and see" attitude. The concern was not with the pending legislation but with the rules and regulations, which will not be available until the legislation is proclaimed. The representative expressed concern as to how these rules and regulations would affect the ability of a non-Ontario company to transact business in Ontario upon acquisition of either the wires or generation side of a utility. These rules and regulations will affect such items as transmission and the ability of a company, to sell power outside Ontario. In addition, the representative expressed concern as to how the stranded debt issue would be handled.

30. We spoke with a representative of TransCanada Energy, a subsidiary of TransCanada Pipeline that tendered on Cornwall Electric. This representative advised that his company has looked at the situation in Ontario regarding the deregulation of the utilities in a general way to date; however, he expressed a concern that there was a lack of willingness to divest on the part of the Ontario government. At the current time, there was not enough information available to assess some key issues such as the following:

a. how the stranded debt fees will be levied;

b. the amount of transmission costs to be levied;

c. the amount and type of access that will be available to the grid;

d. the amount of fees to be levied against a generation plant; and

e. the regulated rate of return.

31. We also spoke with a telecommunications consultant to determine if there were any benefits that could be realized from the integration of electricity distribution and telecommunications. We were advised that the distribution side of the utility have rights of way for the distribution of power. These rights of way are definitely an asset to the telecommunications industry, as they would provide the industry with access to the end user for telecommunications and information technology services. We were advised, however, that a major investment would be required to operate such services. Therefore, it would be advantageous for a utility to form a strategic alliance with a telecommunications company to integrate the services. The consultant advised us that although utilities have been looking into this integration for some time, the venture is still speculative. This information provides us with one possible synergistic benefit associated with the acquisition of the wires side of the utility. One of the issues not mentioned in our discussion, however, was the legal cost associated with trying to obtain access to the rights of way.

We would be pleased to discuss our findings with you.

Yours very truly,

BDO Dunwoody LLP

Chartered Business Valuators

Attach.

THE CORPORATION OF THE TOWN OF GODERICH
BY-LAW NO. 101 OF 2002

A by-law to authorize the establishment of a Electrical Distribution Contingency Reserve Fund.

WHEREAS by-laws have been passed with regards to the formation of a Local Distribution Company (LDC) known as West Coast Huron Energy Inc. (Goderich Hydro)

AND WHEREAS the LDC has operated since December 1, 2000, pursuant to *the Ontario Business Corporation Act*,

AND WHEREAS a Promissory Note representing a 50/50 debt equity ratio as required by the Province of Ontario was established concerning the LDC,

AND WHEREAS the Council of the Town of Goderich passed By-law No. 84 of 2000 which authorized that the Town of Goderich to retain a Promissory Note, issued to West Coast Huron Energy Inc. (Goderich Hydro) in the amount of $2,659,453.95,

AND WHEREAS said Promissory Note stipulates that the principal amount of the note shall bear interest at a rate of 7.25% per annum and shall be repayable at any time upon written notice of demand by the Town,

AND WHEREAS the interest payable to the Town of Goderich pursuant to the terms of the Promissory Note are credited to the Town of Goderich Infrastructure Reserve Fund,

AND WHEREAS it is desirable at this time to decrease the amount of the Promissory Note and to establish a Electrical Distribution Contingency Reserve Fund,

AND WHEREAS there are funds within the LDC concerning the amount of the request to draw upon the Promissory Note,

AND WHEREAS a reserve fund will be established for the purposes of capital and operating requirements as determined by Council with regards to the establishment of the reserve fund.

NOW, THEREFORE, THE COUNCIL OF THE CORPORATION OF THE TOWN OF GODERICH ENACTS AS FOLLOWS:

1. That the Mayor and Clerk and Treasurer be authorized to execute this by-law and all necessary documents to facilitate the requirements of this by-law and the necessary resolutions specific to the establishment of the Electrical Distribution Contingency Reserve Fund at the required lending institution.

2. That the maximum amount of $1,685,000.00 be transferred, less 15% working capital if required, from the West Coast Huron Energy Inc. (Goderich Hydro) LDC drawing upon the Promissory Note dated December 1, 2000 and payable to the Corporation of the Town of Goderich. This includes a dividend amount of $115,259.00 as declared by the Directors of West Coast Huron Energy Inc. (Goderich Hydro) for the period December 1, 2000 to December 31, 2001.

3. That authorized signing officers related to the Electrical Distribution Contingency Reserve Fund be any two of the Mayor or Deputy-Mayor and Clerk-Administrator or Treasurer.

4. That these funds be deposited to a Electrical Distribution Contingency Reserve Fund, held by the Town of Goderich, for the purposes of capital and operating requirements as determined by Council.

5. That the interest from the Electrical Distribution Contingency Reserve Fund be credited to the Capital Infrastructure Fund of the Corporation of the Town of Goderich.

6. That the principal balance of the Promissory Note, being approximately $974,453.95, shall remain in effect and at a rate of 7.25% per annum and be paid to the Town of Goderich under the original and current conditions.

READ A FIRST, SECOND AND THIRD TIME AND FINALLY PASSED THIS EIGHTEENTH DAY OF NOVEMBER, 2002.

MAYOR

CLERK