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VIA COURIER, EMAIL AND RESS

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
27th Floor, Box 2329
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Response to Board Staff Interrogatories for the Sale of Interest of
Collingwood Utilities Services Corporation to PowerStream Inc.
Board File No.: EB-2012-0056**

Pursuant to the Board's Procedural Order No. 1 dated May 16th, 2012, we enclose our Response to Board Staff Interrogatories in the above-noted proceeding.

Yours truly,

AIRD & BERLIS LLP



Scott A. Stoll

SAS/hm
Enclosures.

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RESPONSE TO BOARD STAFF INTERROGATORIES

Board Staff I. R. #1

Please provide greater details as to the reasons why the Proposed Transaction meets the Board's no harm test.

Response:

The Board must determine whether or not the transaction contemplated in the Application will have an adverse effect on:

- (i) the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service; or
- (ii) economic efficiency and cost effectiveness in the generation, transmission, distribution, sale and demand management of electricity or the maintenance of a financially viable electricity industry.

This is known as the "no harm test".

As stated in Section 1.6.9 of the Application, the Proposed Transaction will be cost neutral for the customers of COLLUS Power and PowerStream as there will be no change in distribution rates or other charges resulting from this transaction. The transaction will have no adverse impact on the ability of either PowerStream or Collus Power to continue to comply with its regulatory requirements.

COLLUS Power has demonstrated prudent management of the distribution system and has maintained a reliable and high quality electricity service. Following the completion of the proposed transaction, COLLUS Power will continue with its prudent maintenance and investment in its electricity distribution system. As such, ratepayers will not see any deterioration in the adequacy, reliability or quality of service.

As noted in the response to Board Staff I.R. #3 and #4, COLLUS Power will also receive certain benefits from the transaction.

Board Staff I.R. #2

Is an acquisition premium being paid in the purchase price of the proposed transaction? If so, please advise how it will be treated for regulatory purposes.

Response:

No, an acquisition premium is not being paid in the purchase price of the proposed transaction. As stated in section 1.8.1 of the Application, the value of the business was established through a competitive procurement process.

Any amounts paid over Book Value would be considered Goodwill. As per Board direction, Goodwill is not recoverable through rates.

Board Staff I.R. #3

Page 2 of the covering letter to the application states that: "COLLUS Power will have access to PowerStream's expertise and financial resources." Please provide greater detail as to the expertise and the type of financial resources Collus Power will have access to.

Response:

Through this Strategic Partnership, COLLUS Power will have access to the leadership of the PowerStream Board members and Management team. As mentioned also in the covering letter and in section 1.9.4, the Strategic Partnership will assist COLLUS Power in meeting the additional complexities of the industry including regulatory and rate proceedings, issues with the need for financing capital additions, and embracing the changing technological needs of the distribution sector. This Strategic Partnership will also mean that PowerStream will have access to the expertise from the COLLUS Power and Town of Collingwood team.

In terms of financial resources, COLLUS Power will be able to benefit from PowerStream's well established commercial banking relationships.

Board Staff I.R. #4

With reference to part 1.7.1 of the application, please explain in greater detail the expected efficiencies that will be realized through coordination of certain activities, such as procurement. Please include a list of the expected activities and how these expected efficiencies may be realized.

Response:

Through the Strategic Partnership, efficiencies can be gained through the coordination of certain activities. For example, when procuring items hard cost savings can be realized through volume discounting of services or products.

At this time, COLLUS Power and PowerStream have not entered into any Service Level Agreements. Agreements could be signed to provide CDM Services, access to PowerStream's 24/7 Control Room, Customer Service representation, Regulatory and Rate Application support, as well as other back office functions such as accounting and human resources support. Cost savings should be realized through the elimination of third party services and economies of scale.

Board Staff I.R. #5

With regard to the Board's review under section 82 of the Act for PowerStream's Notice of Proposal under section 81 of the Act, attach a short description of the impact, if any, of the proposed transaction on competition and the development and maintenance of the competitive generation market. If there will be no impact on competition, please state the reasons. Cite specifically the impacts on customer choice regarding generation, energy wholesalers, and energy retailers.

Response:

The transaction will have no impact on "*competition and the development and maintenance of the competitive generation market*". The transaction is not intended to change the business offerings of the parties. Customers will have the same choice regarding generation and the purchase of energy from either wholesalers or retailers that existed prior to the transaction.

Board Staff I.R. # 6

Provide confirmation that the proposed transaction will have no impact on open access by generators to the distribution systems owned and operated by the parties or their affiliates. If open access will be affected explain how and why.

Response:

Confirmed. The obligation to connect generators is provided in various governing regulatory authorities such as the Distribution System Code. The transaction will have no impact on either party or their affiliates and the ability of generators to connect to the distribution systems.

Board Staff I. R. #7

Please provide any supplementary agreements entered into between the two parties in the Proposed Transaction that have implications for the management and control of Holdco and its subsidiaries.

Response:

There are no supplementary agreements entered into between the parties in the Proposed Transaction that have implications for the management and control of Holdco and its subsidiaries.

Board Staff I.R. #8

Please provide greater detail on the Board of Directors dispute resolution process in the management of Holdco should the Proposed Transaction be approved.

Response:

Each Director will be obligated to fulfill their fiduciary duty to the corporation – not the shareholder. A formal dispute resolution system, such as arbitration, would be very unusual for a Board of Directors and would not be considered good governance.

In the unlikely event the Board of Directors are unable to resolve a dispute, the Board of Directors could refer the matter to the shareholders for resolution using the process established by the Unanimous Shareholder Agreement, Article 13.

Board Staff I.R. #9

Section 71 (1) of the Act states:

Restriction on business activity

71. (1) Subject to subsection 70 (9) and subsection (2) of this section, a transmitter or distributor shall not, except through one or more affiliates carry on any business activity other than transmitting or distributing electricity. 2004, c.23, Sched. B, s. 12.

In the Proposed Transaction, PowerStream seeks to acquire an interest in a holding company that owns COLLUS Solutions Corp. and COLLUS Energy Corp both corporations of which are not distributors. Given the restrictions on business activity for a distributor under section 71(1) of the Act and the fact that Holdco owns a distributor as well as other entities, please confirm how PowerStream will be compliant with this section of the Act.

Response:

PowerStream will be compliant with this section of the Act.

We would note that a “,” is missing from the quoted section. The section has been reproduced below with the comma inserted.

71(1) Subject to subsection 70 (9) and subsection (2) of this section, a transmitter or distributor shall not, except through one or more affiliates, carry on any business activity other than transmitting or distributing electricity.

Section 71(1) obligates a distributor to use an affiliate to “carry on any business activity other than transmitting or distributing electricity”. Section 71(1) does not prohibit a distributor from engaging in other activities that do not amount to it carrying on other business activities. As PowerStream is not in a position of control, it does not, by owning the shares of Holdco, “carry on any business activity” in relation to Holdco as such is contemplated by the statute. As such, the proposed transaction complies with the wording of section 71(1) of the OEB Act.

PowerStream would also point out:

- The Board will maintain the same degree of oversight of the distributors and their affiliates as it had prior to the transaction;
- Separation of accounting activities, as required by section 72 the OEB Act, will be honoured;

- There is no element of cross-subsidization to the transaction.

PowerStream plans to voluntarily fulfil the requirements related to cross subsidies, the protection of customer information and the separation of accounts for activities as was demonstrated following the merger with Barrie Hydro Distribution Inc.

The acquisition is consistent with the type of activities permitted by section 73 of the OEB Act and does not give rise to the typical concerns of the Board in such transactions. PowerStream believes the Proposed Transaction satisfies both the strict wording and the intent of Section 71 (1).