PUBLIC INTEREST ADVOCACY CENTRE
LE CENTRE POUR LA DEFENSE DE L'INTERET PUBLIC
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August 29, 2013

VIA E-MAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge St.
Toronto, ON
M4P 1E4

Dear Ms. Walli:

Re: COLLUS PowerStream (COLLUS)
2012 Distribution Rate Application (EB-2012-0116)
Questions for Technical Conference

Set out below are specific questions that the Vulnerable Energy Consumers Coalition (VECC) will be asking at the September 11th Technical Conference.

VECC continues to review the evidence and may at the Technical Conference (or before if possible) have further questions of clarification on all the issues responded to in the interrogatories.

Yours truly,

Michael Janigan
Counsel for VECC
Encl.

Cc. Glen McAllister, B.Sc. CMA
gmcallister@collus.com

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COLLUS POWERSTREAM (COLLUS)
2013 RATE APPLICATION (EB-2012-0116)
VECC TECHNICAL CONFERENCE QUESTIONS

NB: Numbering continues from last VECC Interrogatory # 40

GENERAL (Exhibit 1)

1.0-VECC TCQ – 41

Subject: PowerStream Transaction

Reference: 1-Energy Probe-4

a) Please provide the estimated cost savings associated with the use of PowerStream's control room expected in the fall of 2013.

Answer

There will be no material difference between the costs of our existing "After Hours Dispatch" and that of the use of PowerStream's 24/7 Operations Control Room.

To be certain, the utilization of PowerStream's sophisticated Operations Control Room will provide increased customer service and reliability. The functionality of the control room will afford Collus PowerStream customers with prompt recognition of supply issues, immediate dispatch and reduced outage durations. It will also offer to Collus PowerStream staff expert dispatch and operating oversight during regular maintenance projects and emergency situations which has been an ongoing Health & Safety concern.

1.0-VECC TCQ-42

Reference 1-Energy Probe-6

a) What are the annual incremental 2013 costs as compare to 2009 for IFRS Reporting?

Please refer to the response to 1-Energy Probe-45s technical question. Specifically, please view part a) and the table in part c).

OPERATING COSTS (Exhibit 2)

2-VECC TCQ- 43

Reference 4.0-VECC-23

a) When to the contacts referred to in this response (i.e. related to preparation of bills) expire?

Note 20 of Collus PowerStream Corp,'s 2012 financial statements outline the commitments under these arrangements:

20. Commitments

Cornerstone Hydro Electric Concepts ("CHEC")

The corporation may terminate its membership at any time upon the following terms:

(a) giving written notice 60 days in advance of termination;

(b) and by making a pre-payment in full of the balance of its contract service costs to CHEC. The amount of the pre-payment cost shall be the total cost which the corporation would have paid over the three year term of the agreement less amounts already paid by it to the date of the termination. The current three year term for the CHEC commitment goes to December 31, 2014. The pre-payment cost of termination is a settlement of the corporation's obligation under the agreement by reason of termination of its membership before the expiry of the term. The amount is liquidated damages and not a penalty for early termination and is intended to leave the remaining members in the same position as if the corporation had not terminated the agreement. At at December 31, 2012 the obligation to CHEC includes 2013 and 2014 membership dues of approximately $45,000 per year, $90,000 total.

Utility Collaborative Services Inc. ("UCS")

The corporation has the right to redeem its shares in UCS by retraction upon the following terms:

(a) notice of such retraction shall be given 128 days prior to the effective date;

(b) and a retraction fee shall be paid equal the to previous three years worth of the average purchases from UCS for services or products; or in alternative to paying such fees, the corporation may elect in writing to provide three year's written notice of the retraction, provided that the corporation continues to receive services at the same or greater average volume as those received at the time the notice was given. At at December 31, 2012 the obligation to UCS includes 2013-2015 fees of approximately $160,000 per year, $480,000 total.

21

2-VECC TCQ- 44

Reference 4.0-VECC-24

a) Did COLLUS produce a report for senior management, its Board or its shareholder which examined the potential impact on distribution rates of the PowerStream transaction? If so, please provide that report or presentation.

Answer:

Apart from the impact on distribution rates there were many other factors that were taken into consideration. The Collus Board and Senior Management believed strongly that the Customer of the future would have needs, wants and desires far greater than at any other time in our history. Their demands required Collus to look inwardly to see if they have the tools and resources, both human and technology wise to meet their requirements. The energy consumers are seeking added value, personal connection and products and services that align with their lifestyle; all of which go well beyond the current traditional energy experience. It's not because the current staff of Collus are not trained, educated or experienced to meet the future demands of our energy consumers but rather it is the depth and scope and the specialization that will be required in the future. Our new company, Collus PowerStream now has these sophisticated, specialized resources at our fingertips through "shared service agreements" while at the same time has the personal connection of smaller LDCs.

Intuitively, one would understand that there are many opportunities; many operational functions with a partnership such as ours that will help mitigate future rate increases. Attached are two presentations that were given to our Board, Staff and Shareholder discussing the many aspects of our decision to become partners with PowerStream.

See appendix A

2-VECC TCQ- 43

Reference 4.0-VECC-32 (OUTSTANDING QUESTION TO ANSWER)

a) The correct reference is Exhibit 4, Tab 4, Schedule 5, page 3 Table 1 (also shown as Appendix K in Excel filing COLLUS_2013_Filing_Requirements_Chapter2_Appendices_Revised_20130606). These tables show 2009 actual total FTEs in 2009 as 18.08 and the forecast 2013 total as 22.92 for a difference of 4.84)

Please provide a list of each of the positions for the 4.84 FTEs that have been added from 2009 actuals. Please provide the total amount of salary and benefits related to these FTEs.

There appears to be an error in the number of FTE listed for 2009 actual on the compensation table. We are investigating old records, and will verify.

b) Please explain how the statement made at 4-Staff-25b:

> Over the last five years only one entry level Customer Service Representative was hired and one operations support person to assist the Superintendent. All other positions in this category have remained the same.

is consistent with Appendix K which shows actual 18.08 FTEs in 2009 and 22.92 in 2013.

See part a) above. More info to follow.

OPERATING REVENUE (Exhibit 3)

3.0-VECC TCQ - 44

Subject: **Forecast Customer Count**
Reference: **VECC #14 b) and #14 d)**

Preamble: In the response to VECC #14 b), COLLUS updated the forecast 2012 customer count for actual values. The counts for both the Residential and GS<50 classes are higher than those forecast for 2012 in the original application. In the response to VECC #14 d) there are new 2013 customer count values provided for Residential, GS<50, GS>50 and Street Lighting.

a) Is COLLUS proposing to revise its 2013 customer count forecast to reflect the values shown in VECC #14 d)?

Answer

Collus PowerStream will be adjusting the customer count forecast to reflect the actual customer count.

- If yes, is the one customer reduction in GS>50 meant to reflect the loss of Nacan/Amaizeingly Green?

- If not, shouldn't there be some revision to the 2013 customer count forecast to reflect the fact that the 2012 results for some classes are higher than the forecasted values in the Application?

3.0 – VECCTCQ - 45

Subject: **Forecast kW Billing Values**
Reference: **Energy Probe #20 a) and VECC #16b)**

Preamble: The responses to Energy Probe #20 a) and VECC #16 b) confirm that the billing kW forecast for 2013 was based on the 5-year customer growth. However, the response to Energy Probe #20 a) also provides a "revised" billing kW forecast for 2013.

a) Please confirm that by "customer growth" COLLUS means the growth in billing kW for the customer class and not customer count.

Answer

Collus PowerStream confirms that the average growth rate is based on billed kW for the customer class.

b) Please confirm whether COLLUS is proposing to revise its billing kW forecast for 2013 to reflect the values in Energy Probe #20 a) (i.e., GS>50 – 337,058 kW and Street Lighting – 6,269 kW).

Answer

The total change to the forecast for 2013 would be an increase in the GS>50 customer class kW of 1,433 kW, from 337,058 (filed) to 338,491 and an increase in street lighting kW of 41 kW, from 6,228 (filed) to 6,269. Collus PowerStream will be adjusting the kW forecast to reflect the changes.

3.0 – VECC TCQ - 46

Subject: **Historical 2011 CDM included in Load Forecast Model**

Reference: **Staff #14 b) and VECC #13 b)**

Preamble: Staff #14 b) shows that the CDM add back for 2011 was 8,892,519 kWh (prior to losses) which included 3,194,455 kWh for 2011-2014 CDM. However, VECC #13 b) explains that the actual CDM savings for 2011 were only 820,000 kWh and that the 3,194,455 kWh value represents the cumulative impact of the 2011 programs over the 2011-2014 period.

a) Please explain why the adjustment to the 2011 purchases (in order to account for the 2011-2014 CDM programs) was not 820,000 kWh.

Answer

The variance of 8,072,146 is comprised of:

1). 5,698,064 kWh – prior OPA Programs persistence in 2011;

2). 2,374,082 kWh – kWh misallocation. This misallocation will be taken into account in the next application update.

3.0 – VECC TCQ - 47

Subject: **Historical 2012-2013 CDM included in Load Forecast Model**

Reference: **Staff #14 b), Staff 18 e) and VECC #13 e)**

Preamble: Staff #14 b) shows that the CDM add back for 2012 was 8,245,542 kWh (prior to losses) which included 2,630,329 kWh for 2011-2014 CDM. However, the COLLUS_Power Stream Annual CDM Report for 2011 (VECC #13 e attachment, page 61) shows the 2,630,329 kWh value as being the cumulative 2011-2014 impact of the 2012 CDM programs. Similarly, the Annual CDM Report shows the planned cumulative 2011-2014 saving from the 2013 and 2014 programs as being 5,150,426 kWh and 3,994,790 kWh respectively. The response to Staff 18 e) states that COLLUS would prefer to base its CDM adjustment on its CDM Strategy.

a) Based on the Strategy provided in Annual CDM Report for 2011 what was the planned savings in 2012 from 2012 programs?

Answer

In the 2011 annual report to the board the revised planned savings for 2012 were 2,630,329 kWh.

b) Please confirm that the 2,630,329 kWh CDM adjustment shown in Staff #14 b) for 2012 represents the cumulative 2012-2014 impacts of the 2012 CDM programs.

Answer

2,630,329 kWh CDM adjustment shows in Staff #14b for 2012 represents the cumulative 2012-2014 impacts of the 2012 CDM programs. This misallocation will be taken into account for the next application update.

c) Please complete/correct the following Table based on the Strategy document provided in response to VECC #13 e) (*Note: The Table has been partially filled in based on the values provided in various interrogatory responses*):

Program Year	Impact by Year (kWh)				
	2011	2012	2013 (Test Year)	2014	Total

2011	820,373	820,373	820,373	733,336	3,194,455
2012	-	876,776	876,776	876,776	2,630,329
2013	-	-	2,575,213	2,575,213	5,150,426
2014	-	-	-	3,994,790	3,994,790
Total CDM Savings	820,373	1,697,149	4,272,362	8,180,115	14.97 GWh

Note 2011 values taken from Staff 14 b) and Staff 18 c). 2014 calculated as the difference between the total and 2011-2013.
2012-2014 totals taken from Staff 14 b).

Answer

The numbers as entered for 2012-2014 agree to Collus PowerStream's 2011 Annual CDM report.

d) Please confirm that it's the totals for each year's column (and not row) that represent the CDM savings for that year and therefore are the values that should be used for the CDM adjustment.

Answer

Collus PowerStream confirms that the annual savings in the sum of the column.

3.0 – VECC TCQ - 48

Reference: Staff #14 b), Staff 18 a) and VECC #13 e)

Preamble: Staff #18 a) provides the OPA's preliminary Report for 2012 for COLLUS. It shows 1,200,000 kWh of CDM savings for 2012 which cumulatively will contribute 3,600,000 towards COLLUS' 2011-2014 target.

a) Based on these preliminary 2012 results, please update/correct the Table from the preceding question:

Program Year	Impact by Year (kWh)				
	2011	2012	2013 (Test Year)	2014	Total
2011	820,373	820,373	820,373	733,336	3,194,455
2012	-	1,205,869	1,205,869	1,205,869	3,617,607
2013	-	-			5,150,426
2014	-	-	-		3,994,790
Total CDM Savings	820,373	2,026,242	2,026,242,	1,939,205	14.97 GWh 15.96 GWh

Note: 2011 values taken from Staff 14 b) and Staff 18 c). 2014 calculated as the difference between the total and 2011-2013 values. 2012 totals taken from Staff 18 a).

Answer

The final 2012 results have not been published. Collus PowerStream will review, when published, the final 2012 verified savings and will re-evaluate the CDM strategy with its 2012 annual CDM strategy due to the board September 30, 2013. Until then the savings for 2013 and 2014 will remain as filed in the 2011 annual CDM strategy document.

3.0 – VECC TCQ - 49

Subject: LRAMVA values

Reference: VECC #19 a) & c)
Exhibit 3, Tab 1, Schedule 5, page 2

a) Please explain how the 2011 billing kW impacts for each CDM program (totaling 60 kW) were determined.

Answer

As per the chart provided in VECC-19 (a) and the explanation provided in VECC 19(b), per the OPA's 2011 verified results there were a total of 225.5 kW. Of those 225.5 kW a total of 60.45 can be attributed to the GS>50 customer class from reviewing the completed projects. Approximately 75% of the equipment replacement and ERIP applications, for a total of 13.91 kW were completed by GS>50 customers and 100% of 2010 ERIP and HPNC, for a total of 46.54 kW were completed by GS>50 customers. Total kW 60.45.

b) With respect to the total of 10,740,068 kWh proposed for purposes of the LRAMVA, please explain why the results from the OPA programs (per 2011) and the 2011 actual results were included. Does COLLUS expect these values to be reviewed (and therefore potentially revised) at some point in time in the future?

Answer

Collus PowerStream does expect there to be revisions to the numbers provided from prior years. Collus PowerStream will assume the numbers can and will change until the final true up of the 2011-2014 programs which will not occur until late 2015 early 2016.

c) The LRAMVA needs billing kW values for those classes that are demand billed. With respect to the forecast CDM results for 2012 and 2013 (noting the 2012 reported results are "preliminary"), what are the 2013 billing kW impacts associated with the GS>50 and Street Lighting savings.

Answer

There will be no kW savings being attributed to street lighting as there are no street lighting projects. Based on preliminary calculations and review of the OPA's draft 2012 results and a review of the completed ERII applications, approximately 95% of the savings were attributed GS>50 customer. Of the total 333 kW in savings as per the OPA's draft 2012 results a total of 200.55 kW savings will be attributed to the GS>50 customer class..

3.0 – VECC TCQ - 50

Subject: Other Operating Revenue

Reference: Energy Probe #22 b) & f)

a) Please confirm that if the forecast 2013 SSS Admin charge revenue was $48,000 (i.e. the revised forecast value per Energy Probe #22 b)), then the total forecast 2013 Other Operating Revenue would be $513,600 (i.e., $465,600 + $48,000).

Please see 3-Energy Probe-51s.

SSS Admin charge revenue has been forecasted for 2013 as $82,080 but in the wrong sub-account of account 4080. Operating revenue should be increased by $48,000 through account 4078. Distribution revenue should be decreased by $82,080. The net impact is $33,080 over forecasted in 2013 for total revenue.

b) Please explain the material decrease in Miscellaneous Service Revenue (Account #4235-0000-00) as between the first half of 2012 and the first half of 2013 (per Energy Probe #22 f)).

We have not been able to meet budget in this category which was budgeted based on historical activity. We have had significantly less miscellaneous service charges by about $20k for the first half of the year. Likely, this is because we are handling our aged accounts receivable better and performing more reminder telephone calls instead of collection visits to the residence. There also appears to be some miscellaneous revenue that is not specific charges but rather random other revenue that fluctuates. The water miscellaneous charges have declined as well. We are currently investigating any changes that might have happened with this account. January 1, 2014 we will be setting-up sub-accounts that will allow us to review and provide better analysis.

COST ALLOCATION (Exhibit 7)

7.0-VECC TCQ - 51

Subject: Cost Allocation Model – Customer Count Input

Reference: Energy Probe #20 b)

a) Please confirm that the 114 value for the GS>50 customer count used in CA Model Sheet I6.2 needs to corrected.

Answer

Collus PowerStream confirms the customer count for GS>50 customers needs to be adjusted in the CA model and this will be done for the draft rate order.

7.0-VECC TCQ - 52

Subject: Cost Allocation Model – Services Weighting Factors

Reference: VECC #35 a)

a) Please explain why services weighting factors are not applicable to USL and Street Lighting.

Answer

a) Service weighting is used to allocate costs related to service connections, in particular, the capital costs in account 1855 Services. A service connection is the wire providing the service level voltage and running from the transformer to the customer meter or other point of demarcation.

In the case of the above customer classes, the service connection is owned by the customer, not PowerStream Collus, and thus the services weighting factor is 0.

7.0-VECC TCQ - 53

Subject: Cost Allocation Model – Meter Reading Weighting Factors

Reference: VECC #36 a)

a) Does the meter reading for GS>50 customers involve the collection and verification of hourly data? If not, at what level of resolution is the metering data for GS>50 collected?

Answer

Collus PowerStream uses a 3rd party to accumulate interval data for GS>50 and GS<50 interval customers.

b) For the Residential and GS<50 classes, what aspects of meter data verification are carried out by the SME (IESO) but need to be performed by COLLUS in the case of GS>50 customers?

Answer

The SME provides Collus PowerStream with all billing data. Collus PowerStream's 3rd party service provides all billing data.

c) Please explain why the costs of collecting and verifying smart meter data for Residential and GS<50 class customers exceeds the cost for GS>50 customers on a per customer basis.

Answer

The collecting and verification of residential and GS<50 customers, on TOU, meter data requires additional costs related to operational data store, ODS, advanced metering infrastructure, AMI and tower gateway base stations, TGB's. For interval customers, all that is required is an acceptable form of communication, paid for by the customer, to transmit the data from the meter to the 3rd party.

RATE DESIGN (Exhibit 8)

8.0-VECC TCQ - 54

Subject: Existing Fixed-Variable Split

Reference: Staff #29 a)

a) The volumes by customer class presented in the response do not match those in Exhibit 3. Please reconcile and provide a revised calculation of the existing fixed-variable split for each customer class and update Table 1 (Exhibit 8, Tab 1, Schedule 2).

Answer

Collus PowerStream will undertake to reconcile the fixed-variable split for each customer class.

b) What impact, if any, do these revisions have on the proposed 2013 monthly service charges and volumetric rates as set out in Exhibit 8, Tab 1, Schedule 2, Tables 2 & 3 of the Application?

Answer

Collus PowerStream will undertake to recalculate the impact on the monthly service charges.

8.0-VECCTCQ –55

Subject: LV Charges

Reference: VECC #38 b)

a) The original question asked for the 2012 actual LV charges (not billing quantities). Please provide the information as requested.

Answer

Collus PowerStream posted to account 4750 – Charges – Low Voltage, $472,581 in 2012.

End of document

Appendix A

COLLUS POWER CORP

Strategic Partnership Initiative

Presented to Town of Collingwood Council

January 23, 2012

Agenda

1. The Electricity Industry Environment Yesterday & Today – John Rockx
2. How did we get where we are today – Ed Houghton
3. Review the benefits of a Strategic Partnership Option – Ed Houghton
4. Review of the Request for Proposal's Scope and Results – Ed Houghton
5. Financial Considerations – Ed Houghton
6. Timelines – Ed Houghton
7. About PowerStream – Brian Bentz
8. Closing Comments – Mayor Sandra Cooper

The Electricity Industry Environment

The Current Structure of the Ontario Electricity Distribution Sector:

- In 1998, there were approximately 320 Local Distribution Companies ("LDCs") in Ontario. Bill 35, the Energy Competition Act, was passed in 1998. Significant consolidation resulted such that there are approximately 80 LDCs today.
- The Province remains concerned about the continued operation of these 80 municipally-owned LDCs.
- It believes that without economies of scale this will result in additional costs.
- Many observers expect the Province to take steps to encourage additional LDC consolidation. Existing measures include:

  - a transfer tax holiday for mergers & acquisitions involving publicly-owned utilities
  - an informal ability for the purchaser to retain merger-related synergies

- The Province is also concerned that hard-to-service rural areas will be left out of voluntary transactions. Hence, initiatives to encourage municipal consolidation may be tied to specific measures to create a number of large, regional utilities.

The Electricity Industry Environment (cont'd)

Tax Liability On Sale of LDCs:

- Under the Ontario Electricity Act., the Town will pay a Transfer Tax equal to 33%, less Payments in-lieu of Taxes (PILS) of the proceeds if it sells its ownership interest in Collus to another entity.
- At present, the Provincial government has introduced an exemption (or "holiday") from transfer tax for sales of municipally-owned utilities to entities owned by municipalities or by the province (e.g. Hydro One).
- This tax exemption does not apply to sales of LDCs to private-sector utilities (i.e. ownership interests greater than 10%).
- In a few instances, privately-owned companies such as Fortis, in order to reduce the effect of the transfer tax, have structured transactions in the form of lease arrangements with an option to buy.

The Electricity Industry Environment (cont'd)

Financial Pressures:

- Electricity rates in Ontario have been rising at rates greater than inflation as a result of several factors. These include:
  - The introduction of the HST.
  - Increases in transmission and distribution charges as a result of the need for repair
  - and renewal of electricity networks, implementation of Smart Meters, and general increases in regulatory and other costs.
  - The construction of new clean energy plants to supply additional capacity in parallel with the phase-out of coal generation.
  - The impact of Ontario Power Authority (OPA) contracts for renewable power at above-market rates.
- This has resulted in additional political sensitivity to power costs and may make future Provincial policies somewhat uncertain and subject to change.

The Electricity Industry Environment (cont'd)

Regulatory Oversight:

- After market restructuring beginning in the late 1990's, the Ontario Energy Board (OEB) assumed oversight over the Ontario electricity distribution sector. In this role, the OEB controls electricity rates and service standards, and sets rules with respect to utility operations.
- Under the OEB's current rate setting approach, LDCs are required to submit a full Cost of Service Application every 3 to 5 years. This rebasing process results in rates that cover allowed utility costs and that provide for a regulated return on a utility's invested capital (or Rate Base).
- Between rebasing applications, the OEB adjusts an LDC's rates through an annual indexing process. This indexing process takes into account general cost trends and changes in financial market conditions, as well as deemed productivity increases.
- The OEB rate setting and regulatory processes put significant pressure on all LDCs, but particularly smaller LDCs with limited management resources.

How Did We Get To Where We Are Today?

Collus Vision Statement is:

Together, we will grow, maximize opportunities and exceed customers' expectations.

Collus Value Statement is:

We value the entrepreneurial spirit to responsibly & decisively challenge the conventional.

- This review was initiated as Collus' ongoing approach to ensure that our Municipality is receiving the most value for its dollar.
- Discussions began prior to the last municipal election where the biggest issue was fiscal responsibility and the reduction of debt.
- Immediately following the election, Council challenged us all to begin looking for new opportunities and attempt to do more with less.
- Our Board took this to heart and we hired KPMG to look at our value, to provide us with a review of what is happening in our industry, to provide insight to what might happen in the future and to provide us with options.

Restructuring Options

There are a number of options with respect to restructuring the electricity LDC. The three options are:

Status Quo:

- We can continue ownership and operation of the utility under its current structure.

Sale:

- We could entertain offers for purchase from interested parties. A number of variants are open under this Option. These include:
  - We could sell its ownership interest in its entirety.
  - We could seek to sell only a partial interest in the utility, retaining either a minority or majority share.

Strategic Partnership:

- We can seek financial or technical partners or both.

These options, and their variants, were discussed by the Board and Council in detail and it was decided that the best approach is the Strategic Partnership.

Review of the Strategic Partnership Option

- **Reduced Risk** – The Town will reduce/mitigate itself from the risks of being in the electricity distribution business.
- **Retains an Income Stream** – The Town will earn a future dividend stream based on equity ownership in the new partner's LDC.
- **Operating Synergies with the Shareholder** – The Town retains the ability to obtain operating cost synergies through the integration of support functions with the water utility and IT.
- **Control** –The Town retains joint control of the utility and its decisions with respect to levels of customer service, promotion of economic development, rates, subject to OEB oversight.
- **Provides Additional Funding to Town** – The funds that are received as a result of this partnership transaction will allow the Municipality to reduce debt or to be available for valuable community projects.
- **Policy Challenges** – This option does address the expected push for additional consolidation of LDCs in the province.

Request for Proposal

Scope:

- The key requirements from our Strategic Partner include the following:
  - An investment of up to 50% in Collus Power shares
  - Provision of strategic and specialized resources to Collus Power through Service Agreements
  - Support in growing the Collus Power business, both organically and through acquisition
  - Continued and enhanced support for the interests of the communities we serve and our employees
  - Continued and substantial presence in the communities we serve
  - Continued focus on maintaining and enhancing the competitive distribution rate and cost structure of Collus Power
- This initiative does not include any of the activities associated with the water operations. **Collingwood Public Utilities Services will continue these operations as is.**

Proposal Evaluation Criteria

- Proposals were evaluated using the following criteria and weightings:

  – Investment for up to 50% of shares
  – Other considerations in section 3.1 — 30 points

  – Provision of strategic and specialized resources
  – Support in growing the Collus business — 30 points
  – Support for employees and their careers — 10 points

  – Customer experience and satisfactions
  – Supporting the interests of the communities we serve — 10 points
  – Competitive distribution rate and cost structure of Collus — 10 points
  – Cultural and synergistic fit — 10 points

  100 points

It should be noted that each Team member reviewed and evaluated the proposals on an individual basis. The group then reconvened to review and discuss the findings of their evaluations and the results are as follows:

Strategic Partnership Task Team

- Mayor, Sandra Cooper
- Deputy-Mayor, Rick Lloyd
- Kim Wingrove, CAO
- Dean Muncaster, Chairman, Collus Power Corp
- David McFadden, Director, Collus Power Corp
- Doug Garbutt, Director, Collus Solutions Corp
- John Herhalt, KPMG / John Rockx, KPMG
- Ed Houghton, President & CEO
- Tim Fryer, CFO

Proposal Evaluations

Proposal Evaluation Totals (70 POINTS)				
Criteria	**Partner A**	**Partner B**	**Partner C**	**PowerStream**
Provision of strategic and specialized resources, support in growing COLLUS	**200**	**120**	**105**	**265 (1st)**
Support for employees and their careers	**65**	**49**	**55**	**80 (1st)**
Customer experience and satisfaction, supporting the interests of the communities	**75**	**44**	**81**	**89 (1st)**
Competitive distribution rate and cost structure of COLLUS	**81(1st)**	**37**	**71**	**76 (2nd)**
Cultural and synergistic fit	**63**	**38**	**43**	**88 (1st)**
Total Points	**484**	**288**	**355**	**598 (1st)**

Financial Consideration

- Estimated proceeds for the Town of Collingwood is $14 - $15 million
- Calculation predicated on three considerations:
  - 50% share purchase
  - Recapitalization
  - Redeeming of historical promissory note

Proposed Governance Structure

- Six-member Board of Directors
  - Three appointed by Collingwood Council
  - Three appointed by PowerStream
- Board of Director to be Co-chaired
  - one Board member from Collingwood and one Board member from PowerStream

Timelines

Key Events:

- June 27, 2011 - Met with Council & received approval to investigate Strategic Partnership
- July 7, 2011 - Meeting with Strategic Partner 1
- July 20, 2011 - Meeting with Strategic Partner 2
- July 20, 2011 - Meeting with Strategic Partner 3
- July 26, 2011 - Meeting with Strategic Partner 4
- July 26, 2011 - Meeting with Strategic Partner 5
- Aug. 3, 2011 - First Meeting with Strategic Partnership Task Team (SPTT)
- Aug. 29, 2011 - Second Meeting of Strategic Partnership Task Team
- Sept. 12, 2011 - Interview with Strategic Partner 4 and Strategic Partner 2
- Sept. 19, 2011 - Interview with Strategic Partner 1 and Strategic Partner 5
- Sept. 28, 2011 - Third Meeting of Strategic Partnership Task Team
- Sept. 29, 2011 - Met with Collus Staff and provided confidential update

Timelines (cont'd)

Key Events:

- Oct. 3, 2011 - Provide Council with Update
- Oct. 4, 2011 - RFP released
- Nov. 15, 2011 - Met with Collus Staff and provided update
- Nov. 16, 2011- RFP's returned
- Nov. 17, 2011 - Provide Council with Update and issue News Release
- Nov. 22, 2011 - Public Information Session
- Nov. 23, 2011 - Fourth Meeting of Strategic Partnership Task Team
- Nov. 28, 2011 - Fifth Meeting of Strategic Partnership Task Team
- Dec. 1, 2011 - Meeting with PowerStream to confirm RFP analysis
- Dec. 2, 2011 - Meeting with Collingwood Utility Services Board and SPTT to propose a recommendation to Council
- Dec. 5, 2011 - Meeting with Council to Update Council on the findings of the SPTT
- Jan. 16, 2012 - Provided Council with the details of the SPA & SA

About PowerStream

- Provides service to more than 335,000 customers residing or owning business in communities located immediately north of Toronto and in Central Ontario.
- Second largest municipally-owned local distribution company (LDC) in Ontario (based on number of customers served).
- More than 500 employees (many who live in communities throughout Simcoe County) working out of facilities in Barrie, Vaughan and Markham
- Nearly $1 billion in assets.
- Service area of 807 square kilometres encompasses a population of approximately 1,000,000.
- Jointly owned by the municipalities of Barrie, Markham and Vaughan.
- Each year gives back to the communities served by the company through a comprehensive sponsorship and donations program.
- Has earned several honours in recent years including being named one of Greater Toronto's Top Employers (2012), Smart Commute Employer of the Year for North Toronto, Vaughan (2011) Electricity Distributors Association's LDC Performance Excellence Award (2011), Ontario Energy Association's Energy Company of the Year (2010) and being named by the Ministry of the Environment as being one of Ontario's Environmental Leaders (2010).

Questions

Closing Comments from the Mayor

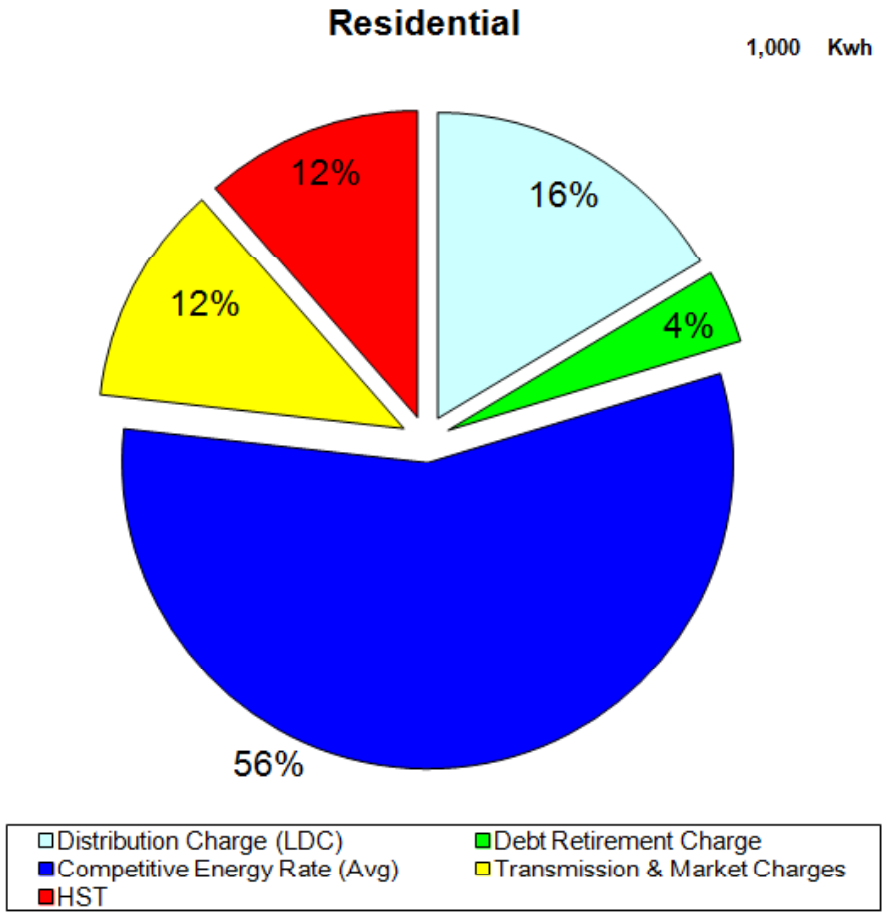
- Acknowledgement and appreciation to the other members of the Strategic Partnership Task Force:
  - Deputy-Mayor, Rick Lloyd
  - Kim Wingrove, CAO
  - Dean Muncaster, Chairman, Collus Power Corp
  - David McFadden, Director, Collus Power Corp
  - Doug Garbutt, Director, Collus Solutions Corp
  - John Herhalt, KPMG / John Rockx, KPMG
  - Ed Houghton, President & CEO
  - Tim Fryer, CFO
- The Task Force followed the directions and met the objectives as requested by Town Council.
- Sincere thanks to all the proponents who responded to the RFP with excellent submissions.
- Looking forward to finalizing the agreement with PowerStream and move forward in building Collus as a strong and dynamic regional utility.

Notes:

What Services Do We Provide?

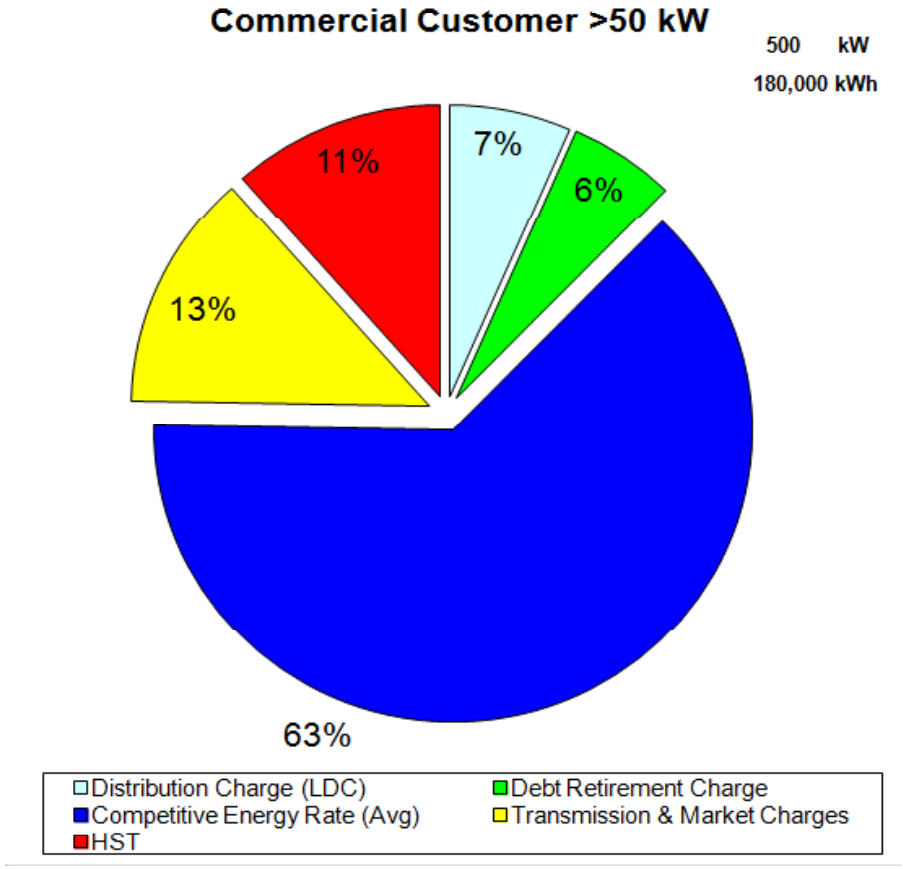
- We provide electrical services to the residents of the Town of Collingwood, Stayner, Creemore and Thornbury.
- As a combined organization we supply safe, high quality water to the residents of Collingwood, to the 66 km. pipeline to Alliston, to the Town of The Blue Mountains and we operate the water systems in Devils Glen and CFB Meaford.
- We provide management oversight to the Collingwood Works Department and IT services to the Town.
- We continue to build and strengthen customer relations and are in continual contact with our large industrial customers.
- We deliver provincial conservation and demand management programs to the residents we serve.
- We provide employment to 48 wonderfully talented and dedicated men and women.
- We pursue new opportunities both locally and regionally which benefit our customers and provide value to our shareholder.
- We build and maintain sustainable systems based on a strong asset management program.
- We promote and maintain strong working relationships that contribute to our community.

Collus Residential Customer Bill (1,000 kWh)



COLLUS Power's distribution charges account for only 16% of the total electricity charges. As an example at 1,000 kWh the total electricity charges would be $134. The distribution charges amount to only $22.

Collus Commercial Customer Bill (50 kW)



COLLUS Power's distribution charges account for only 7% of the total electricity charges. As an example at 180,000 kWh and 500 kW the total electricity charges would be $21,827. The distribution charges amount to only $1,431.



COLLINGWOOD UTILITY SERVICES

Confidential Review of Options

Monday, June 27, 2011

Background

The Reason for this Review

The Strategic Direction for Collingwood Utility Services begins and ends with our Shareholders. This review was initiated as Collus' ongoing approach to ensure that the Municipality is receiving the most value for its dollar.

The Context for this Review

During the initial electricity restructuring process in Ontario, the Town of Collingwood undertook a review of its ownership options with respect to the local electricity distribution utility. This review led to the Town's decision in 2000 to retain ownership of its distribution utility and to pursue opportunities for utility expansion.

This review also resulted in the current utility structure, in which a holding company (Collingwood Utility Services Corp., or "Collus") and affiliated service companies provide management and support services to both a wholly-owned electricity distribution utility ("Collus Power") and to the municipal water utility (Collingwood Public Utilities Service Board, or "CPU").

With the passage of time and changes in the Ontario electricity sector, Collus has initiated a new assessment of the ownership options for the Town. This report contains the results of this review.

Report Structure

In the first part of this report, we review the current environment of the electricity sector and its implications for municipal distribution utilities. The specific topics addressed are as follows:

- The current structure of the Ontario electricity distribution sector.
- Industry financial pressures.
- Regulatory environment.
- Implications for decision-making by the Town.

In the second part of this report, we review three options and the issues that influence these options. We then conclude with a summary of the advantages and disadvantages of the status quo option, the sale option and the “preferred option” which is the **Strategic Partnership** option.

Industry Environment

The Current Structure of the Ontario Electricity Distribution Sector

- The Province remains concerned about the continued operation of approximately 80 municipally-owned Local Distribution Companies (“LDCs”).
- It believes that this results in additional costs through economies of scale.
- Many observers expect the Province to take steps to encourage additional LDC consolidation.
- These measures are likely to include a time-limited Transfer Tax holiday for mergers and acquisitions involving publicly-owned utilities.
- The Province is also concerned that hard-to-service rural areas will be left out of voluntary transactions. Hence, initiatives to encourage municipal consolidation may be tied to specific measures to create a number of large, regional utilities.

Transfer Tax

Tax Liability On Sale of Municipal Electric Utility

- Under the Ontario Electricity Act., the Town will pay a Transfer Tax equal to 33%, less Payments in-lieu of Taxes (PILS) of the proceeds if it sells its ownership interest in Collus to another entity.
- From time to time, the provincial government has introduced time-limited exemptions (or “holidays”) from this tax for sales of municipally-owned utilities to entities owned by municipalities or by the province (e.g. Hydro One).
- The exemptions introduced to date have not applied to sales to private-sector utilities.
- In a few instances, privately-owned companies such as Fortis, in order to reduce the effect of the tax, have structured transactions in the form of lease arrangements with an option to buy.
- The presence of the Transfer Tax means that, if a sale transaction is contemplated, it would make sense to wait until a new exemption is introduced to complete the transaction.

Financial Pressures

Electricity rates in Ontario have been rising at rates greater than inflation as a result of several factors. These include:

- The introduction of the HST.
- Increases in transmission and distribution charges as a result of the need for repair and renewal of electricity networks, implementation of Smart Meters, and general increases in regulatory and other costs.
- The construction of new clean energy plants (natural-gas fired combined cycle) to supply additional capacity in parallel with the phase-out of coal generation.
- The impact of Ontario Power Authority (OPA) contracts for renewable power at above-market rates.

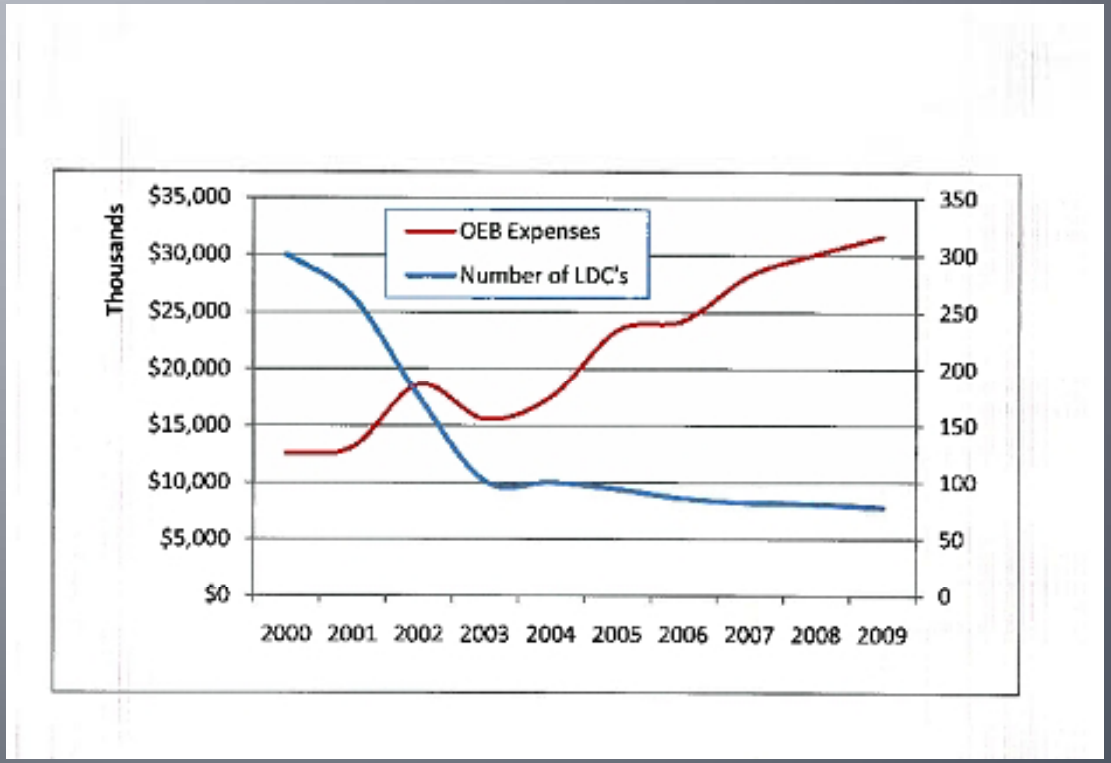
This has resulted in additional political sensitivity to power costs and may make future Provincial policies somewhat uncertain and subject to change.

Regulatory Environment

Regulatory Oversight

- After market restructuring in the late 1990's, the Ontario Energy Board (OEB) assumed oversight over the Ontario electricity distribution sector. In this role, the OEB controls electricity rates and service standards, and sets rules with respect to utility operations.
- Under the OEB's current rate setting approach, LDCs are required to submit a full Cost of Service Application every 3 to 4 years. This rebasing process results in rates that cover allowed utility costs and that provide for a regulated return on a utility's invested capital (or Rate Base).
- Between rebasing applications, the OEB adjusts an LDC's rates through an annual indexing process. This indexing process takes into account general cost trends and changes in the financial market conditions.
- The OEB rate setting and regulatory processes put significant pressure on all LDCs, but particularly smaller LDCs with limited management resources.

Regulatory Environment (cont'd):



Implications of the Industry Environment

Changes in the industry environment noted earlier may have implications for a decision to be made by the Town of Collingwood with respect to its ownership options:

- Anticipated provincial actions to encourage consolidation could result in an increase in sale transactions in the future which could decrease individual utility value.
- A Town that may wish to sell its utility in the future would be wise to position itself to best take advantage of potential future changes in policy and hence buyer interest. This may mean examining sale options before changes in policy affect buyer interest or market value, perhaps negatively.
- The move to a Smart Grid will increase utility spending requirements and the need for specialized technical expertise at the LDC level.
- Concerns over future rate increases could result in regulatory or government action to minimize rate increases, potentially depressing future returns to utility owners.

Restructuring Options

The Town of Collingwood has a number of options with respect to its electricity LDC. The three options are:

- **Status Quo:** The Town can continue ownership and operation of the utility under its current structure.

- **Sale:** The Town can entertain offers for purchase from interested parties. A number of variants are open under this Option. These include:
  - The Town could sell its ownership interest in its entirety.
  - The Town could seek to sell only a partial interest in the utility, retaining either a minority or majority share.

- **Strategic Partnership:** The Town can seek financial or technical partners or both. Consideration could also be given to a lease arrangement such as mentioned previously .

These options, and their variants, will be discussed in further detail in the sections below.

Utility Valuation

- In theory, regulated utilities should sell at values close to their book value since they are regulated based on their actual costs and by applying a regulated return on their invested capital.
- In practice, utilities often trade at a premium above book value.
- The willingness to pay a premium over book value for a given utility will depend, in part, on the ability to reduce costs which will influence a purchaser's future expected income stream.
- In the longer term, operating cost reductions, if achievable, will generally be passed through to consumers and should thus result in lower rates.
- Purchasers may also pay a premium for "strategic" assets that can help them gain further in-roads into a sector or geographic region. Collus may have strategic value as a utility that is at the centre of an area with a number of other potential acquisition targets. A buyer that purchases Collus may have an operating cost advantage in purchasing additional utilities in the area in the future. This may be a factor that influences market value if there is strong provincial policy support for additional LDC consolidation.

Operating Synergies

Potential sources of operating synergies are as follows:

- **Billing and Collecting Costs**. A utility sector partner may expand its existing billing and collection system to service customers in Collingwood at relatively low incremental cost. This will result in savings from the elimination of Collus's existing operations in this area.
- **Regulatory Costs**. A utility sector partner would likely integrate Collus's operations into its existing business and apply for harmonized rates on an overall basis. This would allow it to eliminate the costs of a separate rate application for Collus, saving costs associated with periodic rate filings and regulatory reporting.
- **Operating Costs**. A utility sector partner with nearby or adjacent service territories may be able to integrate operating and maintenance functions and to combine service centres, leading to efficiencies in the deployment of line staff and in real estate costs.
- **Other Overhead Costs**. Other support functions may be provided from a utility sector partner. It must be noted, however, that Collus already obtains some of these types of synergies by providing support services jointly to the LDC (Collus Power), the Town's water utility (CPU), IT Services and Public Works.

Operating Dis-Synergies and Rate Harmonization

Dis-Synergies

Potential sources of dis-synergies are as follows:

- **Harmonization of Wages and Benefits**. A utility sector partner may provide its employees with higher wages and benefits than at Collus. This would thus result in an increase in wages and benefits for Collus's existing employees, increasing overall payroll costs. Harmonization may be a particular issue for Collus, since it has lower wage rates than many potential purchasers based in the GTA.
- **Costs of On-Going Operation**. Integration of Collus's operations into those of a utility sector partner may lead to some additional costs related to the operation of a utility with a larger and more geographically-dispersed service territory. These include costs for transportation and travel time and perhaps a loss in some decision-making effectiveness because of a remote management team.

Rate Harmonization

If a utility sector partner has higher rates, then harmonization of rates could increase rates for Collus consumers. This is not a dis-synergy, because it does not reflect increases in operating costs as a result of a merger. However, it will nevertheless have a negative result for Collingwood consumers.

Affiliate Relationships

Impact on Relationships with the Town and Water Utility

Collus provides management and support services to the LDC, the water utility, IT Services and Public Works. Any sale transaction could result in changes in these management and support service arrangements, and this could have an impact on costs going forward at the Town and the water utility. Any such impacts would ultimately need to be examined as part of the financial analysis, from the Town's perspective, of any proposed transaction.

Potential purchasers of the utility may have a variety of preferences with respect to operating structure.

- A purchaser may wish to continue Collus's current approach to combining support services, and would thus be interested in continuing to provide services to the water utility and potentially also to the Town.
- A purchaser of the LDC may wish to operate it independently of the water utility and the Town and may thus wish to sever existing affiliate transactions. This decision would likely depend on the purchaser's ability to obtain management and support services from its other existing, operating companies.

Considerations:

- **Rate Impacts.** The largest portion of an electricity bill is the commodity, the transmission charges, global adjustment, etc. The distribution portion is relatively small. If the utility can operate more cost-effectively on a stand-alone basis, then rates should be somewhat lower. Conversely, if stand-alone costs are higher, then rates will be somewhat higher.

- **Utility Consolidation**. It is possible that a future provincial government may mandate the consolidation of distribution utilities on a regional basis. In this case, the Town may lose control over the utility and may also have limited influence on a transition process.

- **Business Complexity**. The business of operating a local distribution utility is becoming more complex with the transition to a Smart Grid, increased requirements for regulatory reporting and compliance, and technical and business expertise going forward. A utility operating on a stand-alone basis will need to be comfortable with these challenges.

Considerations (cont'd):

- **Demographic Challenges**. Like many other utilities in the Province, Collus is facing issues associated with the aging of its work force and the need to replace retiring employees. If operated on a stand-alone basis, the utility will need to have a plan for addressing potential future staff shortfalls. A strategic partner may view expected future retirements at Collus as a positive, since they provide an opportunity to reduce costs.

- **Control.** As a regulated utility, Collus Power is subject to oversight by the Ontario Energy Board (OEB). Thus, decisions on rates and services quality for any owner are constrained by OEB rules in place. Under the Status Quo option, the ability of the Town to control rates and service quality is therefore subject to limits. In decisions to date, we note that Collus Power has applied in its rate applications for the maximum rates allowed under OEB guidelines. Hence, the Town has not exercised its option to accept lower rates of return than allowed by the OEB. Under the Sale Option, the Town would lose direct control over rate applications made, but can take comfort that utility decisions will still be subject to external regulatory oversight.

Evaluation of Status Quo Option

Under a Status Quo option, the Town retains the risks and the rewards of utility operation.

Specific advantages and disadvantages of the Status Quo option are outlined below.

Advantages

- **Income Potential**. The Town retains the potential to earn a future dividend stream from the utility.
- **Control**. The Town retains direct control of the utility and its decisions with respect to levels of customer service, local employment, promotion of economic development, and rate levels, subject to OEB oversight.
- **Operating Synergies with the Town**. The Town retains the ability to obtain operating cost synergies through the integration of support functions with the water utility and IT.

Disadvantages

- **Business Risk**. The Town retains the risks of being in the electricity distribution business, which is becoming more complex over time. Thus, the Town will need to ensure that the utility has the requisite management resources and risk management processes. As with any business, the expected future earnings stream may be impacted by adverse events.
- **Policy Challenges**. This option does not address the expected push for additional consolidation of LDCs in the province.

Evaluation of a Full Sale Option

Under a Full Sale option, the Town transfers ownership of the business to a new owner. Specific advantages and disadvantages of the Sale option are outlined below.

Advantages

- **Cash Payment**. Town will achieve an immediate cash payment that can be used for municipal purposes.
- **Reduced Risk**. The Town mitigates the risks of being in the electricity distribution business.
- **Policy Challenges**. This option does address the expected push for additional consolidation of LDCs in the province.

Disadvantages

- **Transfer Tax Payable**. In the absence of an exemption, the Town will pay a Transfer Tax equal to 33% of the proceeds from a sale, less any corporate income taxes or PILS that have been paid since market restructuring. This will reduce the net proceeds received.
- **Loss of Income Stream**. The Town will eliminate the potential to earn a future dividend stream. The foregone dividend stream may be higher than the potential to earn interest income if the proceeds from sale are invested in interest-bearing instruments.
- **Operating Synergies with the Town**. The Town may lose the ability to obtain operating cost synergies through the integration of support functions with the water utility and IT.
- **Control**. The Town loses direct control of the utility and its decisions with respect to levels of customer service, local employment, promotion of economic development, and rate levels, subject to OEB oversight.

Evaluation of a Partial Sale Option

Under a Partial Sale option, the Town transfers ownership of the business to a new owner while investing a portion of the value with the new owner. It thus mitigates itself from the business risks of electricity distribution, but retains the ability to earn an associated income stream based on the investment in the new owner's LDC. Specific advantages and disadvantages of the Partial Sale option are outlined below.

Advantages

- **Cash Payment**. Town will achieve an immediate cash payment that can be used for municipal purposes.
- **Reduced Risk**. The Town distances itself from the risks of being in the electricity distribution business.
- **Retains an Income Stream.** The Town continues the potential to earn a future dividend stream based on the equity ownership in the new owner's LDC.
- **Policy Challenges**. This option does address the expected push for additional consolidation of LDCs in the province.

Disadvantages

- **Transfer Tax Payable**. In the absence of an exemption, the Town will pay a Transfer Tax equal to 33% of the proceeds from a sale transaction, less any corporate income taxes or PILS that have been paid since market restructuring. This will reduce the net proceeds received.

Evaluation of a Partial Sale Option, *Continued*

- **Loss of Control**. The Town loses partial control of the utility and its decisions with respect to levels of customer service, promotion of economic development, and rate setting (although these remain constrained by OEB oversight.
- **Operating Synergies with the Town**. The Town may lose the ability to obtain operating cost synergies through the integration of support functions with the water utility and IT.
- **Loss of Local Employment**. The Town may lose some local employment if a buyer reduces costs by centralizing some functions at its head office.
- **Loss of Partial Income Stream**. The Town will receive a smaller future dividend stream based on the equity ownership in the new owner's LDC.

The Strategic Partner Option

- A **Strategic Partner** would value the expertise and reputation of Collus, as well as its strategic geographic location as the foundation for the development of a regional electrical utility based in Collingwood to serve the Georgian Bay area and beyond.

- In a **Strategic Partnership** arrangement, depending upon the type of structure negotiated, the Town would become the recipient of cash and could either have a substantial ownership position in the existing LDC (Collus Power) or in a new LDC created for the specific partnership purpose, or a minority position in the acquiring partner.

- In addition, it is possible that such a **Strategic Partner** would see the management and facilities of the Collingwood Public Utilities as the nucleus upon which to develop a regional water operations utility to serve the expanding water needs of Simcoe County.

Evaluation of a Strategic Partner Option

Under a Strategic Partner option, the Town may receive many of the benefits of the preceding options. Specific potential advantages and disadvantages of this option are outlined below.

Advantages

- **Cash Payment**. Town will achieve an immediate cash payment that can be used for municipal purposes.
- **Reduced Risk**. The Town will reduce/mitigate itself from the risks of being in the electricity distribution business through oversight by a strategic partner.
- **Retains an Income Stream.** The Town may earn a future dividend stream based on equity ownership in the new partner's LDC.
- **Operating Synergies with the Town**. The Town retains the ability to obtain operating cost synergies through the integration of support functions with the water utility and IT.
- **Control**. The Town retains joint-control of the utility and its decisions with respect to levels of customer service, promotion of economic development, rates, subject to OEB oversight.
- **Policy Challenges**. This option does address the expected push for additional consolidation of LDCs in the province.

Evaluation of a Strategic Partner Option (cont'd)

Advantages (cont'd)

- **Other Opportunities.** The Strategic Partner may be interested in investing in the proven Management team operating the water system and creating a similar company to Epcor, retaining employment in Collingwood and having the potential for expanding related businesses. A lease arrangement may also be considered under this option.
- **Interest in Collus.** A Strategic Partner may "buy" an interest in Collus and so a new LDC would not be created but rather the existing corporation continue with new share arrangements and expanded Board of Directors.

Disadvantages

- **Transfer Tax Payable**. In the absence of an exemption, the Town will pay a Transfer Tax equal to 33% of the proceeds from a sale transaction, less any corporate income taxes or PILS that have been paid since market restructuring. This will reduce the net proceeds received.

Next Steps:

1. **It would be the intention to identify and investigate potential parties interested in the opportunities surrounding the Strategic Partnership Option. President & CEO, Ed Houghton should speak with potential Strategic Partners to determine/stimulate levels of interest.**

2. **(Possible Step) Prepare an Expression of Interest.**

3. **Establish a Team comprised of the Collus Power Board (Dean Muncaster, Mayor Sandra Cooper & Independent Director David McFadden), Ed Houghton, Tim Fryer, CAO Kim Wingrove and a Council Representative to meet with all interested Strategic Partners to outline the needs, wants and desires.**

4. **Prepare a Request For Proposal for the end of August.**

5. **Call the RFP for end of October, 2011.**

Conclusions:

- **Timing is critical considering the upcoming election, possible provincial policy changes, upcoming town budge deliberations and current value.**
- **Confidentiality is critical to ensure that the greatest value is fully recognized.**
- **Any action taken must provide the greatest value to our Shareholder with the least impact to our customers and our staff.**