

Message

From: Tim Fryer [/O=TOC/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=TFRYER]
Sent: 3/26/2012 3:19:38 PM
To: Ed Houghton [ehoughton@collus.com]
CC: Cindy Shuttleworth [cshuttleworth@collus.com]
Subject: RE: Service Agreement information

Ed: As per our conversations last week I have collected the current service agreement information that we are operating by. I will put a short outline together in this e-mail and place the various printed copies in your basket.

1. There is a Shared Facilities Lease between Power and CPU. A copy of the latest amendment to the agreement which covered 2011 is id as L-1. It shows the determination of the lease amount of \$216,000 and details how this was determined. Additionally L-2 is provided and it is the actual Lease agreement from the original start up on Nov. 1/00. It was developed by Alex Besse and it should be noted that originally the rent of computer equipment was included in the terms of this agreement.
2. R-1 is provided and it is the Computer Rent agreement for Power and the CPU. This is the latest agreement covering 2011 and details how the total amount of \$80,000 is determined. As noted above originally computer equipment rent was covered in the SFL. All that was done when that changed in 2003, to a separate agreement, was that an amendment agreement was added. That means that there is little detail in the agreement except for how the calculation of the total rent is determined. We could have had Alex develop this one too but we really didn't think the cost of that would be necessary, so it was developed in house.
3. In regards to these first two agreements as noted these only approved the charges for 2011. There should have been 2012 agreements approved by this time but with the sales transaction going through at yearend all parties agreed to continue on with the current terms until new agreements could be determined.
4. SA-1 is provided and it is the latest amending agreement to the Power and Solutions services agreement of Dec. 18/02 regarding mostly the provision of administrative and finance related duties. Most of the Solutions employees have work associated with the Power company and our best guess estimates are done to pre-determine what % of their time should be allocated to each of the LDC and if applicable the CPU affiliate. I mentioned before that in 2010 the audit committee and the CPU Board agreed that efforts should be put forward to get the agreements updated in 2011. This was also the contention of Gaviller, that since the agreement was expected to have an overhaul in the Spring of 2011, it could be left. The overhaul was anticipating the possible elimination of Solutions and then there would only be direct agreements between Power and CPU. I will also note that although the terms (for both the agreement with Power and the agreement with CPU) refer to a specific amount as a Base amount of Financial consideration, this has not really been adhered to as we simply charge whatever the costs are and work towards Solutions being breakeven. We have always felt that the Base amount in the agreement and the terms for an annual growth factor would equate to a higher amount than what is actually charged when we follow the process we do. Since the agreements call for the sharing of any savings or proceeds then we feel it is covered off during the process we use.
5. SA-2 is provided and it is the first amending agreement back in 2003 which was necessary because it was realized that the original service agreements referred to Base Direct Costs and should have read Base Financial Consideration.
6. SA-3 is provided and it is the original service agreement in full detail. This was an agreement that Roger White drew up for us and it was vetted by Power Budd.
7. SA-CPU-1 is provided and it is the Solutions and CPU service agreement. It is from 2004 to establish it as being enacted for 2004. In both the CPU and Power agreements cases there is a clause that places a 5 year term with an automatic renewal for a 1 year term unless there is notice about terminating the agreement. So there has never been notice given and we have just carried them on as they are written.
8. SA – CPU – 2 is provided and it is the original service agreement with all of its terms and conditions in detail. I did this agreement up based on the agreement put in place for Power.
9. SL – 1 is provided and it is the Street Lighting services agreement between Power and Solutions. As you know originally we understood that street light services could not be directly provided by an LDC so we established this agreement to allow Solutions to be the purveyor of street light services. That way Solutions could contract with the 3 communities and the ARC would not be applicable. Since then the OEB has provided an exemption to

this regulation and an LDC can directly provide the service. So this may impact what is established with regards to service agreements going forward.

10. SL – 2 is the Solutions and Town of Cwood agreement for street light service. Of note here is that charges for cwood to receive the service are at cost and don't include any mark up. That is a different to the agreements with the other municipalities.
11. SL – 3 and SL – 4 are provided and are the agreements with the TBM and Clvw. Of note here is that these agreements have never been signed by the two other communities. It was decided to operate under these conditions but the agreements were never taken forward to get an official signature. The communities have been invoiced as per the terms of the agreement and never indicated any concern with any of the service.
12. Appendix A is also provided and it was a write up that was done up and given out reviewing the CIS situation. I believe this is other information that could be useful while determining the service agreements.

As I understand it the intention is to take all of the current agreements and determine the new service agreement structure that will be in place going forward. There will need to be a service agreement format established and then all or most of the agreements can share the template that is used. There will need to be another agreement set in place for the terms that will be followed when there is work being undertaken or done for the new affiliate.

The other item I will note here is that I understand from Cindy that someone at the Town of Collingwood called and left a message last Friday that the Promissory Note would not be called this year. I think the last thing I had heard and the MADD application indicate otherwise so I was not anticipating this when we spoke last week or I would have asked about it. Although it isn't a service agreement per se it is an arrangement with the Town that may produce a direct benefit with its' higher than normal interest rate and these are the type of things that you are trying to make sure you have identified.

As noted in #4 above and in relation to #5 as it indicates we are only using best guess % allocation amounts to apply charges for shared Solutions employees. We anticipate that those %s have changed by a material amount over the past year especially for billing and finance personnel. The likelihood is that we will be recommending increased allocation to the LDC side. We had wanted to use the Penny software that we are looking towards to provide us with some detailed information about the %s that we should be using. But we won't get it introduced for a few weeks yet by the looks of things. So for now I would be suggesting that the current 50/50 split be changed to 60/40 for administration and finance and the current 60/40 for billing accounts be changed to 70/30. We can discuss this in more detail when you want but I thought it was important to point this out now for during the decision making process.

That is all I can think of relating to this for now. If you have any questions about the information please let me know.

Thanks

Tim

Tim Fryer

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