

History

The Collus PowerStream Board, senior management and staff believe firmly that the best organizations and the most successful business people are those who never forget their roots. This is especially true when you began the service review between the Collingwood Public Utilities Municipal Services Board (Public Utilities) and Collus PowerStream.

Our history began back in 1889 when the old coal oil lanterns illuminating Hurontario Street were replaced by incandescent lighting. In 1908, the first three members of the Water and Light Commission were appointed to oversee the operation of both utilities. In 1923, we became known as the Collingwood Public Utilities Commission.

As a result of the Energy Competition Act 1998, Collingwood Utility Services Corp. (our Holding Company) was born on April 13th, 2000 which had three affiliates, Collus Power, Collus Solutions and Collus Energy while the water assets remained as the Collingwood Public Utilities Municipal Services Board.

It was at this time that the employees which were formerly under one employer were split between water and electric. Any staff that solely worked in water remained a Public Utility employee while all of the electric unionized employees were employed by Collus Power. The remaining staff became employees of Collus Solutions. It was the Solutions' staff that became primarily the "shared" employees who took on the responsibility of the administration of water and electricity. It was also decided at this time that the Utility Operations building at 43 Stewart Road and the computer systems would become the ownership of water. The lease payment went directly from Collus to the Public Utilities through to the Town of Collingwood.

The hydro assets of Thornbury, Stayner and Creemore were purchased and added to our customer base in July of 2001.

Recognizing the ever changing electricity environment along with the growing needs, wants and desire of a more engaged customer, the Town of Collingwood entered into a 50/50 strategic partnership with PowerStream which is 100% municipally owned jointly by the cities of Barrie, Markham and Vaughan. Out of this strategic partnership, Collus PowerStream was formed.

Concurrently, during this period of time many things were happening both at the municipal and at the Utilities level. In 2000, Council and Senior Town staff developed a new management strategy that added the additional duties of the retiring town engineer – oversight of the Public Works and the Wastewater Treatment plant - to the President & CEO of Collus.

Also within that plan was the recruitment of a CET who would be employed by Collus and work exclusively for the Town of Collingwood providing municipal engineering services. The Town of Collingwood was the recipient of the immediate financial benefit by Collus Power and Public Utilities performing these functions as an "in-kind" service for the Town. This

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carried on from 2000 until the retirement from the position of Executive Director in 2013 and the movement of that employee from Collus Solutions to the Town of Collingwood in that same year. The direct savings to the Town of Collingwood would easily be in the millions of dollars.

Every strategic decision that has been made has been done so in consultation with our respective boards, and done so whereby the customer - our town - is the significant beneficiary. Staff have always been proud of our relationship with the town, and under one roof we work together as a team to continue to provide safe, high-quality of water and electric services to our customers.

Report

The report drafted by Beacon 2020 and True North Consultants, dated December 22, 2014 was commissioned by the Town. The stated purpose (page 3) of the review was to, "determine whether or not the agreement provided value-for-money to the Town's ratepayers in light of the CPU auditor's management letter dated May 12, 2014 stating the agreement ended January 1, 2005 and should be reviewed." It should be noted that these words were not used in the auditor's letter but rather it says that the "term of the agreement has ended and it is recommended that it be updated." Later in

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the review document it states that the Town's lawyer has determined that the agreement is still in force and then the consultant concludes that there are two opposing views. To be clear, there are not two opposing views because the auditor agreed with the lawyer that the agreement is still active. We agree with both the Auditor and the Lawyer that the agreement is still in effect and we continue to provide services to the Public Utilities that are "value-for-money."

If this review document was predicated on the auditor's letter, the correct words within the audit letter are very different from what the consultant has stated. Regardless, it goes on to say that, "it is important that all agreements be updated on a regular basis, to provide a clear understanding between both parties." We wholeheartedly agree with this, and in fact PowerStream had requested that this agreement be updated prior to our July 2012 closing but due to circumstance this unfortunately wasn't completed.

An important aspect missing from the report is the fact that the Public Utilities also provide services to Collus PowerStream. In aggregate the Public Utilities paid \$744,000 in 2014 to Collus PowerStream while Collus PowerStream paid \$293,000 to the Public Utilities which is a net difference of \$451,000.

Identified Errors

In general terms, the review document failed to provide any historical information to assist Council in understanding the nature of our business and the past and continued relationship between water and electricity.

As previously mentioned, Collus Solutions was created, in part, to accommodate the "shared" employees. Collus Solutions has no physical assets, only employees. Since Solutions was responsible for the payroll burden of all of the shared employees, it ensured that all costs directly related to these employees are charged out appropriately through a cost allocation approach. The net income is budgeted to near \$0 since there has been no attempt to make a profit on the shared employee service.

The review document stated on **page 15** that the rates Solutions charges the Public Utilities covers the internal costs of operations only, which is true, however Solutions should consider providing services with a fully burdened rate that reflects a profit margin. This paragraph in itself is confusing since earlier in the document it states that it is unclear if there is value-for-money.

Simply stated, the income statement of the corporation shows administrative revenue earned from the electric utility, water utility and The Town of Collingwood. This revenue is offset by payroll expense, and only a few insignificant corporate expenses such as audit fees.

The net income of Collus Solutions is budgeted to near \$0 since there has been no attempt to make a profit on the shared employee service.

Other significant concerns were the fact that the Consultant spent only one hour with the Collus PowerStream Executive Team in the preparation of this document and of the many reported interviewees the auditor for both the Town and for the Public Utilities was not contacted nor interviewed.

- 1) On the **Transmittal Letter** dated December 20, 2014 the phone number for Rienk de Vries is incorrect. The correct phone number is [REDACTED]
- 2) Also in the **Transmittal Letter** the consultants recommend that Council distribute the report to those interviewed for review. It should be noted that the report was not circulated to any employee, officer or Board of Director of Collus PowerStream for review prior to making it public. Presumably this would be done prior to making the document public to ensure accuracy and to avoid any of the already unnecessary negative conclusions.
- 3) **Page 1, Disclaimer:** The consultant felt that a disclaimer was required for this document which, as we have been advised, is not typical of their previous documents. The wording is strange in that it states that the document is general in nature and that the information is not guaranteed to be accurate nor complete. The statements within the document are definitive and certainly not of a general nature.
- 4) **Page 3,** it notes that the Public Utilities auditor's letter states the agreement ended January 1, 2005 and should be *reviewed*. In fact, the letter states that the *term* has ended and that it should be *updated*. These are significantly different words.

- 5) **Page 3** In the paragraph titled "Executive Summary" it states that the agreement described 18 services and 1 activity, of which only 10 were actually delivered. On **page 5** it describes it as "only 10 of those services were ever delivered." This is not factual! All of these services have been carried out over a long period of time. As an example, the President & CEO of Collus was the President & CEO of the Public Utilities and also the Executive Director of Public Works and Wastewater Treatment and he provided many of the services identified as not being provided. In that capacity he provided "supervisory services" to Public Utilities, Public Works and Wastewater Treatment. As well for 13 months he was acting CAO for the Town of Collingwood all of which was provided as an "in kind" service to the Town. In those capacities, he was involved with "planning & necessary maintenance, contracting with developers, customers & others, subcontracting services and capital construction activities."
- 6) **Page 6** the report states, "The overall allocation was approximately 40% to water and 60% to electricity distribution. This cost was then budgeted for the subsequent year and allocated on a monthly basis at 1/12th of the previous year's costs. At the end of each year, an adjustment would be made based on the actual staff time accrued." This statement is not correct. This is not our process! This was one option of many considered in our proposed new agreement so that the billing could provide an equal monthly budget to the Public Utilities. However, this has never been adopted or applied. This misinterpretation highlights the fact that the Consultant made little effort to have adequate involvement with Collus staff, and specifically our CFO.
- 7) **Page 6 & 7** of the report makes reference to the HSG Report but does not mention the conclusions of the expert, nor provide details about Mr. Gorman's qualifications and expertise in this field. Mr. Howard Gorman is the Founder and President of HSG Group Inc. and is a well respected expert in this field. He has more than 25 years of experience in the energy industry, including 15 years in rate and regulatory proceedings, and more than 30 years experience overall in accounting, finance and rate and regulatory matters. Mr. Gorman has testified as an expert witness regarding utility revenue requirements, class cost of service, revenue allocation and rate design. He has testified as an expert witness before the Massachusetts Department of Public Utilities, New Jersey Board of Public Utilities, New York State Public Service Commission, Ontario Energy Board, Pennsylvania Public Utility Commission and Rhode Island Public Utilities Commission.

The methodology developed for Collus PowerStream Solutions to distribute its costs among the businesses it serves is cost-based, consistent with OEB precedent and regulatory practice, and is transparent and efficient.

In April 2013 HSG Group, Inc. prepared a report to review our cost allocation methodology. Collus PowerStream and the Public Utilities receive certain services from the affiliate, Collus PowerStream Solutions. The conclusion of that report states:

“The methodology developed for Collus PowerStream Solutions Corp. to distribute its costs among the businesses it serves is cost-based, consistent with OEB precedent and regulatory practice, and is transparent and efficient. In addition, the methodology to compute Asset Use Fees is cost-based and the allocation of those costs reflects cost causation, and is therefore reasonable and appropriate.”

It appears that the consultant's opinion contradicts the conclusions of the industry expert HSG Group Inc.

Other pertinent excerpts from the report are as follows:

“The cost allocation methodology developed for Solutions is consistent with the Affiliate Relationships Code for Electricity Distributors and Transmitters, Revised March 15, 2010 (“ARC”) of the Ontario Energy Board (“OEB”).”



The Shared Services Agreement report completed by the consultants not only contains significant errors, it fails to understand the utility environment and the regulations under which we are governed.

“Section 2.3.4.1: Where it can be established that a reasonably competitive market does not exist for a service, product, resource or use of asset that a utility acquires from an affiliate, the utility shall pay no more than the affiliate's fully-allocated cost to provide that service, product, resource or use of asset.”

“Customer billing, accounting and collections and Call center are most efficiently provided to Collus PowerStream and Collingwood Water by a single entity (i.e., Solutions), because of the degree of customer overlap. A reasonably competitive market does not exist for these services to be provided to these two utilities. The services that Collus PowerStream acquires from Solutions are charged at Solutions' fully-allocated cost to provide the services. Therefore the provision of services to Collus PowerStream by Solutions, and the charges for those services, comply with the ARC.”

Further, the report prepared by HSG Group Inc., was reviewed thoroughly during the Collus PowerStream Cost of Service application by the OEB board staff and three interveners: Energy probe, VECC and SEC. The information was accepted as presented and no issues arose from the scrutiny the document received. The cost to prepare the HSG Group Inc., report was \$12,000. It was a complete and efficient report that proved to be invaluable during the cost of service process. The Shared Services Agreement report completed by the consultants, not only contains significant errors, it fails to understand the utility environment and the regulations under which we are governed.

- 8) The report also states on page 6 & 7 with reference to Bill 13, The Sustainable Water and Wastewater Systems Improvement Maintenance Act, 2010 that,

“Provincial legislation requires water and wastewater facilities to operate on a break even basis and this was not achieved from 2009 to 2013. During this time financial management appeared not to meet outcome standards, although the root cause of the deficit was not apparent.”

If the consultant had asked we could have easily explained the root cause(s). The root cause(s) is the result of the following:

- a) The 5% rate increase in 2009 was not completed based on the request of Council. It is important to understand that we support Council and their wishes to either implement or not implement rate increases based on the community environment as a whole. (the chart below shows that if a 5% rate increase had been implemented in 2009 the Public Utilities would have had additional revenue in excess of \$1.6 million.)

			At 5% Lost Revenue
2009	\$5,053,200	5%	\$252,660
2010	\$ 5,248,122		\$ 262,406
2011	\$5,456,653		\$272,833
2012	\$ 5,478,848		\$ 273,942
2013	\$5,554,698		\$277,735
2014	\$ 5,448,148		\$ 272,407
			\$1,611,983

- b) On two other occasions the rate increase was delayed from January 1st implementation as a result of the Town budget deliberations.

Year	Rate Increase Per Study	Rate Increase Actually Implemented	Date Implemented
2008	5.0%*	5%	January 1st
2009	5.0%*	0%	January 1st
2010	2.5%**	2.5%	January 1st
2011	2.0%**	2.0%	February 1st
2012	2.0%**	2.0%	January 1st
2013	2.5%**	2.5%	January 1st
2014	2.5%**	2.5%	April 1st

* March 2005 study ** March 2010 study

- c) The Public Utilities suffered a significant loss with the closure of our largest water user and other commercial customers resulting in revenue reductions of \$250 - \$350k.
- d) The Public Utilities continues to annually direct \$216,000 for rent from Collus PowerStream and \$96,000 for the occupancy right of the New Tecumseh water line along the rail right of way to the Town when these are not surplus funds and could be used to cover the related operational expenses in Public Utilities.
- e) The introduction of PSAB accounting in 2009 was also an issue that caused the amortization expenses to nearly double. This is a non-cash item that impacts the bottom line of the financial statements but has no cash payment outlay.
- f) Capital purchase, insurance and licensing of a public utilities dump truck that is used 100% by the Collingwood Public Works Department.
- g) Until 2014, the Town has not contributed anything financially to the Public Utilities for the oversight of the wastewater treatment plant, the billing and collection, the meter reading, and the customer service expenses, etc. The Public Utilities has carried 100% of the burden of these wastewater costs.
- h) The South Servicing Project was originally funded by the benefitting developers through pre-paid lot levies. The municipality realized that it was in the best interest of the town to rebate the developers and the town and the Public Utilities would then carry the costs. The developers then pay the current lot levies when Town approval is given. Servicing the debt of the water portion was also part of the root cause.

It is unclear why the consultant is referencing a Bill that never made final reading.

It is important to note that the Collingwood Public Utilities was a huge supporter of Bill 13 and its predecessor bill the Sustainable Water and Sewage Systems Act, 2002. Unfortunately the Bill never made it past first reading nor was it ever enacted because the Province felt it to be too onerous on small and medium sized municipalities and the municipalities of the north. It is unclear why the consultant would reference a Bill that was never acclaimed and state that this "Provincial legislation requires" certain actions when it doesn't even exist.

- 9) **Page 9** under the heading "*Governance Change Caused Conflicts of Interest and Role Confusion*", it states that, "*it is not advisable for any Board to have representation from a service provider as this creates a conflict of interest.*" Whether or not the Collus President & CEO remains on the Board of the Public Utilities is a decision of Council and we will respect that decision. Having said that, it is important to understand that the

Collus PowerStream Board were happy to allow our President & CEO to sit on the Board of Public Utilities with no compensation to allow him to share his near-38 years of municipal water experience. It is also important to note that there are many boards that have "stakeholders" as voting members of their board and it is not considered bad governance since each Board member has a fiduciary responsibility to that Board.

- 10) **Page 7** the report states, *"It also appears that there has never been any relationship documented between the individual services provided and the monies paid by the Public Utilities to Solutions. Everything was transacted at the aggregate service grouping level (i.e. all business support services). There has been some minor fluctuation in the allocation % visible which may have been related to the introduction of new legislation in water or electricity."*

This statement is completely inaccurate. It does not come close to the reality of the business processes. We provided copies of monthly and annual transactions to the consultants. Our actual practice is very prescriptive. A staff person's timesheet is entered into a job costing software called Worktech. A cost driver is applied to apportion their time between Power and Water. The work order reflects the employee's name, rate, and burden for employee benefits. Employees are grouped into individual service levels, for example billing, collecting, accounting, etc. At the end of the month the work order is printed out for Power and for Water. The charges are invoiced out to the relevant company with the details by service type. The fluctuation in the allocation % is as a result of job process changes, employee changes, etc. Sometimes Power or Water may have a specific project that results in more time being spent on one organization or another. There have been instances of employees retiring, new employees coming on board, reallocation of an employee to a different task etc. The fluctuations are from the changes in activities following the changes in the charges allocated. Also, there has been an increase in regulatory requirements in both industries. The driving change for any % allocation differences is direct employee time.

- 11) **Page 7** the report states, *"There is no record of any management or performance reporting by Solutions to the Public Utilities for the services provided as required under the Agreement, nor any indication of the quantity or quality of the service actually delivered."*

We debate this statement. We have regular customer satisfaction surveys performed by Utility Pulse. Many of the questions deal with our customer service representatives. These representatives perform duties for both electric and water. These results were provided to the consultants during the interview process. Our website contains reporting such as our balance scorecard for OEB reporting. Certain sections such as telephone calls answered on time are applicable to both water and electric since it is the same call centre. We also have systems designed to report on billing accuracy, the number of calls answered within 30 seconds, number of calls abandoned, etc. The number of calls logged are counted and reported monthly on the bulletin board in the main customer

service area for all staff to see. The monthly financial reports provided to management have financial ratios present, such as accounts receivable turnover, number of days accounts are outstanding, current ratio, quick ratio etc.

- 12) **Page 9**, *"The Chief Financial Officer for the Public Utilities is an employee of Collus PowerStream. It is not advisable for an employee of any service provider to hold a strategic or executive management position within its client organization."* The CFO is in fact an employee of Collus PowerStream Solutions. The CFO is a Chartered Professional Accountant that is bound by a duty of care and the various rules of that accounting body. She has been with the organization for almost four years and prior to this she was a manager at BDO Canada, which is a large international public accounting firm for eleven years. There are no accounting regulations that prevent the Solutions CFO from performing the accounting and reporting to the two different boards.

The CFO is a Chartered Professional Accountant that is bound by a duty of care and the various rules of that accounting body.

It is clear that the consultant's statement is based on their opinion

only and not in any way supportable by the rules of the accounting body under which the CFO is governed. It is in fact very common for an accountant to perform duties of related corporations. The CFO is not a stakeholder in either of the organizations and has no independence issues. There is no personal advantage to the CFO performing work for both companies or impacting a specific outcome. The CFO reports to the board of directors of both electric and water. Significant accounting decisions are executed by the board and the CFO follows their direction.

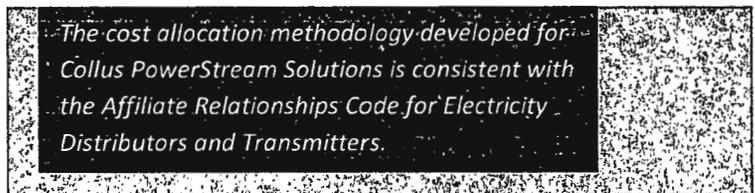
- 13) **Page 10**, *"The Executive Assistant of the President and CEO of Collus PowerStream / Director of Human Resources serves as the Secretary to the CPU Services Board. It is not advisable for an employee of any service provider to hold a strategic or executive management position within its client organization or to perform an administrative role on its Board."* The Executive Assistant / Manager of Human Resources is, in fact an employee of Collus PowerStream Solutions. She is a member of the Human Resources Professionals Association (HRPA) and adheres to the HRPA Rules of Professional Conduct prescribed pursuant to Section 4(1) (c) of the *Human Resources Professionals Association of Ontario Act, 1990*. She has been with the organization for 32 years and has been part of the Executive Management Team for the past ten years. The role performed at the Public Utilities Board is of an administrative role, with no input to decisions or specific outcomes.

- 14) We were pleased to see the acknowledgment from the consultant that Solutions staff is passionate and hard working. As previously mentioned we take pride in our jobs, our community and continually put our customer and Collingwood's best interests first.

- 15) **Page 15**, “Any future service relationship will require a value-exchange on a fee-for-service basis. Cost allocation is no longer acceptable.” Common sense dictates that for the majority of the shared employees, it is not possible or practical to track the individual time spent on a defined service.

Consider the tasks: preparing a bill, performing collection duties, receiving payments, handling customer service queries related to bills, preparing bank deposits, reconciling the daily activity, performing a bank reconciliation, etc. For many of these tasks the employee is simultaneously handling both electric and water activities. It would not be feasible to attempt to define the number of hours spent on electric verses water. Employees would never be able to track their time on a timesheet to a specific company. This is the reason we and many others use a cost allocation methodology.

The cost allocation methodology developed for Collus PowerStream Solutions is consistent with the *Affiliate Relationships Code for Electricity Distributors and Transmitters*, Revised March 15, 2010 (“ARC”) of the Ontario Energy Board (“OEB”). The services that the Public Utilities receive from



Solutions are charged at Solutions' fully-allocated cost. *Allocation* is used when an activity is performed for more than one business, but the portions of time required by each business cannot be directly established. In this case, a cost driver must be assigned to distribute the time required for the activity among the businesses. A cost driver is a formula for sharing the cost of a resource (i.e., time) of an activity among those who cause the cost to be incurred. For example, a cost driver for bill preparation would consider the total number of bills produced then compare the number of bills that include water, waste water, and electric charges. This provides a cost driver application for example of about 60% electric and 40% water/wastewater. We would suggest that there is no substantive data contained in the report to support the conclusion to not use cost allocation any longer.

- 16) **Page 16**, the report states, “Based on the review of the Agreement, the interviews and the documents associated with the Agreement it was not possible to perform a value-for-money analysis of the services provided under the agreement.” Considering the above discussion regarding charges from Solutions being performed at cost, we question how the conclusion that value-for-money is undeterminable was reached. In simple terms, we have 17 employees in Solutions of which 10 (Full Time Equivalent) employees are charged to electric, 6 (FTE) employees are charged to water and 1 (FTE) employee charge to the Town of Collingwood for IT. Therefore the Public Utilities has only six employees allocated to prepare all billing, meter reading support, collection, customer service, administration, accounting, human resources, board secretary duties, information technology, supervisory, treasury, executive, GIS, payables, receivable, payroll, etc. (Please note: waste water billing & collection are also performed by these

six employees). These services are being provided at cost, and we would suggest that it would take much more than six employees to handle an organization with revenues in water of \$6.5 million and revenues in waste water of \$8 million.

We also believe that the consultant omitted the important discussion regarding the synergies and savings involved in producing one bill with all three services of electric, water, and wastewater.

17) **Appendix 5: Financial Analysis Matrix (page 92)**

- a. 2012 column 5 shows \$1,057,925. This amount disagrees with the 2012 transaction trace information provided to the consultants showing \$1,021,727.
- b. Column 11 – Computer System Lease contains all incorrect data for 2004 to 2013. Leases for every year exist which exactly match the column 12 'Computer Equipment rental Paid by SERVCO to CPU'. All of these leases were provided to the consultant.
- c. Column 11 – Computer System Lease: The application of 3.5% annual increase is not relevant for the table. It does not agree with the lease agreement terms. It is also very simplistic and erroneous to assume that the computer hardware/software needs of a corporation in the past 13 years will grow at 3.5%, especially in this age of technological advance combined with significantly less expensive hardware.
- d. Column 11 – Computer System Lease: fails to identify the software component. The appendix does not address the 5 year useful life of the Harris Advanced billing software addition as a key factor in the rise and fall of the lease payment amounts.
- e. Column 8 – Expected Cost based on fair initial service – No provision of the calculation details. Which column multiplied by what figures provide these estimates?
- f. Column 9 – Potential Over-allocation to Water (\$). This column assumes all employees, duties, and time have remained consistent over the 12 years listed. This is an incorrect assumption.
- g. Overall table – in our opinion this table provides no insightful value to the reader but rather an attempt to show that water has been overcharged for services. This would be a contradiction to position of our auditors, the OEB review, the interveners, and the cost allocation report by our professional Howard Gorman. All charges to water are supported by time tracking

We also believe that the consultant omitted the important discussion regarding the synergies and savings involved in producing one bill with all three services of electric, water, and wastewater.

There has never been an overcharge to water for the services performed.

work orders performed in Worktech which identify the employee, the number of hours, the rate, and the burden for employee benefits. There has never been an overcharge to water for the services performed. We seriously question the appendix 5 financial analysis matrix which attempts to quantify a "potential over-allocation to water." It ignores all changes over the period that would impact the rates charged.

It should be noted that in our opinion this is not the complete list of inaccurate comments/statements contained within the review document.

Conclusions & Recommendations

The Collus PowerStream Board and senior staff recognize the importance and the significant synergies of working together with the Collingwood Public Utilities. This is in the best interest of both our water and electricity customers and the community in which we serve. We would respectfully recommend that rather than spend more time on the review document that we put sincere effort into the drafting of a new "service agreement" that reflects the current services being provided by both parties and an agreed upon pricing model.