



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 points	30
– Provision of strategic and specialized resources	
– Support in growing the Collus business points	30
– Support for employees and their careers points	10
– Customer experience and satisfactions	
– Supporting the interests of the communities we serve points	10
– Competitive distribution rate and cost structure of Collus	10 points
– Cultural and synergistic fit points	<u>10</u>

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 (1 st)
Support for employees and their careers	65	49	55	80 (1 st)
Customer experience and satisfaction, supporting the interests of the communities	75	44	81	89 (1 st)
Competitive distribution rate and cost structure of COLLUS	81(1 st)	37	71	76 (2 nd)
Cultural and synergistic fit	63	38	43	88 (1 st)
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).

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Background on Powerstream

Comments about process

Excitement about moving forward

Wonderful future - economic engine for a generation to come



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?

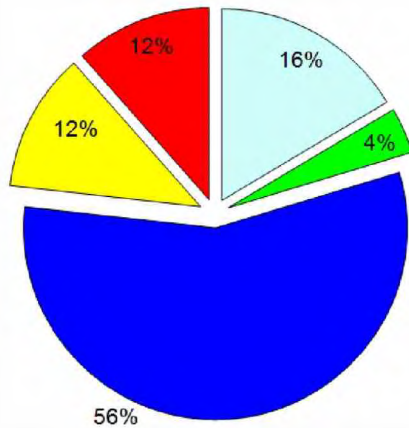
- We provide electrical services to the residents of the Town of Collingwood, Stayner, Creemore and Thornbury.
- As a combined organization we supply safe, high quality water to the residents of Collingwood, to the 66 km. pipeline to Alliston, to the Town of The Blue Mountains and we operate the water 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)

Residential

1,000 Kwh



- Distribution Charge (LDC)
- Competitive Energy Rate (Avg)
- Debt Retirement Charge
- Transmission & Market Charges
- HST

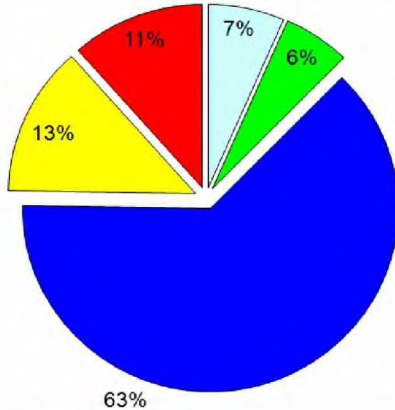
COLLUS Power's distribution charges account for only 16% of the total electricity charges. As an example at 1,000 kWh the total electricity charges would be \$134. The distribution charges amount to only \$22.



Collus Commercial Customer Bill (50 kW)

Commercial Customer >50 kW

500 kW
180,000 kWh



- Distribution Charge (LDC)
- Competitive Energy Rate (Avg)
- Debt Retirement Charge
- Transmission & Market Charges
- HST

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.