

Rockx, John

From: stevensr@HydroOne.com
Sent: Tuesday, November 29, 2011 5:55 PM
To: Rockx, John
Cc: ehoughton@collus.com
Subject: RE: Collus Power

Hydro One is pleased to respond to your request for clarification as follows:

- 1) The \$13.6 million proposed price for 50% of the shares of Collus Power assumes the following:
 - Recapitalization of Collus Power to 60/40 debt/equity, which would result in an estimated \$8.1 million of new debt
 - Repayment of the \$1.7 million promissory note from the Town
 - Dividend to shareholders of approximately \$6.4 million (\$3.2 million to each of the Town and Hydro One)

Based on the proposed price (\$13.6 million), recapitalization and promissory note repayment (\$1.7 million) and dividend (\$3.2 million), the Town would receive total cash proceeds of approximately \$18.5 million.

The proposal includes the assumption of the estimated pro rata share of assets and liabilities, based in part on the detail provided in the 2010 audited financial statements. The proposal includes the following long-term liabilities:

- Employee future benefits
 - Net regulatory liability
 - Ontario infrastructure debt of \$2.7 million as at Dec. 31, 2011, alternatively this debt could be refinanced with third party debt as part of the overall recapitalization
- 2) The proposal is based on a variety of factors and assumptions including, but not limited to, estimates for rate base and assets and liabilities (including regulatory assets and liabilities) on closing, etc. based on the review of due diligence materials received to date by Hydro One and its advisors, including Collus Power's 2010 Financial Statements. Changes in any of these variables, assumptions or estimates may impact the proposed price positively or negatively.

We hope these responses adequately clarify our response. We would be pleased to elaborate further on any matter contained in our proposal and clarification.

Regards,
 Rick Stevens
 Vice President Asset Management
 Hydro One Networks

From: Rockx, John [mailto:irockx@kpmg.ca]
Sent: Sunday, November 27, 2011 6:24 PM
To: STEVENS Rick

Cc: Ed Houghton
Subject: FW: Collus Power

Rick:

KPMG has been asked by Collus Power to seek clarification of a few items in respect of Hydro One's financial offer for a 50% share interest in Collus Power.

Here are the issues requiring clarification:

1. Hydro One has offered \$13.6 million for a 50% share / equity interest in Collus Power. Can you confirm / clarify whether this share offer anticipates the inclusion of all long-term liabilities (i.e. employee future benefits, the long-term net regulatory liability, Town note payable and Ontario Infrastructure debt) without any adjustment?
2. Hydro One has also indicated the following assumptions were built into its pricing structure – a 2011 rate base of \$17.9 million and an immaterial net balance of regulatory assets and liabilities. Can you comment on the quantification of, and the impact of, these assumptions on the proposed pricing structure

We have attached a copy of the December 31, 2010 audited financial statements of Collus Power to assist in your response.

We look forward to your response on these matters.

Best Regards,

John Rockx, CA, CBV
KPMG Transaction Advisory Services
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Hamilton, Ontario L8P 4W7
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Rockx, John

From: John Glicksman [john.glicksman@powerstream.ca]
Sent: Monday, November 28, 2011 12:03 PM
To: Rockx, John
Cc: Glicksman, John
Subject: Confidential: re: Collus Power- Potential Further Clarification -typo in first paragraph
Attachments: Special Recapitalization Dividend Methodology.doc

John,

Sorry, typo in first paragraph below, it still is 10.05\$ but I typed 3.75 M\$ instead of 2.75 M\$, the numbers still total to 12.8 M\$. Pls feel free to call me if you need to, take care and have a great day,

John

John Glicksman, B. SC. , MBA
 EVP & Chief Financial Officer
 PowerStream Inc.
 161 Cityview Blvd.
 Vaughan, Ontario
 L4H 0A9

Direct: 905 532 4604
 Cell: 416 319 9425

www.powerstream.ca

-----Original Message-----

From: John Glicksman
Sent: Monday, November 28, 2011 11:33 AM
To: 'Rockx, John'
Cc: Brian Bentz; Glicksman, John
Subject: Confidential: re: Collus Power- Potential Further Clarification

John,

Further to our brief discussion this morning, I spoke to Brian Bentz, our President & CEO, after our call and he asked that I re-emphasize the following to you.

When we put our bid together we considered building in half of the recapitalization dividend into the price for the equity under the assumption that the utility would move to its deemed capital structure after the transaction took place, and that a recapitalization dividend would be paid out post closing to both shareholders on a 50-50 basis. This would have resulted in: an initial payment to the Town of Collingwood of 10.05 \$M (7.3 \$M + 2.75\$M) with a recapitalization dividend after the transaction (eg. post closing) of 2.75 M\$ to each shareholder. We thought it was more transparent to instead make an offer of a cash payment for the equity of 7.3M\$ and a pre-closing recapitalization dividend of approximately 5.5 M\$ facilitated by PowerStream.

In both cases the Town of Collingwood receives a total cash amount of 12.8 M\$ (assuming they do not want their note of 1.7 M\$ redeemed).

I hope this provided further clarity on our conversation. Thanks again for taking the time to meet by phone today.

John Glicksman

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-----Original Message-----

From: John Glicksman
 Sent: Monday, November 28, 2011 9:52 AM
 To: Rockx, John
 Cc: Brian Bentz; John Glicksman
 Subject: Confidential re: Collus Power

John,

Further to our conversation attached is the note explaining our pro-forma calculations for 2011. Also further to our conversation below are our calculations, as discussed with you on the phone, on a basis consistent with the attached, based on 2010 audited financial statements.

2010 Avg net fixed assets: $(12,763,581+11,924,205)/2=12,343,894$

. 2010 working capital allocation, based on COP plus 15% of OM&A=
 4,538,122

- . Rate base is there 16,882,016
- . Deemed debt is 10,129,210
- . Actual debt is 4,610,170
- . Shortfall in working capital = 1,101,420
- . Amount of debt to move to 60% of rate base = 5,519,040
- . Net cash amount to Collus of \$4,417,620 based on 2010 numbers

As you can see from the attached our estimates for 2011 are that there can be additional debt taken out of at least \$5,968,479 offset by a short in working capital of \$693,659 for a net amount of \$5,274,891

Thanks again for your e-mail yesterday and please feel free to give me a call if you have any further questions regarding this. Have a good day,
 John Glicksman

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-----Original Message-----

From: Rockx, John [mailto:jrockx@kpmg.ca]
Sent: Sunday, November 27, 2011 6:22 PM
To: John Glicksman
Subject: RE: Collus Power

John: I will call you then

-----Original Message-----

From: John Glicksman [mailto:john.glicksman@powerstream.ca]
Sent: Sunday, November 27, 2011 6:15 PM
To: Rockx, John
Cc: Ed Houghton; Brian Bentz; John Glicksman
Subject: Re: Collus Power

John

9:30 am is fine with me. Pls call me in my office ay 905-532-4604. I look forward to connecting with you in the morning, John

Sent from my iPad

On 2011-11-27, at 5:33 PM, "Rockx, John" <jrockx@kpmg.ca> wrote:

> Does 9:30 am Monday morning (tomorrow) work?

>

> -----Original Message-----

> From: John Glicksman [mailto:john.glicksman@powerstream.ca]
> Sent: Sunday, November 27, 2011 5:26 PM
> To: Rockx, John
> Cc: Ed Houghton; Brian Bentz; John Glicksman
> Subject: RE: Collus Power

>

> John,

> Thanks for your email with your clarifying questions. Gien that it would

> be useful to clarify our

> offer can I suggest that we set up a call, at your convenience, to

> review your questions and we can also walk you through our

> recapitalization calculations at that time too. Pls call me at (416)

> 319-9425 to set up a time.

Thanks

> for your cooperation,

> John Glicksman

>

> -----Original Message-----

> From: Rockx, John [mailto:jrockx@kpmg.ca]
> Sent: Sun 11/27/2011 4:42 PM
> To: John Glicksman
> Cc: Ed Houghton

> Subject: RE: Collus Power
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> John:
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> KPMG has been asked by Collus Power to seek clarification of a few
items
> in respect of Powerstream's financial offer for a 50% share interest
in
> Collus Power.
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> Here are the issues requiring clarification:
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>
>
> 1. Powerstream has offered \$7.3 million for a 50% share / equity
> interest in Collus Power. Can you confirm that this share offer
> anticipates the inclusion of all long-term liabilities (i.e. employee
> future benefits, the long-term net regulatory liability, Town note
> payable and Ontario Infrastructure debt) without any adjustment?
>
> 2. Powerstream has also indicated that the Closing Date
financial
> statements of Collus Power will need to meet the OEB's deemed level of

> net working capital calculated as at December 31, 2011. Can you
clarify
> or roughly quantify what this deemed net working capital balance will
> approximate?
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>
> We have attached a copy of the December 31, 2010 audited financial
> statements of Collus Power to assist in your response.
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>
> We look forward to your response on these matters.
>
> Best Regards,
>
> John Rockx, CA, CBV
> KPMG Transaction Advisory Services
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> Hamilton, Ontario L8P 4W7
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A.1 Special Recapitalization Dividend Methodology

In 2004 when PowerStream was created and in 2010 when PowerStream and Barrie Hydro merged, upon the entities merging and as part of the merger agreement, each utility entered the merged at the same debt-to-rate base (60%) and same working capital level (15%). To ensure that Barrie Hydro and PowerStream's debt-to-ratebase were at an equal level at closing, a recapitalization dividend was paid to each utility to bring each party into the agreement at the appropriate debt-to-ratebase level and working capital.

For the purposes of the recapitalization dividend, rate base is calculated as the average net fixed assets as presented in the audited financial statements plus deemed working capital. Deemed working capital is calculated according to the OEB definition and is equal to 15% of one year's Cost of Power plus 15% of one year's OM&A expenses.

COLLUS Power Rate Base	2011
Average Net Fixed Assets	\$13,089,774
Working Capital Allocation	\$4,541,307
Rate Base	\$17631,081

COLLUS Power	2011
Actual Working Capital	\$3,847,648
Deemed Working Capital	\$4,541,307
Excess (Short):	(\$693,659)

The following table compares COLLUS Power's pro-forma position on December 31, 2011 to the targeted structure and the required changes.

	COLLUS Power	Forecast after Working Capital Adjustment	Required Change for Working Capital Shortfall	COLLUS Power after Recapitalization	Required Change
Shareholder Debt	\$1,710,170	\$1,710,170		\$1,710,170	
Ontario Infrastructure Projects Corporation	\$2,900,000	\$2,900,000		\$2,900,000	Nil
New Debt		\$5,968,479		\$5,968,479	\$5,968,479
Working Capital	\$3,847,648	\$4,541,307	-\$693,659		
Recapitalization Dividend			\$5,274,891		
Equity	\$10,781,970	\$10,781,970		\$10,781,970	Nil
Total Capital	\$15,392,140	\$21,360,619		\$21,360,619	Nil
Debt : Total Capital	30.0%	49.5%		49.5%	

Ratebase	\$16,882,019	\$16,882,019		\$16,882,019	
Debt : Ratebase	26.1%	60.0%		60.0%	

There is a working capital shortfall of approximately \$0.7 million. In order to move to a 60% debt-to-ratebase level, COLLUS Power would required an additional \$6.0M in new debt. After the working capital is at the deemed level there is approximately \$5.3M which can be paid out as recapitalization dividend to the Town of Collingwood.

Comparison of Proposals - Financial Considerations

Further clarification required

Key areas of difference/significance

Business Issue	Hydro One	Powerstream	Horizon Utilities	Veridian
Binding / Non-binding	Non-binding	Non-binding	Non-binding	Non-binding
Exclusivity	Yes		90 day offer, extendible	
Shares	Up to 50% of the common shares of Collus Power would consider lower share % with price adjustment	50% of shares of Collus Power	50% of shares of Collus Power (would also be interested in acquiring 50% interest in Collus Smart and possibly Collus Utility Services)	50% of shares of Collus Power
Share Purchase Price	\$13.0 million for a 50% share interest	\$7.3 million for a 50% share interest	\$6.5 million to \$8.5 million Assume \$7.5 million for analysis	\$6.5 million for a 50% share interest (\$250K holdback)
Unassumed Liabilities	No unassumed liabilities (confirmed)	No unassumed liabilities (confirmed)	No unassumed liabilities (confirm)	No unassumed liabilities (confirm)
Net Share Purchase Price	\$9.483 million for shares	\$5.2 million for shares	\$7.5 million for shares	\$6.5 million for shares
Recapitalization	Recapitalization to 60% / 40% debt to equity Borrow \$8.1 million of new debt \$3.2 million dividend to Town \$3.7 million dividend to Hydro One Dividend reduced by \$900K (\$5.5K each) to equalize \$1.71 million to repay shareholder loan	Recapitalization to 60% / 40% debt to equity Borrow \$7.2 million of new debt \$5.5 million pre-2013 dividend to Town / 0 million dividend to Powerstream	Recapitalization to 60% / 40% debt to equity Assumed \$5.7 million of new debt \$2.0 million dividend to Town \$2.0 million dividend to Horizon Utilities	Recapitalization to 60% / 40% debt to equity Borrow \$5.7 million of new debt \$2.0 million dividend to Town \$2.0 million dividend to Veridian
Existing Shareholder Loan	\$1.71 million payout	\$1.71 million payout, option of the Town	\$1.71 million payout	\$1.71 million payout
Total cash consideration to the Town of Collingwood	\$15.45 million in cash (\$15.6 million + \$9.3 million + \$1.71 million) less \$1.1 million in liabilities less \$1.1 million in cash (shortfall) less \$450K (lowered dividend)	\$13.40 million in cash (\$7.5 million + \$5.9 million - \$1.71 million) less \$1.0 million in liabilities (lowered dividend)	\$13.40 million in cash (\$7.5 million + \$2.0 million + \$1.71 million) less \$0 million of unassumed liabilities High end of range adds up to \$1.0 million	\$10.20 million in cash (\$6.5 million + \$2.0 million + \$1.71 million) less \$0 million of unassumed liabilities
NBV of 50% share interest (Higher is better, less debt)	\$2,851,500.00	\$2,851,500.00	\$3,601,500.00	\$3,601,500.00
Closing Date	Upon OEB approval	Upon OEB approval MADD application required	Upon OEB approval MADD application required	Proposed closing date of April 2, 2012 Subject to OEB approval and MADD
Future Dividend Policy	Pay dividends in profitable years Board of Directors to make decision based on cash needs etc.	Dividend policy to be determined based on policies of other LDCs Expect to pay dividends in 2013 forward Expect to pay out 50% of future net income, subject to sufficient net working capital, capex needs etc. Estimate of \$400K to \$500 (100% basis) of dividends paid in 2013	Adopt Horizon dividend policy Dividends up to 60% of annual net income Board of Director decision based on financial prudence	Dividend policy similar to that of Veridian Board approval of dividends based on various factors and ability to pay a dividend Need to create a Return on Equity Policy to optimize shareholder returns
Governance	Board of Directors comprised of 20% Collingwood 20% Hydro One 60% Independents	Board of Directors comprised of 50% Collingwood 50% Powerstream Majority are independents Two co-chairs	Board of Directors comprised of 50% Collingwood 50% Powerstream Majority are independents 4 or 6 directors	Board of directors comprised of 2 members appointed by each of the Town and Veridian These directors would be independent
Transfer Tax	Intention is for no transfer tax to be triggered on the transaction			Intention is for no transfer tax to be triggered on the transaction

Business Issue	Hydro One	Powerstream	Horizon Utilities	Veridian
Employee Issues	Presumably no change to Collus employees Collus Solutions employees ???	Presumably no change to Collus employees Collus Solutions employees ???	Presumably no change to Collus employees Acquire Collus Solutions employees	Presumably no change to Collus employees Collus Solutions employees ???
Base Offer	Assumes \$17.9 million rate base	Work to closing December 31, 2011		Closing NBV not less than Dec 31, 2010 NBV
Closing Adjustments	Some closing adjustments TBD	Balance sheet		
Legal conditions precedent				
IFRS compliance	With no major change in FS	Satisfactory due diligence	Satisfactory due diligence/ mgmt discussions	Satisfactory due diligence
Due diligence	Required - to be negotiated	Required - to be negotiated	Required - to be negotiated	Required - to be negotiated
Shareholder Agreement	Required - to be negotiated	Required - to be negotiated	Required - to be negotiated	Required - to be negotiated
Share Purchase Agreement	Customary items	Customary items	Required - to be negotiated	Required - to be negotiated
Reps and warranties	No outstanding litigation	Town approval, Powerstream Board	Town approval, Horizon Board	Town approval, Veridian Board
Outstanding litigation	Town approval, Hydro One Board			
Approvals	Not assuming pre-closing claims			No material change in business
Mearie claims	No material change in business			
Normal operations				
Financial conditions precedent				
Regulatory liabilities	Normal net regulatory liabilities			
Rate base requirement	\$17.9 million minimum at closing	Have determined working capital ratio at closing	Appropriate level of WC / cash at closing	
Working capital	Silent			
Pension / OPEB liabilities	Unencumbered at closing			
Assets	No Mearie obligations			
Mearie obligations	Not accepted			
Water liabilities				
Future rates of Collus	Keep rates as low as possible No harmonization of rates/separate company 2013 rate filing at maximum allowable return on equity	Keep rates as low as possible No harmonization of rates as Collus will be a separate company	Keep rates as low as possible Seek increased investment value for shareholders Horizon has low OMA costs per customer; however, no rate harmonization of rates as Collus will be a separate company	Keep rates as low as possible Need to create a Return on Equity Policy to optimize shareholder returns No harmonization of rates/separate company
Participation in future growth	Assist in organic growth of Collus Silent on approach to participating in future LDC acquisitions	Assist in organic growth of Collus Silent on approach to participating in future LDC acquisitions	Silent	Silent
Exit strategy	Right of first refusal to Hydro One	Liquidity rights to be negotiated and included in Shareholders Agreement Right of first refusal to both Parties Shot-gun clause begins two years after closing Town of Collingwood will have right to purchase 10% of Powerstream at FMV (calculated on same basis as initial transaction)	Right of first refusal to both Parties Other liquidity clauses to be negotiated	Liquidity rights to be negotiated and included in Shareholders Agreement Right of first refusal to both Parties Also include a shot-gun provision and a piggy-back provision
Shared services / relationships	To be determined	To be determined Service Level Agreement to be negotiated	To be determined Need to consider management services to Water/Wastewater utility if acquire Collus solutions dependent on water	To be determined
Collus Solutions	Can be included in appropriate		Ideally include Collus Solutions in the transaction with merger (after closing)	
Transaction Costs	Each party pays own			
Other matters				
Community Support	Yes - various financial support 20 jobs transferred to Collingwood	Town of Collingwood Community Fund - \$25,000		