



COLLUS POWER CORP

Strategic Partnership Update to Council

October 3, 2011

Ed Houghton, President & CEO



Review The Strategic Partnership 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, the Town would become the recipient of cash and would still have a substantial ownership position in the existing LDC (Collus Power).

Specific potential advantages and disadvantages of a Strategic Partnership are outlined below.

Advantages:

- **Cash Payment** Town will achieve an immediate cash payment that can be used for municipal purposes.
- A Strategic Partner will "buy" an interest in Collus and so a new LDC would not be created but rather the existing corporation continues with new share arrangements and expanded Board of Directors.



Review The Strategic Partnership Option

- **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 will 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.
- **Future 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.



Update on Strategic Partnership

Key Events:

- June 27, 2011 - Met with Council & received approval to investigate Strategic Partnership
- July 7, 2011 - Meeting with Power Stream
- July 20, 2011 - Meeting with Hydro One
- July 20, 2011 - Meeting with St. Thomas Energy
- July 26, 2011 - Meeting with Veridian Connections
- July 26, 2011 - Meeting with Horizon Holdings
- August 3, 2011 - First Meeting with Strategic Partnership Task Team
- August 29, 2011 - Second Meeting of Strategic Partnership Task Team
- Sept. 12, 2011 - Interview with Veridian and Hydro One
- Sept. 19, 2011 - Interview with PowerStream and Horizon Holdings
- Sept. 28, 2011 - Third Meeting of Strategic Partnership Task Team
- Sept. 29, 2011 - Met with Collus Staff and provided confidential update
- October 3, 2011 - Provide Council with Update
- October 4, 2011 - RFP to be released



Table of Contents of the RFP

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1. Purpose of the Request:

- Some of the key needs from a 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 substantial presence in the communities we serve
 - Continued and enhanced support for the interests of the communities we serve and our employees
 - Continued focus on maintaining and enhancing the competitive distribution rate and cost structure of Collus Power
- This request does not include any of the activities associated with the water operations. Collingwood Public Utilities Services will continue these activities.



3. Proposal Scope and Response

- All prospective strategic partners are asked to address the following in their non-binding proposals.
- 3.1 Purchase of Shares
 - The proposed payment for up to 50% of the shares of Collus Power.
 - Terms of payment, including the form of consideration if other than cash.
 - Any proposed timing considerations.
 - Proposed representation on the company's board of directors.
 - Philosophy or guiding principles for the determination of annual dividends paid to the shareholders



3. Proposal Scope and Response (Continued)

- 3.2 Provision of Strategic and Specialized Resources
 - Outline the ability to provide Collus Power with resources in a range of areas including engineering, construction, call center, regulatory and rates, safety, etc. Provide details on the approach to providing such resources including the general financial and working arrangements.
 - Details regarding their approach to working with the existing financial information systems.
 - Provide details about the **approach** to managing effective ongoing arrangements with the current Collus Power employee group and Collus Solutions Corp employee group.
- 3.3 Support in Growing the Collus Power Business
 - Outline the **approach** they would bring as a partner to supporting organic business growth in the Collus Power service area.
 - Outline the **approach** they would bring as a partner to supporting future acquisition and merger growth of Collus Power. Outline future Shareholder consideration.



3. Proposal Scope and Response (Continued)

- 3.4 Customer Experience and Satisfaction
 - Summarize the approach to ensuring that the existing customer experience and satisfaction of Collus Power is maintained and enhanced.
- 3.5 Supporting the Interests of the Communities We Serve
 - Detail your intentions as a strategic partner in how you would continue and enhance a substantial presence and support for the interests of the communities we serve. Considerations would include local presence, economic development, interaction with the community, etc.
- 3.6 Competitive Distribution Rate and Cost Structure of Collus Power
 - Outline the **approach** you would bring as a strategic partner in maintaining and enhancing the competitive distribution rate and cost structure of Collus Power while the company continues to realize desired rates of return.
- 3.7 Other
 - Include other matters such as employee relations that you would bring to Collus Power as a strategic partner.



3. Proposal Scope and Response (continued)

- 3.8 Proposal Response and Contact
 - Proposal responses should be submitted in two parts, with each part in separate sealed envelopes. One envelope should contain the financial aspects of the response and the other envelope should include the remaining parts of the proposal response.
 - Proposal responses will be sent to the attention of Mr. Dean Muncaster, Chairman Collus Power, by no later than 4:30 pm on November 16th, 2011. Proposals submitted after the closing date and time, regardless of the medium by which they were submitted, will not be accepted.
 - Proposals that fail to conform to the scope and requirements as set out in section 3 of this request for proposal will be disqualified and rejected.
 - All inquiries regarding this request for proposal should be directed in writing to Mr. John Herhalt, Partner, KPMG LLP



3. Proposal Scope and Response (continued)

- ▣ 3.9 Anticipated Process
 - Proposals will be reviewed and evaluated by the Collus Power Strategic Partnership Task Force with the goal of completing the selection process by the end of December 2011.
 - Timelines are:
 - ▣ October 4, 2011 - RFP to be released
 - ▣ November 16, 2011 - RFP is called
 - ▣ December 2, 2011 - Provide findings of RFP to Collus Board
 - ▣ December 5, 2011 - Provide findings to Council in-camera
 - ▣ December 12, 2011 - Resolution by Council (if appropriate)



4. Proposal Evaluation

Proposals will be 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	<u>10 points</u>
	100 points



5. Data Availability

Collus Power will have the following data available at KPMG LLP, 333 Bay Street, 46th floor, Toronto, Ontario from October 5th through November 9th by appointment through John Herhalt of KPMG.

- 2011- 2013 Business Plan & Annual Report
- 2008, 2009 and 2010 audited financial statements of Collus Power and its affiliates
- 2011 interim financial statements (quarterly) of Collus Power and its affiliates along with 2010 comparatives
- Tax returns and assessments for the last 5 years
- 2011 budget and forecast information of Collus Power (draft)
- 2012 budget info for Collus Power (including capital expenditure budget for 5 years)
- 2010 and 2011 Kwh volumes
- Historical summary of customer info by consumption & load forecasts for several years
- List of largest customers
- Annual statistics and other customer information
- Asset condition studies
- System reliability summaries



5. Data Availability (continued)

- 2010 Rate schedule and most recent approved OEB rate submissions
- Corporate structure and operating arrangement description between affiliates (including agreements and contracts)
 - Distribution ~~system~~ map of the Collus Power service area and forecast of potential ~~residential~~ and business growth in the service area
 - Summary of capital assets including rolling stock
 - Summary of employees and their arrangements for Collus Power and Collus Solutions Corp (includes organization chart, years of service, ages)
 - Annual operations and maintenance programs
 - Third ~~party~~ agreements and contracts
 - Promissory notes
 - Shareholder declaration (agreement) and corporate by-laws
 - Insurance contracts and claims history
 - Recent claims settlement and outstanding unresolved claims against the LDC or its representatives
 - Union collective agreement
 - Actuarial reports on employee future retiree benefits
 - Any reports, decisions, orders related to non-compliance matters – legal, health and safety, environmental, regulatory



6. Terms and Conditions

- The request for proposal will be governed by the following terms and conditions:
 - 6.1 Confidential Information
 - Proponents will continue to be governed by the “Non-disclosure Agreements” recently signed and shall not disclose any details pertaining to their proposal, this request for proposal or the selection process in whole or in part to anyone not specifically involved in their proposal without the Collus Power Strategic Partnership Task Team (“SPTT”) prior written approval. Proponents shall not issue a news release or other public announcement or at any time directly or indirectly communicate with the media pertaining to details of their proposal, this request for proposals or the selection process without SPTT’s prior written approval.
 - 6.2 Communication of Information
 - It is the proponent’s responsibility to ensure that it has all necessary information concerning the intent and requirements of this request for proposal and to clarify any details in question mentioned or not before submitting a proposal. SPTT shall not be responsible for any misunderstanding on the part of the Proponent concerning this request for proposal and/or its process.



6. Terms and Conditions (continued)

- ▣ 6.2 Communication of Information (continued)
 - No verbal instructions or information will be binding on SPTT. All written instructions and specifications will be considered clear and ~~complete~~ unless written attention is called to any apparent discrepancies or incompleteness before submission of a proposal. No individual other than those designated as a contact in this request for proposal is authorized to comment on any portion of the request for proposal.
 - SPTT is under no obligation to provide additional information but may do so at its sole discretion. Inquiries received less than two days prior to the closing date and time may not be answered. At SPTT's discretion, the substance of any inquiries for additional information and responses to these inquiries may or may not be communicated to all recipients of this request for proposal.
- ▣ 6.3 Proposal Validity Period
 - Proposals and their details shall remain in effect and open for acceptance by SPTT for a period of 60 days after the closing date.



6. Terms and Conditions (continued)

- 6.4 SPTT May Seek Clarification and Incorporate Response into Proposal
 - SPTT may, in its sole discretion, choose to meet with some or all of the Proponents to discuss aspects of their Proposal. SPTT may require one or more Proponents to submit supplementary information clarifying any matters contained in their Proposal after the Closing Date and the supplementary documentation received from a Proponent shall, if **accepted** by SPTT, be considered to form part of that Proponent's Proposal. In the event that SPTT receives information at any stage of the evaluation process which results in earlier information provided by the Proponent being deemed by SPTT to be inaccurate, incomplete or misleading, SPTT reserves the right to revisit the Proponent's compliance with the mandatory requirements of this RFP and/or adjust the scoring of rated criteria.



6. Terms and Conditions (continued)

□ 6.5 Proposal to be Retained

- ★ The Proponent agrees that all rights, title and interests, including copyright ownership, to this request for proposal and all information and material of any kind whatsoever that may be provided to the Proponent by SPTT or otherwise obtained by the Proponent relating to this request for proposal or in the Proponent's performance of the work if it is the successful Proponent, shall remain the property of SPTT and further that all such information and material and any copies thereof shall be returned to SPTT upon request. SPTT shall obtain all rights, title and interests, including copyright ownership, to the deliverables that are to be produced and delivered to SPTT in accordance with this RFP and SPTT may disclose, use or modify such deliverables in any manner it deems appropriate. The Proponent shall not do any act that may compromise or diminish SPTT's interest as aforesaid. All Proposals submitted in response to this RFP shall become the property of SPTT. SPTT will not return the Proposal or any accompanying documentation submitted by a Proponent.



6. Terms and Conditions

6.6 Reserved Rights of SPTT

- SPTT reserves the right to terminate, at any time, this request for proposal at any stage or the solicitation of indications of interest as submitted under this request for proposal. SPTT intends to conduct business in the ordinary manner during the evaluation and selection period, however, the company and its shareholder reserve the right to take any action, whether or not in the ordinary course of business, which they deem necessary or prudent to conduct such business.
- SPTT also reserves the right to accept any proposal in whole or in part or reject any or all proposals.
- The costs and expenses incurred for the preparation and submission of a proposal and all other costs and expenses incurred by the proponents relating to this request for proposal shall be borne by the proponents. SPTT shall not be liable for such costs and expenses or to reimburse, including, without limitation, in the event of rejection of any or all proposals.
- SPTT shall not be liable for any expenses, costs, losses or any direct or indirect damages incurred or suffered by any proponent or any third party resulting from SPTT exercising any of its express or implied rights under this request.



6. Terms and Conditions

6.7 Acceptance

- The submission of a proposal by a proponent in response to this request for proposal shall constitute the said proponent's agreement to the terms and conditions described in this request for proposal.

6.8 Errors, Omissions and Independent Advice

- SPTT and KPMG LLP do not ~~accept~~ any responsibility for any verbal information or advice or any errors or omissions which may be contained in this request for proposal or any documentation disclosed or otherwise provided by or with this request for proposal. Neither Collus Power or KPMG LLP nor any of its affiliates, directors, ~~officers, employees~~ or agents makes any representations or warranties, either express or implied, with respect to the completeness or accuracy of this request for proposal and supporting documentation or any information or opinion contained ~~herein~~. Any use or reliance on this request for proposal or on any information or opinion contained herein or documentation disclosed or otherwise provided by or with this request for proposal is at the risk of the Proponents, and neither Collus Power or KPMG LLP nor any of its affiliates, directors, officers, employees or agents shall be liable for any action, cost, loss, damage, injury and/or liability whatsoever incurred by any person arising out of same. The Proponents are responsible for obtaining their own independent legal, accounting and other advice with respect to this request for proposal, any information included in this request for proposal or in any documentation disclosed or otherwise provided by or with this request for proposal.



Further Discussion

