Message

From: Neale, Cindy L. L [/O=KPMG/OU=CA/CN=RECIPIENTS/CN=CA17680]
Sent: 6/27/2011 3:15:30 PM
To: Rockx, John [/O=KPMG/OU=CA/CN=RECIPIENTS/CN=CA17786]
Subject: RE: Draft Valuation Report and Options Analysis

See my comments below:

From: Rockx, John
Sent: Tuesday, June 14, 2011 3:29 PM
To: Neale, Cindy L. L
Subject: RE: Draft Valuation Report and Options Analysis

I think he is okay with valuation conclusion, he just wants some changes in the details (DCF model is always difficult).

From: Neale, Cindy L. L
Sent: Tuesday, June 14, 2011 12:44 PM
To: Rockx, John
Subject: RE: Draft Valuation Report and Options Analysis

Ok. He's seems pretty unhappy with valuation.

From: Rockx, John
Sent: Tuesday, June 14, 2011 12:38 PM
To: Neale, Cindy L. L
Subject: FW: Draft Valuation Report and Options Analysis

FYI – we can address next week.

From: Erling, Jonathan M
Sent: Tuesday, June 14, 2011 11:42 AM
To: Tim Fryer
Cc: Ed Houghton; Rockx, John; Herhalt, John M
Subject: RE: Draft Valuation Report and Options Analysis

Thanks Tim. We will review these comments and get back to you.

Jonathan Erling, Managing Director, P.Eng. | KPMG LLP | Bay Adelaide Centre, 333 Bay Street, Suite 4600, Toronto, Ontario M5H 2S5 CANADA

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From: Tim Fryer [mailto:tfryer@collus.com]
Sent: Tuesday, June 14, 2011 11:33 AM
To: Erling, Jonathan M
Cc: Ed Houghton
Subject: RE: Draft Valuation Report and Options Analysis

Hello Jonathan:

Due to yearend work and prep for Board and Audit Committee meetings, I have only recently had an opportunity to review the documents more completely than just the brief cursory look I had previously. Based on my initial review and the fact that the numbers made sense to me from an overall total basis I didn't expect that I would have too many concerns or questions arise when I did get to it more thoroughly.

I have had a chance over the past couple of days to do that review and would like to check on some things that came up in my mind on this. I am concentrating on the calculation of value report. I will say at the outset that I don't expect anything I deal with to have any kind of major impact either way but these may simply be clarifications with no requirement for change.

1. On Page 7 for 4.1 (29) the % changes for 2012 and 2013 are correctly noted. The last sentence about the expectation of increasing service revenues should note the factor that has been used to project the increases through to 2020.*[]* Rate varies each year so included range in report.
2. Knowing the factor used in item #1 may result in a situation that I would ask for a different factor to be used to indicate to me the impact overall on the valuation calculation totals. It would be used for my own purposes in my consideration of risk of the assessment.*[]* not sure what he is asking for?
3. The next part (30) notes that EBIT is $745,000 for 2010. I think at this point in the report it should note about the extraordinary loss that occurred in that year. I know it does later in the report at 7.2(72) on Page 13 but a "green" reader of the valuation report should know that the return would have been over $1M if it hadn't been for the item, when they are at that point in the report. *[]* revised to include comment re $286 bad debt write off.
4. Regarding (72) noted above I believe the note is not stated correctly as well. It says 12.43% before consideration of a large one-time bad debt write off. It would be 18.4% before the write off in the way I am reading it.*[]* we meant before consideration or ad back. I have revised to indicate "before add-back of one time bad debt write off"
5. It is correct for the purposes of that note to show the rate before the write down and is more comparable to use to note the change by 2020.*[]* updated report to note before and after consideration of one-time adjustment.
6. Regarding the projection of 25.75% for 2020 moving from 18.4% in 2010 I do have a bit of a concern with anticipating even just a gradual increase in the margin rate. I understand that it is a result of the factors that are being used. Historical data doesn't indicate the a rate in this kind of area has ever been achieved, in fact not exceeding even 20%.*[]* This is an issue with the way model works. Overall margin increases required to achieve overall permitted rate of return of 9.82% flow through revenue line as margin not actual revenue therefore revenue does not actually reflect gross revenue as a result of this adjustment.
7. The item 6 item is brought about from another area I am concerned about. This is due to the fact that a return of 9.85% has been used which of course is the current rate and this combined with the factor used to project increased revenues against the factor that is used to project increased expenses leads to an increasing EBIT margin. I would like to see an additional analysis that includes a lower amount of return, say 9%, so that I can see the impact of this on the overall valuation. I don't expect this to change anything substantially I just would prefer to have it at hand for doing my risk assessment. *[]* As in 6 above EBIT margin increase does not reflect true margin increase as increase in projected revenues required to meet permitted return is not reflected in

projected revenue, distorting margin %. No impact on value. I have prepared second schedule with permitted return for Tim's internal purposes. Impact on value under dcf results in decline of approx $550,000.

8. In regards to the above I recognize and agree that the assumption is that we are a growth utility. I think though we need to keep in mind that conservation is occurring and expected to continue and this will counter some of the growth impact. That certainly is what we have seen over the past few years. We successfully received an LRAM recovery in our rates this past year. I don't know how successful we will be in the next attempts though.*[]* 2% growth in line with population growth for region.
9. My other comment is in regards to the 2nd bullet point on Page 15 of the report. I would be interested to see the comparative data that is used to make the statement about our low level of distribution revenue per customer compared to other Ontario LDCs. Is it a general statement or meant to convey a comparative to average? The second paragraph is not a very positive statement either but I will await the information about the comparative before commenting further.*[]* Do we want to provide?

Those are my items for now. I am hoping you can review and get back to me so I can complete my analysis on this. As I mentioned earlier I don't expect to see any major impacts I would just like clarification and perhaps to make some adjustment to terminology or statements that are being made.

Thanks very much.

Tim Fryer

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From: Erling, Jonathan M [mailto:jerling@kpmg.ca]
Sent: Tuesday, May 24, 2011 3:36 PM
To: Ed Houghton
Cc: Tim Fryer; Rockx, John; Herhalt, John M
Subject: Draft Valuation Report and Options Analysis

Dear Ed:

Please find attached our draft valuation report and options analysis presentation. We look forward to your comments and suggestions.

Best regards,

Jonathan

<<Draft Collus Power Valuation Report - May 20.pdf>> <<Collingwood_May24th.pdf>>

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