

Message

From: Erling, Jonathan M [/O=KPMG/OU=CA/CN=RECIPIENTS/CN=CA13722]
Sent: 7/11/2011 1:47:56 PM
To: Tim Fryer [tfryer@collus.com]
CC: Ed Houghton [ehoughton@collus.com]; Rockx, John [/O=KPMG/OU=CA/CN=RECIPIENTS/CN=CA17786]; Herhalt, John M [/O=KPMG/OU=CA/CN=RECIPIENTS/CN=CA17803]
Subject: RE: Draft Valuation Report and Options Analysis
Attachments: Collingwood_June11th_Revised.pdf
Importance: High

Tim:

I have corrected the Options Analysis report to note that there is a permanent holiday from the Transfer Tax for transactions involving publicly-owned entities and which was introduced in 2009. Somehow I missed this and I didn't check with our tax people before issuing the first draft. Thank you for bringing this to my attention.

Jonathan

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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.
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.
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.

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.
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.
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%.
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.
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.
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.

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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