

# Collingwood Judicial Inquiry Part I: Foundation Document 1

## Summary Document 1-4

### Overview of the Bids

#### 1.1 The Bids

1. Four bidders submitted bids in response to the Collus Power Request for Proposals (RFP): Horizon Utilities, Hydro One, PowerStream, and Veridian. As directed by the RFP, the bidders submitted their bids in two envelopes: one described the non-financial aspects of the bid, and the other described the financial aspects of the bid. The non-financial aspects of the bid were weighted at 70% of the total evaluation, and the financial aspects of the bid were weighted at 30% of the total evaluation. The Task Team considered the non-financial bids at their first meeting on November 23, 2011. The Task Team considered the financial aspects of the bid at a subsequent meeting on November 28, 2011.

*Bid Documents from Horizon, November 16, 2011; [CPS0006136](#) (3.1); Horizon [KPM0001652](#) (3.2-3.7)*

*Bid Documents from Hydro One, November 16, 2011, [CJI0007005](#)(3.1); [CJI0007007](#) (3.2-3.7)*

*Bid Documents from PowerStream [ALE0000966](#) (Section 3.1); [ALE0000967](#) (Section 3.2-3.7)*

*Bid Documents from Veridian, [VER0000163](#) (Section 3.1) [VER0000164](#) (3.2-3.7)*

*Email from Pam Hogg to Ed Houghton, May 26, 2015, [CPS0005544](#)*

*Outlook Invitation, Strategic Task Force Meeting, November 28, 2011, [CPS0002650](#)*

*List of Key Events, undated, [EHH0000054](#)*

*Collus Power Corp Strategic Partnership Request for Proposal Results and Evaluations Update to Council, December 5, 2011, [ALE0005133.0002](#), slides 12 and 14*

## 1.2 The Non-Financial Components of the Bids (Sections 3.2-3.7 of the RFP)

2. The Collus Power RFP allocated 70 of the 100 points to various non-financial considerations, described in sections 3.2-3.7 of the RFP document. The bidders' responses are summarized in Table 1-4-1.

[Summary Tables 1-4-1, Bid Detail, Sections 3.2-3.7](#)

## 1.3 Financial Components of the Bids Submitted on November 16, 2011 (Section 3.1 of the RFP)

3. The Collus Power RFP allocated 30 of the 100 points to the financial components of the bid. In addition to each bidder's submission to acquire up to 50% of the shares of Collus Power, the RFP required responses on the following considerations:
  - Terms of payment, including the form of consideration if other than cash.
  - Any proposed timing considerations.
  - Pre-closing conditions (i.e., due diligence, etc.).
  - Proposed representation on COLLUS Power's Board of Directors. Our preference is that a majority of the board members be independent.
  - Philosophy or guiding principles for the determination of annual dividends paid to the shareholders.
  - Other considerations including any proposed capital structure and shareholder's agreement matters. The shareholders' agreement will require the inclusion of buy-sell arrangements to include both right of first refusal and "shot gun" provisions.
  - Actions required to satisfy the Ontario Energy Board's MAAD provisions.

*Collus Power Corp RFP, October 4, 2011, [CPS0006891](#), p 9*
4. All four bidders proposed a recapitalization of Collus Power (i.e. a restructuring of its debt and equity), and the payment of a resulting dividend. PowerStream's bid proposed that recapitalization would take place before the share sale, which meant that the whole dividend created by the recapitalization would be paid to the Town. Veridian, Horizon

and Hydro One proposed recapitalization after the share sale, which meant that the resulting dividend would be shared between the Town and new 50% owner. All four bidders proposed the repayment of the \$1.7 million promissory note from Collus Power to the Town.

*Bid Documents from Horizon, November 16, 2011; [KPM0001769](#) (Section 3.1)*

*Bid Documents from Hydro One, November 16, 2011, [CJI0007005](#)(Section 3.1)*

*Bid Documents from PowerStream [ALE0000966](#) (Section 3.1);*

*Bid Documents from Veridian, [VER0000163](#) (Section 3.1)*

5. The financial components of the Horizon bid included the following:
  - a. Cash payment of between \$6.5 million and \$8.5 million for 50% of the shares of Collus Power and Collus Solutions or, alternatively, 50% of the shares of Collingwood Utility Services (Collus).
  - b. Repayment of the \$1.7 million loan due to the Town.
  - c. Recapitalization after completion of the share sale based on 60 percent debt and 40 percent equity, the maximum debt level allowed by the OEB guidelines. The Horizon bid noted that the higher debt to equity ratio would decrease the cost of doing business (since the cost of debt is less than the cost of equity) and, thereby, lessen pressure for rate increases and increase shareholder returns. The Horizon bid referred to the recapitalization dividend as an opportunity for a one-time special dividend and that both Horizon and Collingwood Utility Services would benefit.

*Horizon bid for 50% of Collus Power, November 16, 2011, [KPM0001769](#)*

6. The financial components of the Hydro One bid included the following:
  - a. Cash payment of \$13.6 million for 50% of the shares of Collus Power.
  - b. Repayment of the \$1.7 million loan due to the Town.

- c. Recapitalization after completion of the share sale based on a 60%/40% debt-to-equity ratio. The Hydro One response noted that this was a more efficient capital structure and would result in total debt of \$8.1 million (after repayment of the \$1.7 million loan due to the Town) and a \$6.4 million recapitalization dividend to be split equally between the Town and Hydro One, i.e., \$3.2 million to each party.

*Hydro One bid for 50% of Collus Power, November 16, 2011, [CJI0007005](#)*

7. The financial components of the PowerStream bid included the following:
  - a. Cash payment of \$7.3 million for 50% of the shares of Collus Power.
  - b. Repayment of the \$1.7 million loan due to the Town.
  - c. Recapitalization prior to completion of the share sale based on a 60%/40% debt-to-equity ratio. PowerStream's bid estimated the recapitalization dividend to be \$5.5 million with the full amount of the dividend being payable to the Town.

*PowerStream bid for 50% of Collus Power, November 16, 2011, [ALE0000966](#)*

8. The financial components of the Veridian bid included the following:
  - a. Cash Payment of \$6.5 million for 50% of the shares of "COLLUS."
  - b. Repayment of the \$1.7 million loan due to the Town.
  - c. Recapitalization after completion of the share sale based on a 60%/40% debt-to-equity ratio. The Veridian response estimated additional debt of \$5.7 million (\$4 million of new debt plus \$1.7 million in new debt to repay the loan due to the Town). Accordingly, the recapitalization dividend was estimated to be \$4.0 million to be split equally between the Town and Veridian, i.e., \$2.0 million to each party.

*Veridian bid for 50% of Collus Power, November 16, 2011, [VER0000163](#)*

## 1.4 The KPMG Analyses of the Bids and Presentation to the Strategic Partnership Task Team

9. KPMG prepared three bid analyses including comparisons of the financial components of each bid. Each analysis included a summary sheet and supporting schedules. The analyses were dated November 25, 2011, November 30, 2011 and December 2, 2011. The tables below compare the contents of each analysis by bidder.

## 1.5 Hydro One: Financial Bid and KPMG's Analysis

10. Hydro One's Bid and the KPMG analyses can be summarized as follows:

**Table 1-4-2 – Hydro One Bid and Related Analyses by KPMG**

Category	Hydro One Bid November 16, 2011	KPMG (Rockx) Analysis November 25, 2011	KPMG (Rockx) Analysis November 30, 2011	KPMG (Herhalt) Analysis December 2, 2011
<i>Docid</i>	<i>CJ10007005</i>	<i>CPS0002668</i>	<i>CPS0002699</i>	<i>BLG0000209_001</i>
50% of Shares	\$13.6M	\$13.6M	\$13.6M	\$13.6M
Unassumed Liabilities		\$4.112M (To be Confirmed)	None – Confirmed	None – Confirmed
Net Share Price		\$9.488M	\$11.088M	\$11.088M
Recap. Dividend	\$3.2M	\$3.2M	\$3.2M	\$3.2M
Total New Debt	\$8.1M	\$8.1M	\$8.1M	\$8.1M
Loan Payout	\$1.71M	\$1.71M	\$1.71M	\$1.71M
Total Cash	\$18.5M	\$14.398M	\$15.548M	\$15.998M
NBV 50%		\$4,457,500	\$2,851,500	\$2,951,500

*Hydro One Strategic Partnership Proposal Part 1, November 16, 2011, [CJ10007005](#)*

*KPMG Bid Analysis [CPS0002668](#)*

*KPMG Bid Analysis [CPS0002699](#)*

*Meeting of Strategic Task Team with KPMG Spreadsheet, [BLG0000209\\_0001](#)*

11. As set out in Table 1-4-2 above, the KPMG summary sheets for the second and third bid analyses of the Hydro One bid for the Unassumed Liabilities category stated “[n]o

unassumed liabilities (confirmed).” KPMG continued to deduct an amount of \$1.412M relating to Net Regulatory Liabilities (and \$1.1M for the estimated net working capital shortfall) from Hydro One’s gross share bid price of \$13.6M, resulting in a lower net share price of \$11.088M. The deduction was highlighted in yellow on the summary sheet for the third bid analysis. KPMG’s colour-based legend indicated that yellow highlighting meant “[f]urther clarification required.”

*Meeting of Strategic Task Team with KPMG Spreadsheet, [BLG0000209\\_0001](#)*

12. The summary sheet prepared by KPMG for the second bid analysis stated a Net Share Price of \$9.488M. KPMG’s supporting schedule for Hydro One stated a Net Share Price of \$11.088M. There was no explanation of this \$1.6M inconsistency set out in the document.

*KPMG Bid Analysis [CPS0002699](#)*

13. KPMG reduced the total recapitalization dividend of \$6.4M by \$900K to equalize with PowerStream. There was no explanation of this \$900K reduction set out in the document.

*KPMG Bid Analysis [CPS0002699](#)*

14. KPMG calculated the total cash proceeds resulting from the Hydro One bid in its second bid analysis, as follows: \$15.548M = \$11.088M Net Share Price, plus the \$3.2M recapitalization dividend to Town (50% of \$6.4M), less the KPMG’s dividend reduction of \$450K (50% of \$900K – see paragraph 13, above), plus repayment of the \$1.71M Town promissory note.

*KPMG Bid Analysis [CPS0002699](#)*

15. The KPMG summary sheet stated that the Total cash consideration to the Town of Collingwood was \$15.545M. The supporting schedule stated that the “cash proceeds”

totalled \$15.548M. There was no explanation for this \$3K difference set out in the document.

*KPMG Bid Analysis [CPS0002699](#)*

16. The total cash proceeds calculated by KPMG on its third analysis was made up of the following: \$15.998M = \$11.088M Net Share Price plus recapitalization dividend to Town (\$3.2M) plus repayment of Town promissory note (\$1.710M).

*KPMG Spreadsheet, [BLG0000209\\_0001](#)*

17. The December 5, 2011 presentation to Council included a slide that summarized KPMG’s bid evaluation. The summary slide indicated that Hydro One’s position on the unassumed liabilities was “unconfirmed.”

*Collus Power Corp Strategic Partnership Request for Proposal Results and Evaluations Update to Council, December 5, 2011, [ALE0005133.0002](#), slide 15*

## 1.6 PowerStream: Financial Bid and KPMG’s Analyses

18. PowerStream’s bid and the KPMG analyses can be summarized as follows:

**Table 1-4-3 – PowerStream Bid and Related Analyses by KPMG**

Category	PowerStream November 16, 2011	KPMG (Rockx) November 25, 2011	KPMG (Rockx) November 30, 2011	KPMG (Herhalt) December 2, 2011
<i>Docid</i>	<i>ALE0000966</i>	<i>CPS0002668</i>	<i>CPS0002699</i>	<i>BLG0000209_0001</i>
50% of Shares	\$7.3M	\$7.3M	\$7.3M	\$8.0M
Unassumed Liabilities		\$1.412M (To be Confirmed)	None - Confirmed	None - Confirmed
Net Share Price		\$5.888M	\$6.2M	\$8.0M
Recap. Dividend	\$5.5M	\$5.5M	\$5.5M	\$5.3M
Total New Debt		\$7.2M	\$7.2M	\$8.1M
Loan Payout	\$1.71M	\$1.71M	\$1.71M	\$1.71M
Total Cash	\$14.5M	\$13.098M	\$13.410M	\$15.010M
NBV 50%		\$3,557,500	\$2,851,500	\$2,951,500

PowerStream RFP Response, Section 3.1 – Purchase of Shares, November 16, 2011, ALE0000966

KPMG Bid Analysis [CPS0002668](#)

KPMG Bid Analysis [CPS0002699](#)

Meeting of Strategic Task Team with KPMG Spreadsheet, [BLG0000209\\_0001](#)

## 1.7 Horizon: Financial Bid and KPMG Analyses

19. Horizon’s bid and the KPMG analyses can be summarized as follows:

**Table 1-4-4 – Horizon Bid and Related Analyses by KPMG**

Category	Horizon November 16, 2011	KPMG (Rockx) November 25, 2011	KPMG (Rockx) November 30, 2011	KPMG (Herhalt) December 2, 2011
<i>Docid</i>	<i>KPM0001769</i>	<i>CPS0002668</i>	<i>CPS0002669</i>	<i>BLG0000209_0001</i>
50% of Shares	\$6.5 – 8.5M	\$7.5M [1]	\$7.5M [1]	\$7.5M [1]
Unassumed Liabilities	None – Confirmed	None – (Confirmed)	None – (Confirmed)	None - (To Be Confirmed)
Net Share Price		\$7.5M	\$7.5M	\$7.5M
Recap. Dividend	Not stated	\$2.0M	\$2.0M	\$2.65M
Total New Debt		\$5.7M	\$5.7M	\$8.1M
Loan Payout	\$1.71M	\$1.71M	\$1.71M	\$1.71M
Total Cash		\$11.21M	\$11.21M	\$11.860M
NBV 50%		\$3,601,500	\$3,601,500	\$2,951,500 (Equated)

[1] For purposes of analysis, KPMG assumed the mid-point of \$7.5M for the bid price for 50% of the Collus Power shares.

Horizon RFP Response Financial Proposal, [KPM0001769](#)

KPMG Bid Analysis [CPS0002668](#)

KPMG Bid Analysis [CPS0002699](#)

Meeting of Strategic Task Team with KPMG Spreadsheet, [BLG0000209\\_0001](#)

## 1.8 Veridian: Financial Bid and KPMG’s Analyses

20. The Veridian Bid and the KPMG analyses can be summarized as follows:



**Table 1-4-5 – Veridian Bid and Related Analyses by KPMG**

Category	Veridian November 16, 2011	KPMG (Rockx) November 25, 2011	KPMG (Rockx) November 30, 2011	KPMG (Herhalt) December 2, 2011
<i>Docid</i>	<i>VER0000163</i>	<i>CPS0002668</i>	<i>CPS0002669</i>	<i>BLG0000209_0001</i>
50% of Shares	\$6.5M	\$6.5M	\$6.5M	\$6.5M
Unassumed Liabilities	None – Confirmed	None - (Confirm)	None – (Confirm)	None – (To Be Confirmed)
Net Share Price		\$6.5M	\$6.5M	\$6.5M
Recap. Dividend	\$2.0M	\$2.0M	\$2.0M	\$2.0M (\$5.3M)
Total New Debt		\$5.7M	\$5.7M	\$5.7M (\$8.1M)
Loan Payout	\$1.71M	\$1.71M	\$1.71M	\$1.71M
Total Cash	\$10.21M	\$10.21M	\$10.21M	\$10.860M
NBV 50%		\$3,601,500	\$3,601,500	\$2,951,500 (Equated)

*Veridian RFP Response, Section 3.1 Purchase of Shares, November 16, 2011, [VER0000163](#)*

*KPMG Bid Analysis [CPS0002668](#)*

*KPMG Bid Analysis [CPS0002699](#)*

*Meeting of Strategic Task Team with KPMG Spreadsheet, [BLG0000209\\_0001](#)*