

CORPORATION OF THE VILLAGE OF COBDEN

BY-LAW # 1999-12

BEING A BY-LAW TO AUTHORIZE THE SALE OF THE ELECTRICAL DISTRIBUTION UNDERTAKING OF THE HYDRO ELECTRIC COMMISSION FOR THE VILLAGE OF COBDEN

WHEREAS the Corporation of the Village of Cobden, (the "Corporation") owns and operates a public utility undertaking known as Cobden Hydro which distributes electrical power (the "Undertaking").

AND WHEREAS Ontario Hydro Service Company Inc. has submitted an offer to purchase the Undertaking.

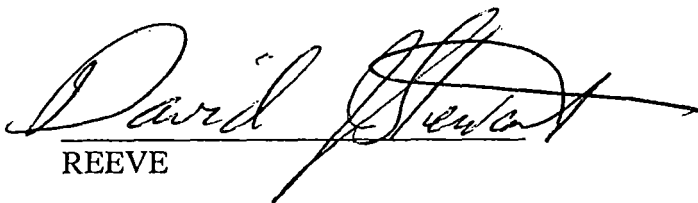
AND WHEREAS Section 37(1) of the Public Utilities Act of Ontario authorizes the Corporation to sell the Undertaking.

AND WHEREAS Council of the Corporation deems it in the best interests of the Corporation to sell the Undertaking as it is no longer required for the purpose of the Corporation.

NOW THEREFORE BE IT ENACTED AS A BY-LAW OF THE CORPORATION OF THE VILLAGE OF COBDEN AS FOLLOWS:

1. That the Corporation is authorized to sell all of the assets and undertaking of Cobden Hydro to Ontario Hydro Service Company Inc. in accordance with the terms of the Agreement of Purchase and Sale attached hereto as Schedule "A".
2. That the Reeve and the Clerk are hereby authorized to execute the said Agreement on behalf of the Corporation and all other documents necessary to complete the sale and to give effect to this By-law.

READ a first, second and finally passed on the third reading this ^{1st} Day of
September 1999.


REEVE


CLERK ADMINISTRATOR

Letter of Intent

Acquisition of Distribution Electrical Utility Assets Village of Cobden

The Corporation of the Village of Cobden ("the Village") and Ontario Hydro Services Company Inc. (OHSC), hereby enter into this binding letter of intent in respect of the acquisition of the Cobden Hydro System ("Cobden Hydro") by OHSC, through its wholly-owned subsidiary, Ontario Hydro Networks Company Inc. (OHNC).

Prior to the signing of this letter, the Council of the Village of Cobden reviewed the future of the Village of Cobden Hydro System and determined that they would like OHSC to make a proposal with respect to the future of the utility. OHSC submitted a proposal to acquire the assets of the utility through OHNC.

Subsequent to receiving this proposal, the Council of the Village of Cobden decided to negotiate exclusively with OHSC. The general terms and conditions for the sale, having been mutually agreed upon in these negotiations, are as follows:

Sale Price:

- \$750,000 for all assets used for distribution of electrical power and working capital, subject to adjustment for deviations from the last financial statements reviewed, and negotiated changes arising from due diligence review
- deposit of 10% (of above price) payable upon signing of legal agreement
- assumption by both parties that contributed capital is allowed on rate base – at the average historical return of the utility
- if the OEB ruling on (1) contributed capital is revised and a full rate of return can be earned, or (2) if Cobden Hydro contributed capital is not treated as such by OEB, OHSC agrees to adjust the sale price to \$800,000
- assumption by both parties that the 1998 financial statements on which the valuation is based assumes a minimum working capital of \$172,000 (less \$10,000 as agreed, due to Cobden Hydro cost rebate in 1999) and that any change in this level will be adjusted in the price upon closing

Closing Date:

- November 30, 1999 or as otherwise agreed upon
- Cobden Hydro will continue to operate the utility as normal until the closing date

Rate Structure:

- existing rates offered until open access or until OEB makes rate determination options.
- all rates subject to OEB approval
- OHSC proposes to adopt the existing rates applicable in the Village until the declaration of open access. This will provide the customers of Cobden Hydro with the same rate treatment, as OHSC customers are to receive as a result of OHSC's existing rate order.

After open access, OHSC plans to gradually harmonize the rates of the MEU with those of OHSC in a manner consistent with the price cap and rate provisions of the Distribution Rate Handbook, as ultimately approved by the OEB. This gradual harmonization will take place over a few years. OHSC anticipates producing a new cost of service study and rate design prior to the completion of the rate harmonization that includes the introduction of rate classes reflective of the cost structure of service to areas with customer densities similar to that of Cobden Hydro.

OHSC Policies and Charges:

- OHSC will provide, upon request, a summary of key policies and charges related to service upgrade and/or new service provision, streetlight and sentinel light maintenance, customer service and water heater rentals. These policies and charges will apply to all OHSC existing and new customers throughout the Province.

OEB Approval:

- OHSC and Village of Cobden to work together to obtain necessary OEB approvals

Building and Facilities:

- OHSC and Village of Cobden will jointly work towards an acceptable use of the OHSC Cobden Service Centre should the facility become vacant or under utilized
- OHSC would continue to maintain a satisfactory operation presence in or nearby Cobden so that service levels are maintained
- Leasehold improvement, one tonne truck and photocopier are items excluded from the purchase

Community Service:

- OHSC to assist with local community initiatives such as: banners, flags, Christmas lights;

Terms:

- subject to approval by Cobden council and OHSC Senior Management and Board

Due Diligence

- Terms and conditions stipulated in this Letter of Intent are conditional upon due diligence assessment to be carried out by OHSC prior to signing the purchase and sale Agreement. Cobden Hydro will provide OHSC with access to required information and ensure that appropriate staff are available to be interviewed by OHSC as a part of its due diligence process.

Following their August 10th, 1999 meeting, the Council of the Village of Cobden, decided to sell its utility assets to OHSC and sign this Letter of Intent. OHSC wishes to purchase the Village of Cobden Hydro System and sign this Letter of Intent.

OHSC and the Village of Cobden agree that this Letter of Intent only authorizes the development of a purchase and sale agreement and does not commit either party to complete the transaction. In addition, both must approve the formal purchase and sale agreement before the transaction will be completed. The sale is also subject to the approval of the Ontario Energy Board.

It is the desire of both OHSC and the Village of Cobden to act in good faith in the completion of the transaction.

For Village of Cobden:

For Ontario Hydro Services Company Inc.:

Signed:



Signed: _____

Name: David Stewart
(print)

Name: Rod Taylor

Title: Reeve
(print)

Title: Executive Vice President
OHSC

Dated:

Dated: