Public private partnerships

A new paradigm?

Broomfield, CO
April 9, 2010
MATL: The facts

Lethbridge
345 km
230 kV

Cutbank
300 MW
Northbound

Great Falls
300 MW
Southbound
MATL: The status

- Fully permitted
- Fully funded
- Fully sold
# MATL: Where we are on the schedule

<table>
<thead>
<tr>
<th>milestone</th>
<th>0%</th>
<th>25%</th>
<th>50%</th>
<th>75%</th>
<th>100%</th>
<th>Target Completion</th>
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</thead>
<tbody>
<tr>
<td><strong>Major Permits</strong></td>
<td><img src="image1" alt="progress" /></td>
<td><img src="image2" alt="progress" /></td>
<td><img src="image3" alt="progress" /></td>
<td><img src="image4" alt="progress" /></td>
<td><img src="image5" alt="progress" /></td>
<td>2008</td>
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<tr>
<td><strong>Completion of Final Design</strong></td>
<td><img src="image6" alt="progress" /></td>
<td><img src="image7" alt="progress" /></td>
<td><img src="image8" alt="progress" /></td>
<td><img src="image9" alt="progress" /></td>
<td><img src="image10" alt="progress" /></td>
<td>Q2 ’10</td>
</tr>
<tr>
<td><strong>Transmission</strong></td>
<td><img src="image11" alt="progress" /></td>
<td><img src="image12" alt="progress" /></td>
<td><img src="image13" alt="progress" /></td>
<td><img src="image14" alt="progress" /></td>
<td><img src="image15" alt="progress" /></td>
<td>Q2 ’10</td>
</tr>
<tr>
<td><strong>Substations</strong></td>
<td><img src="image16" alt="progress" /></td>
<td><img src="image17" alt="progress" /></td>
<td><img src="image18" alt="progress" /></td>
<td><img src="image19" alt="progress" /></td>
<td><img src="image20" alt="progress" /></td>
<td>Q2 ’10</td>
</tr>
<tr>
<td><strong>Ordering of major equipment</strong></td>
<td><img src="image21" alt="progress" /></td>
<td><img src="image22" alt="progress" /></td>
<td><img src="image23" alt="progress" /></td>
<td><img src="image24" alt="progress" /></td>
<td><img src="image25" alt="progress" /></td>
<td>Q2 ’10</td>
</tr>
<tr>
<td><strong>Start of physical construction</strong></td>
<td><img src="image26" alt="progress" /></td>
<td><img src="image27" alt="progress" /></td>
<td><img src="image28" alt="progress" /></td>
<td><img src="image29" alt="progress" /></td>
<td><img src="image30" alt="progress" /></td>
<td>Q2 ’10</td>
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<tr>
<td><strong>Transmission</strong></td>
<td><img src="image31" alt="progress" /></td>
<td><img src="image32" alt="progress" /></td>
<td><img src="image33" alt="progress" /></td>
<td><img src="image34" alt="progress" /></td>
<td><img src="image35" alt="progress" /></td>
<td>Q2 ’10</td>
</tr>
<tr>
<td><strong>Substations</strong></td>
<td><img src="image36" alt="progress" /></td>
<td><img src="image37" alt="progress" /></td>
<td><img src="image38" alt="progress" /></td>
<td><img src="image39" alt="progress" /></td>
<td><img src="image40" alt="progress" /></td>
<td>Q2 ’10</td>
</tr>
<tr>
<td><strong>System commissioning &amp; line in service</strong></td>
<td><img src="image41" alt="progress" /></td>
<td><img src="image42" alt="progress" /></td>
<td><img src="image43" alt="progress" /></td>
<td><img src="image44" alt="progress" /></td>
<td><img src="image45" alt="progress" /></td>
<td>Q2 ’11</td>
</tr>
</tbody>
</table>
1. MATL
The journey to get here

To meet expectations, it needs to be about ‘compaction’ to avoid project delay and ‘customer fatigue’.

<table>
<thead>
<tr>
<th>Area</th>
<th>Our Performance</th>
<th>Future Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financing</td>
<td>• 7 financings in four years (consumed management, interrupted project repeatedly)</td>
<td>• 2 Financings</td>
</tr>
<tr>
<td></td>
<td>• Senior debt took twelve months after permits</td>
<td>• Senior debt - 60 days with new banking relationships after permit</td>
</tr>
<tr>
<td>Permits</td>
<td>• 6 permits/2 redone</td>
<td>• 2 permits (one jurisdiction)</td>
</tr>
<tr>
<td></td>
<td>• 42 months</td>
<td>• 15-18 months</td>
</tr>
<tr>
<td>Process</td>
<td>• Unstructured</td>
<td>• Specific three phase</td>
</tr>
<tr>
<td>Suppliers/EPC</td>
<td>• Two EPC contracts</td>
<td>• One EPC</td>
</tr>
<tr>
<td></td>
<td>• Several quotes</td>
<td>• One quote</td>
</tr>
<tr>
<td></td>
<td>• Supplier fatigue</td>
<td>• Develop supplier relationships</td>
</tr>
<tr>
<td></td>
<td>• Subject to delays</td>
<td></td>
</tr>
<tr>
<td>Regulatory</td>
<td>• Landowner failures</td>
<td>• Landowner strategy</td>
</tr>
<tr>
<td></td>
<td>• Greater regulatory scrutiny</td>
<td>• Full meal deal on regulatory approaches</td>
</tr>
<tr>
<td></td>
<td>• Twice the time frame promised</td>
<td></td>
</tr>
<tr>
<td>Measurable outcome</td>
<td>• None</td>
<td>• 24 months to NTP</td>
</tr>
</tbody>
</table>
## 1. MATL: Lessons learned

<table>
<thead>
<tr>
<th>Message</th>
<th>Strategic Implication</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FERC</strong> – economic regulator with evolving policy on independent transmission</td>
<td>Come under FERC application of jurisdiction when sure of shipper’s capacity and intentions – allocate TSR at financing?</td>
</tr>
<tr>
<td><strong>Shippers</strong> – utilities scan be slow, and new entrants under estimate many issues (firming, financing)</td>
<td>Develop firm relationships with savvy, committed mid size developers, with strong CEO/CEO relationships</td>
</tr>
<tr>
<td><strong>Financial markets</strong> – flight to quality, few institutions want pre revenue situations, little value for pipeline due to timeline</td>
<td>Must compact project delivery schedule</td>
</tr>
<tr>
<td><strong>Renewables</strong> – development drivers and new transmission, provide political cover</td>
<td>Focus on anchor tenant arrangements with renewable developers</td>
</tr>
<tr>
<td><strong>Debt capital</strong> – remains tight, project on project risk not yet solved; Western ARRA only available within region</td>
<td>Must develop wider debt relationships</td>
</tr>
<tr>
<td><strong>Renewable segment</strong> – wind largest and cheapest (usual size 2-300 MW), solar (10-20Mw) and geothermal 20-35MW</td>
<td>Primary focus is wind developers, due to scope and scale congruence. Solar and geo thermal too small in MW - can’t afford development costs of new transmission</td>
</tr>
<tr>
<td><strong>Suppliers</strong> – supply times and terms remain volatile Difficult to lie still to get to financial closing</td>
<td>Must compact delivery schedules to meet supplier community expectations to meet financing needs</td>
</tr>
</tbody>
</table>
1. Core messages

We did it, but significant holes to our strategy and execution last time

- Too slow to permits/a year to finance
- RoE eroded by additional costs
- No strategy at the time to diminish embedded delay drivers
- Too accepting of reasons why delays occurred
- Gave shippers free option – exacerbated bankability

We need to solve this or

- Lose the interest of the markets and not compete for capital and customers
1. MATL; Take-aways for a fix?.

- Focused market entry only – West?
- Better faster customers – Mid size only?
- Better faster consultants – Better procurement?
- Limit external dependencies, can’t get them to lie still long enough to close financings
- Land-owner friendly technology, techniques, compensation
- Alternative (better) suppliers, who can be nimble and respect project financing urgencies?
- Find new debt providers – what about other regions, alternatives to ARRA?
- Develop new serial capital providers – strategic alliance?
- Robust regulatory packages – no shortcuts?
- Persistent interaction with both sides of the ‘value network’
2. Electricity Landscape: The Old Industry Framework

- The Traditional Structure - An Integrated Utility - built Lots of excess capacity, easy to finance through rate base risk transfer

- Load forecasting
- Generator C&M
- Generation
- Dispatch
- Transmission Planning
- Transmission C&M
- Transmission
- Distribution Planning
- Distribution C & M
- Distribution Control
- Meter Operations
- Meter Reading
- Call centre, Billing & Collections
2. Electricity landscape: the new regulatory framework

Generator C&M
Generation
Transmission
Transmission C&M
Load forecasting
Dispatch
Transmission Planning
Trading & Settlement
Retailer Registration
Dist. Planning, C & M
Distribution Control
Customer Registration
Supply
Meter Operations
Meter Reading
Meter Data Mgt.
Billing and Collections

Residual state-owned generators
IPP
IPP
IPP

IOU/state-owned, monopoly transmission owner/service provider

Independent System Operator - ISO

Power Exchange - PX (new regulated, non-profit entity)

DistCo
DistCo
DistCo
DistCo

Retailer
Retailer
Retailer
Retailer
Retailer

Meter Ops
Data Aggregator
Data Collector
Billing

Competition and commercial decision-making

Monopoly and centralised decision-making, “managed” by regulators

Except, it’s different in sixty jurisdictions
3. Infrastructure projects: It’s about the risk

Given the new fragmented industry structure, with new risk profile, how do you execute and attract capital to build in electricity sector:

✓ Utilities through Rate base: slow and often parochial “needs” assessment by regulators

✓ Private sector: Yes, but we need to solve the ‘binary’ risk issue or capital cost will be venture level returns

✓ Public private partnerships - a new answer through risk sharing

This is exactly what happened with MATL
4. PPPs: traditional structures

A spectrum of possible public/private partnership arrangements:

- Fully Public: Bank/Revenue, O&M Contract (Outsourcing), Turnkey Contract, Lease-Develop-Operate, Build (own)-Operate-Transfer, Capitalization, Privatization
- 100% Private Financing with Increased Private Sector Management Involvement
- Fully Private

- U.S. Municipal (Airports), Medical/admin services NJ Water Deals, Highways U.S. Prisons, Cdn./Aus. Airports Navcan, Prison facilities, Generation Bridges, LDC countries, UK IPO’s
4. PPPs:
Infinite ways to design them and allocate risk

Structure will depend on policy intent (delivery, risk transference, etc)

<table>
<thead>
<tr>
<th>Risk element</th>
<th>Private sector</th>
<th>Public sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Closing and project completion risk</td>
<td>✅</td>
<td>✅ Project on project risk</td>
</tr>
<tr>
<td>Regulatory risk</td>
<td>✅</td>
<td></td>
</tr>
<tr>
<td>Financing/financial risk risk</td>
<td>✅</td>
<td>✅</td>
</tr>
<tr>
<td>Environmental risk</td>
<td>✅</td>
<td></td>
</tr>
<tr>
<td>Operating risk</td>
<td>✅</td>
<td></td>
</tr>
<tr>
<td>Construction risk</td>
<td>✅</td>
<td></td>
</tr>
<tr>
<td>Public policy risk</td>
<td>✅</td>
<td>✅</td>
</tr>
<tr>
<td>Political risk</td>
<td>✅</td>
<td>✅</td>
</tr>
<tr>
<td>Stability, system operations, RofWs, etc</td>
<td>✅</td>
<td></td>
</tr>
</tbody>
</table>

Allocation of responsibility

- Funding
- Operations
- Governance

- Funding
- Operations
- Governance
5. MATL and Western: A new form of PPP

The essential terms

- $161M, 2% interest during construction, 30 year treasury rate at COD
- First security on everything, material contracts assigned
- Cash sweep after preferred distribution on sponsor book equity
- Normal “Wall Street” covenants, reps and warranties, debt service coverages
- 50 MW capacity granted, joint operating agreement with Western.
- Major difference: T Line financed before customers financed, and long amortization to get debt service down. Wall Street could not do that.
### 4. The MATL PPP: How we jointly allocated risk

<table>
<thead>
<tr>
<th>Risk element</th>
<th>MATL</th>
<th>Western</th>
</tr>
</thead>
<tbody>
<tr>
<td>Closing and project completion risk</td>
<td>✓ Get all project elements in place</td>
<td>✓ Project on project risk rewind shipper customers – tariff obligates investment grade compliance</td>
</tr>
<tr>
<td>Regulatory risk</td>
<td>✓ Obtained all permits (including NEPA)</td>
<td></td>
</tr>
<tr>
<td>Financing/financial risk risk</td>
<td>✓ (takes all commercial risk)</td>
<td>✓ (takes senior debt and 30 year amortization risk)</td>
</tr>
<tr>
<td>Environmental risk</td>
<td>✓ (compliance obligation lies on MATL)</td>
<td></td>
</tr>
<tr>
<td>Operating risk</td>
<td>✓ (MATL to operate)</td>
<td></td>
</tr>
<tr>
<td>Construction risk</td>
<td>✓ (Fixed price “it works” EPC with MDU)</td>
<td></td>
</tr>
<tr>
<td>Public policy risk</td>
<td>✓ (Obligation to respect)</td>
<td>✓ (Policy success risk)</td>
</tr>
<tr>
<td>Political risk</td>
<td></td>
<td>✓ (Agency bears )</td>
</tr>
<tr>
<td>Stability, system operations, RofWs, etc</td>
<td>✓ (MATL obligated )</td>
<td></td>
</tr>
</tbody>
</table>
Contact details:

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