TONBRIDGE
POWER INC.

Public private partnerships

A new paradigm?

Broomfield, CO
April 9, 2010

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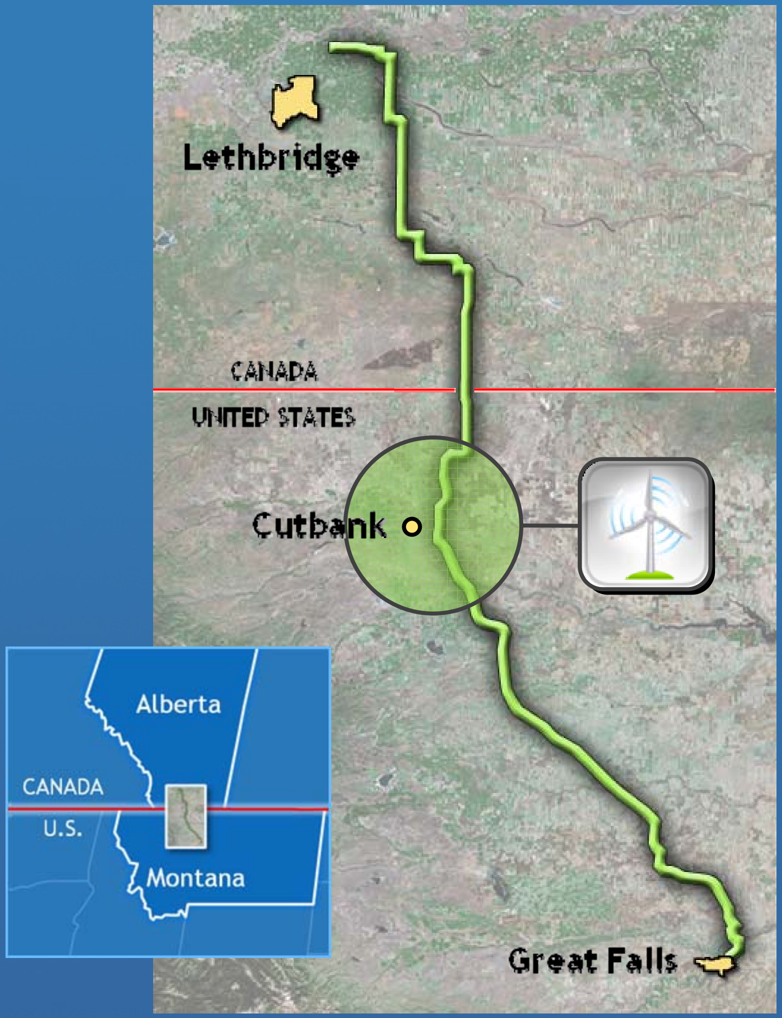
MATL:
The facts



345 km

230 kV

300 MW
Northbound

300 MW
Southbound

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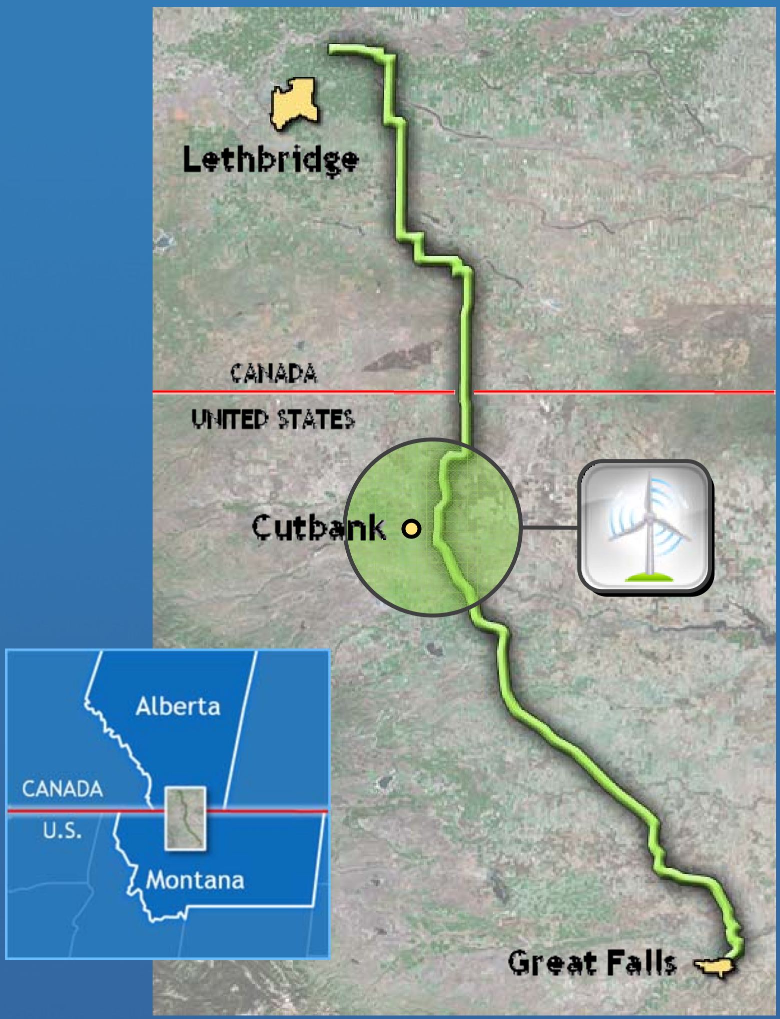
MATL:
The status



Fully permitted

Fully funded

Fully sold

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MATL:
Where we are on the schedule

Milestone	0%	25%	50%	75%	100%	Target Completion
Major Permits						2008
Compeletion of Final Design						
Transmission						Q2'10
Substations						Q2'10
Ordering of major equipment						Q2'10
Start of physical construction						
Transmission						Q2'10
Substations						Q2'10
System commissioning & line in service						Q2'11

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1. MATL
The journey to get here

To meet expectations, it needs to be about '*compaction'* to avoid project delay and 'customer fatigue'

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

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5

1.MATL:
Lessons learned

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

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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

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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'

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8

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

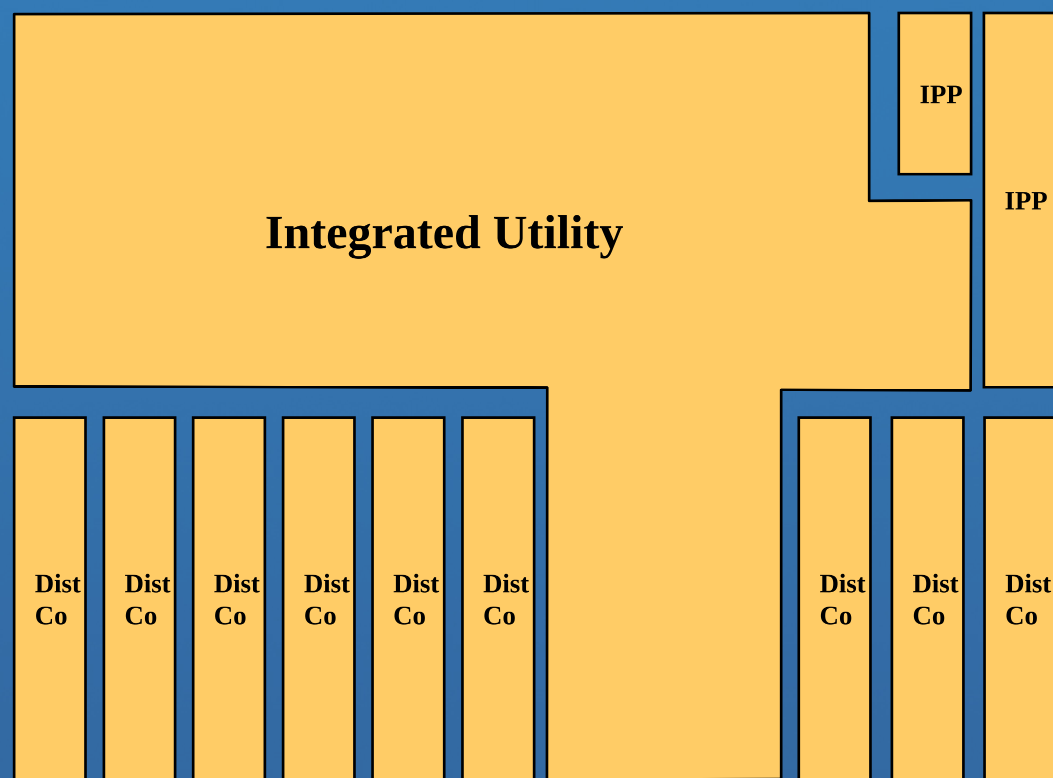
Distribution C & M

Distribution Control

Meter Operations

Meter Reading

Call centre, Billing &
Collections



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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

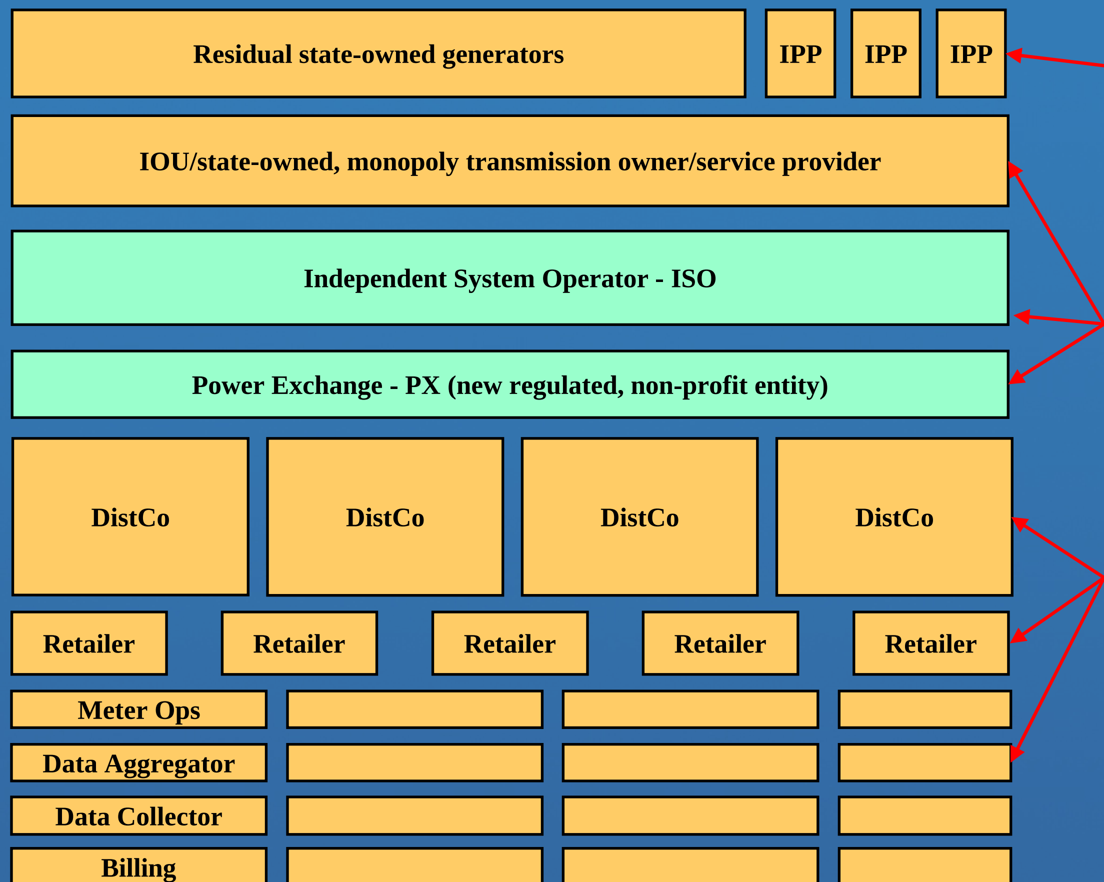
Supply

Meter Operations

Meter Reading

Meter Data Mgt.

Billing and Collections



Competition and commercial decision-making

Monopoly and centralised decision-making, "managed" by regulators

Competition and commercial decision-making

Except, it's different in sixty jurisdictions 10

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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

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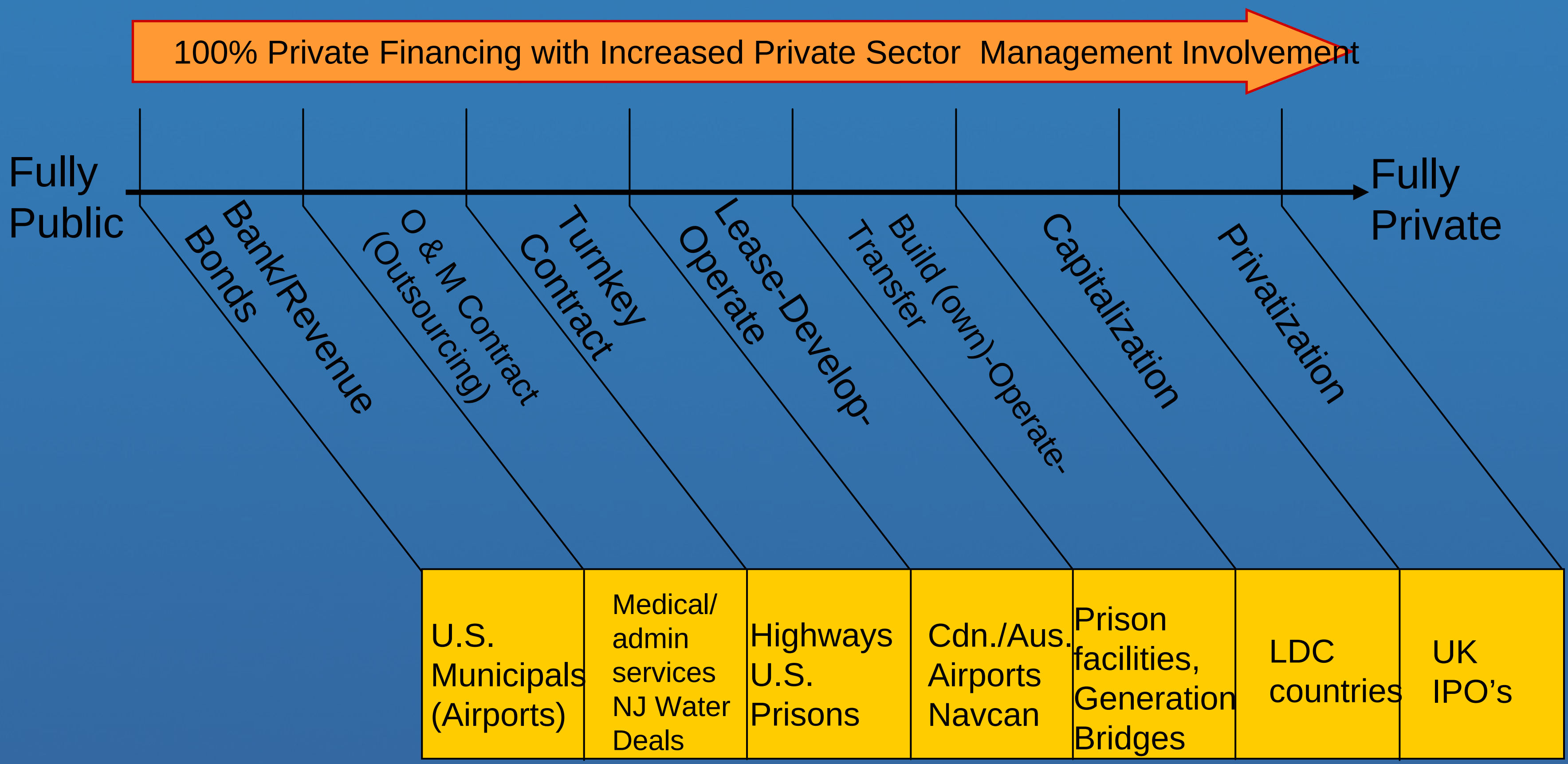
4. PPPs: traditional structures

➢ **A spectrum of possible public/private partnership arrangements:**



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4. PPPs:
Infinite ways to design them and allocate risk

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

Allocation of responsibility
- Funding
- Operations
- Governance

Risk element	Private sector	Public sector
Closing and project completion risk	✓	✓ Project on project risk
Regulatory risk	✓	
Financing/financial risk risk	✓	✓
Environmental risk	✓	
Operating risk	✓	
Construction risk	✓	
Public policy risk	✓	✓
Political risk	✓	✓
Stability, system operations, RofWs, etc	✓	

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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.

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4.The MATL PPP:
How we jointly allocated risk

Allocation of responsibility
•Funding -WAPA
•Operations - MATL
•Governance - MATL

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

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