

Undertaking J2.6: To provide estimate of the cost of conducting study, and scope of study.

Response:

A draft outline of the terms of reference of the study contemplated by Sudbury Hydro is set out on the following page. It is subject to change. However, it clearly illustrates the various considerations involved in a project of this type, including structural issues, *Affiliate Relationships Code* compliance and methodologies to ensure ongoing compliance in the future.

Sudbury Hydro is filing in confidence two proposals prepared by consulting firms with respect to transfer pricing studies. Sudbury Hydro has not retained either of these consultants to date, and the scope of work set out in the proposals has not been adopted by Sudbury Hydro – we expect that the scope of work set out in the proposals will have to be refined, and we note that the draft outline set out below was not developed in conjunction with the consultants. However, it was important to obtain proposals in order to have cost estimates for a project of this kind in order to provide a response to this Undertaking.

With respect to the confidential filing of the proposals, these consultants are engaged in competitive business activities. The proposals were provided in confidence to Sudbury Hydro. Disclosure of the consultants' pricing and methodologies could reasonably be expected to prejudice the economic interest of, significantly prejudice the competitive position of, cause undue financial loss to, and be injurious to the financial interests of the consultants since it would enable them, and their competitors, to ascertain each other's pricing and methodologies and manipulate their pricing and proposals so as to underbid each other on future projects. The disclosure of this information could also reasonably be expected to prejudice the economic interest of, significantly prejudice the competitive position of, cause undue financial loss to, and be injurious to the financial interests of Sudbury Hydro since it would enable other prospective consultants to manipulate pricing for proposed consulting services in the event Sudbury Hydro determined that it wished to seek proposals from other consultants. Sudbury Hydro does not have the consultants' consent to release this information publicly.

The OEB's *Practice Direction on Confidential Filings* (the "Practice Direction") recognizes that these are among the factors that the Board will take into consideration when addressing the confidentiality of filings. They are also addressed in subsection 17(1) of the *Freedom of Information and Protection of Privacy Act* ("FIPPA"), and the Practice Direction notes (at Appendix C of the Practice Direction) that third party information as described in subsection 17(1) of FIPPA is among the types of information previously assessed or maintained by the OEB as confidential.

In keeping with the requirements of the Practice Direction, we are filing confidential unredacted versions of these items. We are prepared to provide unredacted copies of the material to parties' counsel and experts or consultants provided that they have executed the OEB's form of Declaration and Undertaking with respect to confidentiality and that they comply with the

Practice Direction, subject to Sudbury Hydro's right to object to the OEB's acceptance of a Declaration and Undertaking from any person.

**GREATER SUDBURY HYDRO INC.
DRAFT ARC COMPLIANCE PLAN AND TRANSFER PRICING STUDY
TERMS OF REFERENCE**

The purposes of the ARC Compliance Plan and Transfer Pricing Study are:

1. To ensure Greater Sudbury Hydro's compliance with the Ontario Energy Board's *Affiliate Relationships Code for Electricity Distributors and Transmitters* as amended August 2008.
2. To establish a framework and business practices to ensure ongoing compliance with the *Affiliate Relationships Code*, which also provides the appropriate level of operational and cost information to support future cost-of-service rate rebasing applications.

The Study will comprise three components or phases:

PHASE 1. Obtain opinion regarding restructuring options, costs and benefits of those options with specific attention to the services currently purchased from Greater Sudbury Hydro Plus Inc.

PHASE 2. Transfer Pricing Study

Depending upon the outcomes of Phase 1, the second phase of the study will comprise a transfer pricing study to establish cost drivers and methodologies.

The study will seek to price services based on fair market value pricing, if available, purchased from Greater Sudbury Hydro Plus Inc.; and

If fair market value pricing is not available, develop a costing framework and methodology including fully allocated costing and return on invested capital to fairly allocate cost among the corporate family.

The costing framework will address cost allocation principles such as:

- Cost causality
- Elimination of cross subsidies
- Accuracy
- Transparency
- Cost effectiveness
- Stability
- Flexibility to change

PHASE 3. Ongoing Administration

The purpose of Phase 3 is to establish the pricing methodologies, information requirements and business practices to ensure ongoing compliance with the *Affiliate Relationships Code* and to provide the appropriate level of operational and cost information to support future cost-of-service rate rebasing applications.