Greater Sudbury Hydro Inc.

2013 EDR Application

EB-2012-0126

Submitted 9 November, 2012

Greater Sudbury Hydro Inc.
500 Regent Street
Sudbury, ON, P3E 3Y2
P.O. Box 250

Exhibit 1:

ADMINISTRATIVE DOCUMENTS

Exhibit 1: Administrative Documents

Tab 1 (of 4): Application Summary

Table Of Contents

Table Of Contents

Table Of Contents

Table Of Contents

Table Of Contents

Table Of Contents

Table Of Contents

Table Of Contents

Table Of Contents

ABBREVIATIONS AND DEFINED TERMS

Abbreviations

- Accounting Procedures Handbook (“APH”)
- Advanced Metering Communications Device (“AMCD”)
- Advanced Metering Infrastructure (“AMI”)
- Affiliate Relationships Code for Electricity Transmitters and Distributors (“ARC”)
- Arrears Management Plan (“AMP”)
- Accounting Standards for Private Enterprise (“ASPE”)
- Base Revenue Requirement (“BRR”)
- Greater Sudbury Hydro Inc ("Greater Sudbury" or "GSHi")
- Canadian Accounting Standards Board (“Canadian AcSB”)
- Canadian Generally Accepted Accounting Principles (“CGAAP”)
- Capital Cost Allowance (“CCA”)
- Conservation and Demand Management (“CDM”)
- Consumer Price Index (“CPI”)
- Contribution in Aid of Construction (“CIAC”)
- Customer Average Interruption Duration Index (“CAIDI”)
- Customer Information System (“CIS”)
- Debt Retirement Charge (“DRC”)
- Distribution Asset Management Plan (“DAMP”)
- Electricity Distribution Rate (“EDR”)
- Electricity Distributors Association (“EDA”)
- Electronic Business Transactions (“EBT”)
- Enterprise Resource Planning (“ERP”)
- Enterprise Risk Management (“ERM”)
- Extended Useful Life (“EUL”)

- Fair Market Value (“FMV”)
- Frequently Asked Questions (“FAQs”)
- Full Time Equivalent (“FTE”)
- General Service Less Than 50 kW (“GS < 50”)
- General Service Greater Than 50 kW (“GS > 50”)
- Geographic Information System (“GIS”)
- Geographic Positioning System (“GPS”)
- Global Adjustment (“GA”)
- Goods and Service Tax (“GST”)
- Green Energy and Green Economy Act (“GEA”)
- Harmonized Sales Tax (“HST”)
- Health, Safety and Environment (“HS&E”)
- Incentive Regulation Mechanism (“IRM”)
- Independent Electricity System Operator (the “IESO”)
- Information Technology (“IT”)
- Input Tax Credit (“ITC”)
- International Accounting Standards Board (“IASB”)
- International Financial Reporting Standards (“IFRS”)
- Kilowatt (“kW”)
- Kilowatt hour (“kWh”)
- Local Distribution Company (“LDC”)
- Long Canada Bond Forecast (“LCBF”)
- Long Term Load Transfer (“LTLT”)
- Lost Revenue Adjustment Mechanism (“LRAM”)
- Low-Income Energy Consumer Program (“LEAP”)
- Low Voltage (“LV”)
- Meter Data Management/Repository (“MDM/R”)
- Modified International Financial Reporting Standards (“MIFRS”)

- Monthly Service Charge (“MSC”)
- Net Book Value (“NBV”)
- Net Present Value (“NPV”)
- Non-Regulated Price Plan (“non RPP”)
- Occupational Health, Safety and Environment (“OH&S”)
- Ontario Energy Board (the “Board” or the “OEB”)
- Ontario Energy Board Act (“the OEB Act”)
- Ontario Municipal Employees Retirement System (“OMERS”)
- Ontario Power Authority (“OPA”)
- Ontario Clean Energy Benefit (“OCEB”)
- Operational Data Store (“ODS”)
- Operations and Maintenance (“O&M”)
- Operations, Maintenance and Administration (“OM&A”)
- Outage Management System (“OMS”)
- Payments in Lieu of Taxes (“PILs”)
- Personal Computer (“PC”)
- Polychlorinated Biphenyls (“PCBs”)
- Property, plant and equipment (“PP&E”)
- Provincial Sales Tax (“PST”)
- Regulated Price Plan (“RPP”)
- Reporting and Record Keeping Requirements (“RRR”)
- Request for Proposal (“RFP”)
- Retail Settlement Variance Account (“RSVA”)
- Return on Equity (“ROE”)
- Review of Transfer Pricing Methodologies and Intra-Company Cost Allocations With Respect to Greater Sudbury Hydro Inc BDR North America Inc. ("BDR Report")
- Service transaction requests (“STRs”)

- Smart Meters (“SM”)
- Smart Meter Initiative (“SMI”)
- Smart Meter Disposition Rider (“SMDR”)
- Smart Meter Funding Adder (“SMFA”)
- Special Purpose Charge (“SPC”)
- Storage Area Network (“SAN”)
- Supervisory Control and Data Acquisition (“SCADA”)
- Systems, Applications and Products (“SAP”)
- System Average Interruption D 1 uration Index (“SAIDI”)
- System Average Interruption Frequency Index (“SAIFI”)
- Third Generation Incentive Regulation Mechanism (“IRM3”)
- Time of Use (“TOU”)
- Toronto Stock Exchange (“TSX”)
- Un-depreciated Capital Cost (“UCC”)
- Uniform System of Accounts (“USofA”)
- Unmetered Scattered Load (“USL”)
- Update to Chapter 2 of the Filing Requirements for Transmission and Distribution
- Applications, June 28, 2012 (“Filing Requirements”)
- Virtual Private Network (“VPN”)
- Wholesale Market Participant (“WMP”)
- Working Capital Allowance (“WCA”)

Defined Terms

- ‘Historical Years’ means 2009, 2010, 2011
- ‘Most Recent Board Approved Test Year’ means 2009
- ‘Bridge Year’ means 2012
- ‘Test Year’ means 2013

LEGAL APPLICATION

ONTARIO ENERGY BOARD

IN THE MATTER OF the Ontario Energy Board Act, 1999, S.O. 1998, c. 15(Sched. B)

AND IN THE MATTER OF an application by Greater Sudbury Hydro Inc. for and Order or Orders pursuant to section 78 of the Ontario Energy Board Act, 1998 for 2013 distribution rates and related matters

<u>Application</u>

1. The Applicant is Greater Sudbury Hydro Inc. ("Greater Sudbury"). Greater Sudbury is a licensed electricity distributor operating pursuant to license ED-2002-0559. Greater Sudbury distributes electricity to approximately 46,748[1] customers within parts of Greater Sudbury (former City of Sudbury, Town of Coniston, Town of Capreol and Town Falconbridge) and parts of the Municipality of West Nipissing (Town of Sturgeon Falls and Town of Cache Bay).

2. Greater Sudbury hereby applies to the Ontario Energy Board (the "Board") for an order or orders made pursuant to Section 78 of the *Ontario Energy Board Act, 1998* as amended, (the "OEB Act") approving just and reasonable rates for the distribution of electricity based on a 2013 Test Year.

3. Specifically, Greater Sudbury is seeking the following approvals:

[1] 2011 OEB Yearbook of Electricity Distributors

a. The Applicant requests that the Board approve the 2013 Schedule of Rates and Charges found at Exhibit 8, Tab 4, Schedule 2, Attachment 1.

b. Specifically the Applicant hereby applies for an order or orders granting approval of:

c. Its forecasted 2013 service Revenue Requirement of $25,104,788 which leads to a base distribution Revenue Requirement of $23,554,760, net of other revenue;

d. An order that allow the Applicant to recover its forecasted 2013 distribution Revenue Requirement through rates, effective May 1, 2013.

e. The Applicant's current distribution rates becoming interim commencing May 1, 2013 until its proposed distribution rates are implemented;

f. The disposal of Group 1 and 2 deferral and variance accounts as detailed in Exhibit 9, Tab1, Schedule 1;

g. Updated Retail Transmission Service Charge Rates as described at Exhibit 8, Tab 3, Schedule 1;

h. An updated loss adjustment factor based on the most recent five year average as described at Exhibit 8, Tab 3, Schedule 6;

i. Updated Low Voltage Charges as described at Exhibit 8, Tab 3, Schedule 5;

j. Updated MiroFIT generator rate as described at Exhibit 8, Tab 3, Schedule 7;

k. The Retail Service Charges , Transformer Allowance and Primary Metering Allowance as they exist today;

l. A disposition of Smart Meter costs in accordance with the Board's guidance in G-2011-0001, more specifically;

m. The recovery of stranded meter costs of $1,193,861 through a rate rider over a two year period as described at Exhibit 9, Tab 1, Schedule 3.

n. A determination that Smart Meter capital of $7,020,288 and operating expenditures of $1,053,083 to December 31, 2012 are prudently incurred;

o. A Smart Meter Disposition Rate Rider ("SMDR") to recover the difference between the deferred revenue requirement related to smart meters to December 31, 2012 and the Smart meter Funding Adder revenue collected to April 30, 2012 inclusive of carrying costs to April 30, 2013.

4. Except where specifically identified in this Application, the Applicant followed Chapter 2 of the Filing Requirements for Transmission and Distribution Applications dated June 28, 2012 in preparing this application.

5. The 2013 distribution rates proposed by the Applicant will result in overall bill impacts for residential and GS<50 customer classes as detailed in Table 1 below. A full list of the bill impacts applicable to all customer classes is found at Exhibit 8, Tab 4, Schedule 2.

Table 1 - Bill Impacts for Residential and GS<50 Customers

	Volume	Distribution Charges		Delivery Charges		Total Bill		Total Bill	
Customer Class Name	kWh	$ change	% change	$ change	% change	Current Bill	Proposed Bill	$ change	% change
Residential	800	$3.32	12.86%	$3.08	9.07%	$103.71	$106.92	$3.21	3.10%
General Service <50 kW	2,000	$11.60	20.02%	$10.99	15.11%	$254.61	$265.99	$11.38	4.47%

6. This application is supported by written evidence. The written evidence will be pre-filed and may be amended from time to time prior to the Board's final decision on this Application.

7. The Applicant certifies that the information provided in this Application is accurate at the time of this filing.

8. Greater Sudbury acknowledges that the Board will publish and update to the Return on Equity and Short Term Debt Rate and that these matters will affect the Revenue Requirement that Greater Sudbury has requested in this Application.

9. The Applicant request that a copy of all documents filed with the Board in this proceeding be served on the Applicant and the Applicant's counsel as follows:

The Applicant:

Greater Sudbury Hydro Inc.
P.O. Box 250
500 Regent Street
Sudbury, ON P3E 4P1

Attention:

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And

Ms. Tiija Luttrell, Regulatory Affairs Officer

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Applicant's Counsel

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Dated at Sudbury, Ontario this 9th Day of November, 2012

GREATER SUDBURY HYDRO INC.

Original signed by

____

Frank Kallonen - President and CEO

LIST OF SPECIFIC APPROVALS

Greater Sudbury is seeking the following approvals:

1. The Applicant requests that the Board approve the 2013 Schedule of Rates and Charges found at Exhibit 8, Tab 4, Schedule 4, Attachment 1.

2. Specifically the Applicant hereby applies for an order or orders granting approval of:

- **a.** its forecasted 2013 service Revenue Requirement of $25,104,788 which leads to a base distribution Revenue Requirement of $23,554,760, net of other revenue;
- **b.** an order that allow the Applicant to recover its forecasted 2013 distribution Revenue Requirement through rates, effective May 1, 2013.
- **c.** The Applicant's current distribution rates becoming interim commencing May 1, 2013 until its proposed distribution rates are implemented;
- **d.** The disposal of Group 1 and 2 deferral and variance accounts as detailed in Exhibit 9, Tab1, Schedule 1;
- **e.** Updated Retail Transmission Service Charge Rates as described at Exhibit 8, Tab 3, Schedule 1;
- **f.** An updated loss adjustment factor based on the most recent five year average as described at Exhibit 8, Tab 3, Schedule 6;

- **g.** Updated Low Voltage Charges as described at Exhibit 8, Tab 3, Schedule 5;
- **h.** Updated MiroFIT generator rate as described at Exhibit 8, Tab 3, Schedule 7;
- **i.** The Retail Service Charges , Transformer Allowance and Primary Metering Allowance as they exist today;

3. A disposition of Smart Meter costs in accordance with the Board's guidance in G-2011-0001, more specifically;

- **a.** The recovery of stranded meter costs of $1,208,354 through a rate rider over a two year period as described at Exhibit 9, Tab 1, Schedule 3.
- **b.** A determination that Smart Meter capital of $7,020,288 and operating expenditures of $1,053,083 to December 31, 2012 are prudently incurred;
- c. A Smart Meter Disposition Rate Rider ("SMDR") to recover the difference between the deferred revenue requirement related to smart meters to December 31, 2012 and the Smart meter Funding Adder revenue collected to April 30, 2012 inclusive of carrying costs to April 30, 2013.

STATEMENT OF PUBLICATION

Greater Sudbury Hydro Inc. will publish the Notice of Application and hearing upon direction from the OEB in Northern Life, Le Voyageur and the West Nipissing Tribune. The Northern Life is published twice weekly. Greater Sudbury will place the Notice in the Thursday Edition as it has the greatest circulation, being 47,620. Le Voyageur is the only French Language regular newspaper in our service area. Le Voyageur publishes weekly and has a circulation of 13,000. The West Nipissing Tribune is a weekly newspaper with a circulation of 2,275 in West Nipissing.

PROPOSED ISSUES LIST

Greater Sudbury has prepared a list of items that may constitute issues to be considered in this Application. They include the following:

1. General

1.1 Has the Applicant responded appropriately to all relevant Board directions from previous proceedings?

1.2 Are the Applicant's economic and business planning assumptions for 2013 appropriate?

1.3 Is service quality, based on the Board specified performance indicators, acceptable?

1. Rate Base (Exhibit 2)
    1.1. Is the proposed Rate Base for the 2013 Test Year appropriate?
    1.2. Is the level of capital spending forecast for the test year appropriate?
    1.3. Is the proposed Working Capital Allowance for the 2013 Test year appropriate?

2. Load Forecast and Operating Revenue (Exhibit 3)

    2.1. Is the Proposed load forecast methodology including weather normalization appropriate?

    2.2. Is the proposed CDM adjustment appropriate?

    2.3. Is the test year forecast of the revenues from other regulated rates and charges appropriate?

    2.4. Are the proposed customers/connections and load forecasts (both kWh and kW) for the test year appropriate?

3. <u>Operating Costs (Exhibit 4)</u>

3.1. Is the proposed forecast for total OM&A for the test year appropriate?

3.2. Is the proposed level of depreciation/amortization expense for the 2013 test year appropriate?

3.3. Is the 2013 test year forecast for PILs appropriate?

3.4. Are the methodologies used to allocate shared services and other costs appropriate?

3.5. Are the 2013 compensation costs and employee levels appropriate?

3.6. Is the test year forecast of property taxes appropriate?

4. <u>Capital Structure and Cost of Capital (Exhibit 5)</u>

4.1. Is the proposed capital structure, rate of return on equity, short-term and long-term debt rate appropriate?

5. <u>Revenue Deficiency/Sufficiency (Exhibit 6)</u>

5.1. Is the amount of the proposed 2013 Test Year revenue requirement appropriate?

6. <u>Cost Allocation (Exhibit 7)</u>

6.1. Is the cost allocation methodology for the 2013 Test year appropriate?

6.2. Is the revenue to cost ratios in the cost allocation model for the 2013 Test Year appropriate?

7. <u>Rate Design (Exhibit 8</u>)

7.1. Is the schedule of rates as proposed for the 2013 Test Year appropriate?

7.2. Are the fixed to variable splits for each class appropriate?

7.3. Is the proposed implementation of a Low Voltage Service Rate appropriate?

7.4. Are the proposed Distribution System Loss Adjustment Factors appropriate?

8. Deferral and Variance Accounts (Exhibit 9)

8.1. Is the proposed disposition of the balances of deferral and variance accounts appropriate?

8.2. Is the derivation of the proposed rate riders appropriate?

8.3. Is the methodology for the treatment of stranded meter costs appropriate?

RATE ORDER REQUIREMENT FOR IMPLEMENTATION

Greater Sudbury would require a rate order by April 30, 2013 to implement rates for May 1, 2013.

TRANSMISSION ASSETS DEEMED AS DISTRIBUTION ASSETS

Greater Sudbury confirms that it does not have transmission assets (i.e. assets operating at greater than 50 kV) in its distribution system that had previously been deemed by the Board as distribution assets. Further, Greater Sudbury confirms that it is not seeking approval in this Application for any such assets.

UTILITY OPERATING ENVIRONMENT

Greater Sudbury Hydro Inc was incorporated under the Ontario Business Corporations Act on October 01, 2000. Greater Sudbury Hydro Inc. is the successor company to the former Hydro Commissions of the City of Sudbury, Town of Capreol and the Town of Nickel Centre (Coniston only).

Subsequent to incorporation, Greater Sudbury Hydro Inc. and Falconbridge Nickel Mines signed an agreement to purchase the distribution assets that serviced customers in the town of Falconbridge that were formerly owned by Falconbridge Nickel Ltd. The parties were granted leave to complete the purchase on February 21, 2003.[1]

Additionally, Greater Sudbury purchased the distribution system owned by the Municipality of West Nipissing in 2005 and was granted leave to amalgamate those assets with Greater Sudbury's assets on April 2, 2007[2]. The West Nipissing assets provide services to ratepayers in the former towns of Sturgeon Falls and Cache Bay.

Greater Sudbury's operating area is shown in greater detail on the distribution system maps appended to this Schedule as Attachment 1.

Greater Sudbury provides distribution services to over 46,700 residential and commercial customers across all of its distribution systems.

Greater Sudbury's service area covers 410 sq km, however the distribution system is made up of 6 non-contiguous distribution areas that are connected to the provincial grid by Hydro One in various configurations as shown in the table below.

[1] EB-2002-0460

[2] EB-2006-0186

Table 1 Greater Sudbury Hydro Inc. Interconnects

System	Hydro One Connection Asset	Voltage	Connection Type
Sudbury	Martindale T.S. & Clarabelle T.S.	44 kV	Wholesale
Capreol	Martindale 9M7	44 kV	Embedded
Coniston	Coniston GS - 1M5	22 kV	Embedded
Falconbridge	Martindale 9M6	44 kV	Embedded
Sturgeon Falls	Chrystal Falls DS - 7M1/M2	44 kV	Embedded
Cache Bay	Cache Bay DS - FS747-F2	12 kV	Embedded

Combined, the distribution systems comprise approximately 962 km of power lines, 737 km of which are overhead and 225 km underground. Greater Sudbury owns facilities on over 20,000 poles in its distribution territory, 12,446 of which are owned by Greater Sudbury. The remainder of the poles are owned by various joint use partners (Bell Alliant, Hydro One). Utilization voltage is supplied to customers from nearly 5600 distribution transformers including pad mounted and aerial units. The Distribution transformers are supplied from one of 34 Municipal Substations. Distribution voltages in Greater Sudbury's systems are typically 12,470/7,200v although a lesser amount of 4,160/2,400 V distribution continues in use. All substations except 2 are supplied from Hydro One at 44 kV, the two exceptions are in Coniston where the town's sub-distribution is 22 kV.

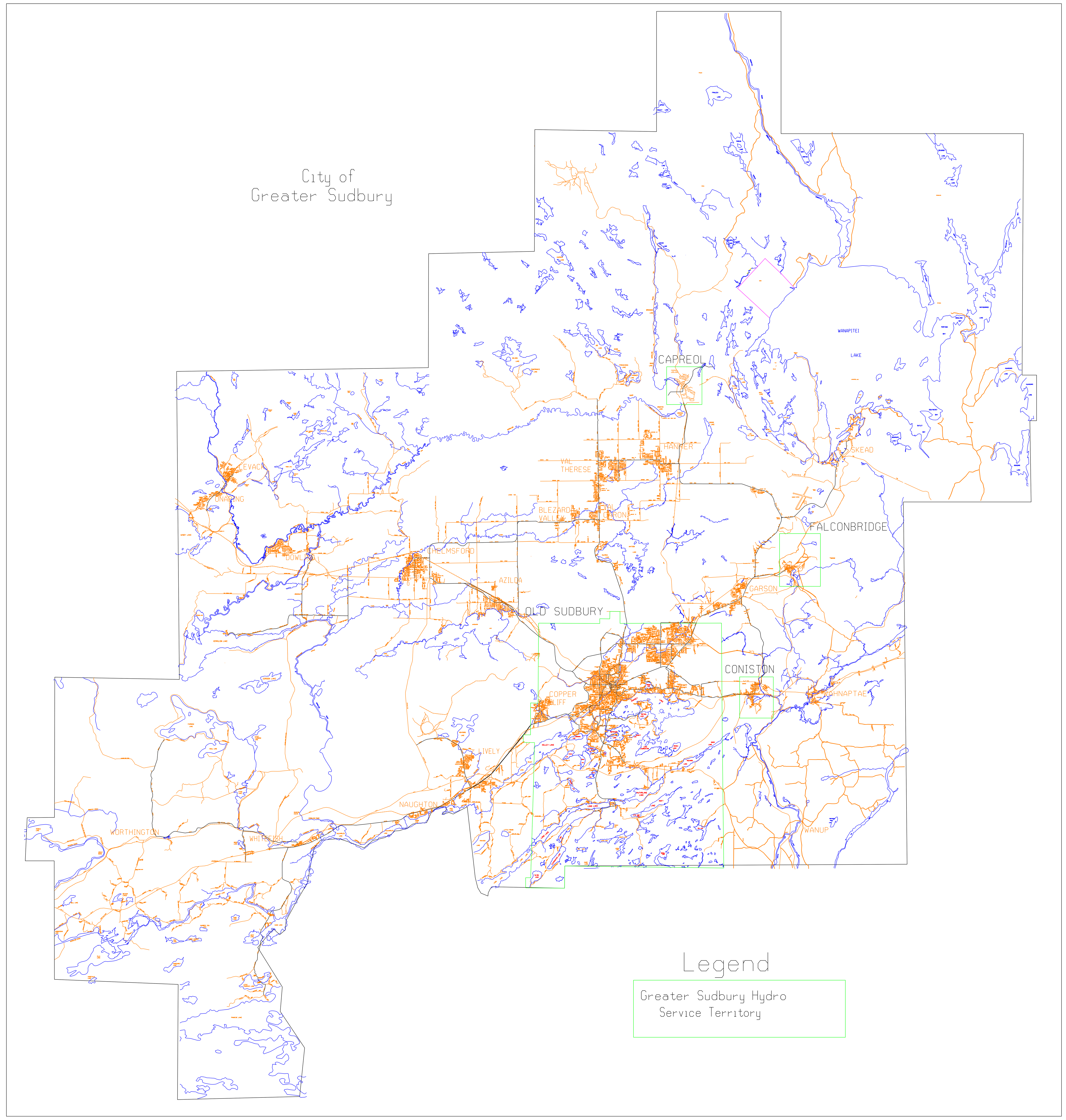
Greater Sudbury’s service territories are located within the Canadian Shield, adding construction challenges with respect to high concentrations of very hard rock.

Host or Embedded Utility - From a settlement perspective the majority of Greater Sudbury's load is supplied by two IESO Wholesale Metering points at Martindale TS 9 and Clarabelle TS 28. The systems amalgamated from the former smaller towns are all supplied from embedded supply points on Hydro One's distribution system. Greater Sudbury is not a host Utility for any other Distribution Company.

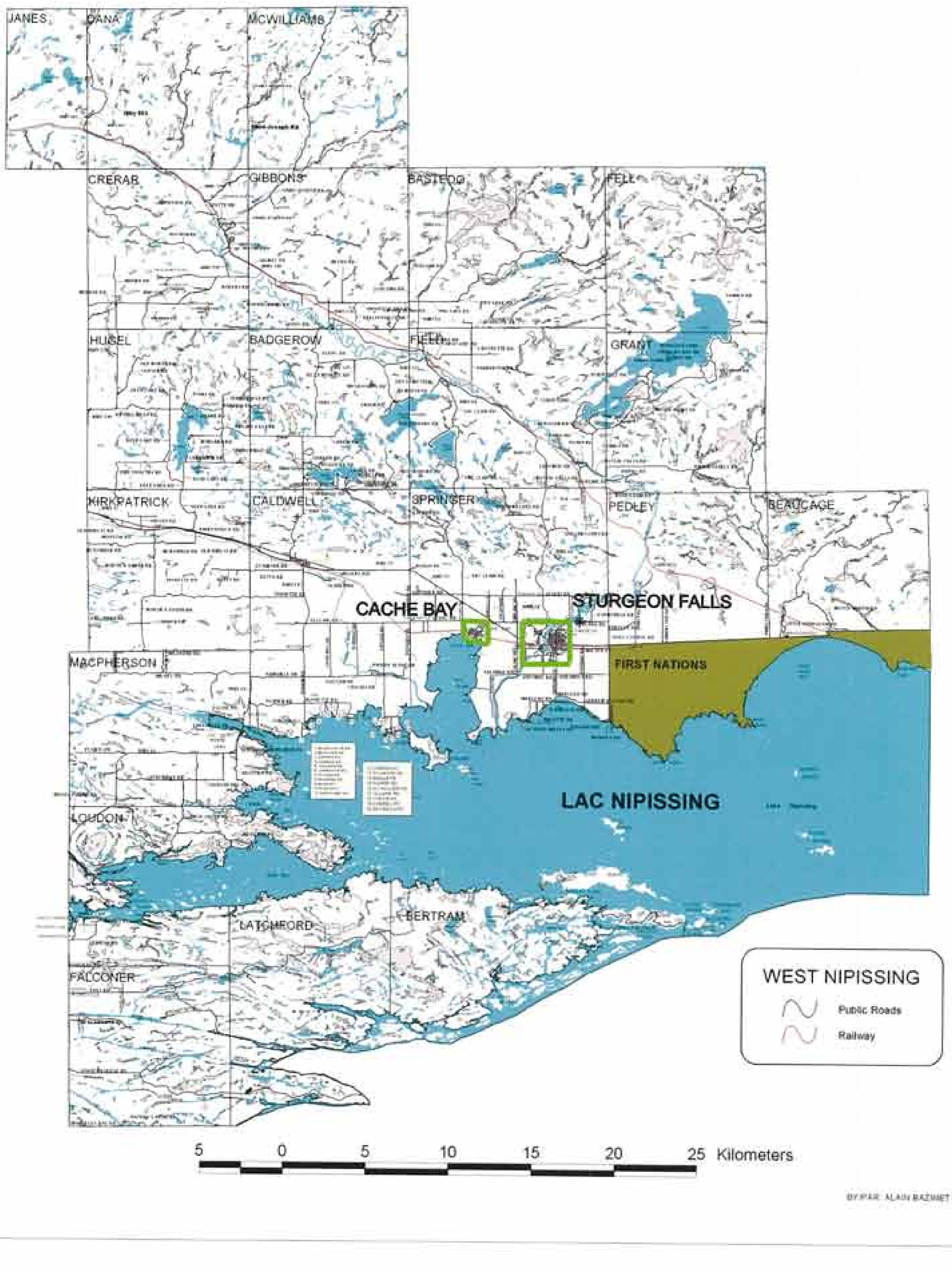
Neighbouring Utilities - Hydro One is the only distribution company bordering Greater Sudbury's distribution assets.

Greater Sudbury Hydro Inc.
9 November, 2012
EB-2012-0126
Exhibit 1
Tab 1
Schedule 9
Attachment 1

Greater Sudbury Hydro's Distribution System Map



WEST NIPISSING OUEST



CORPORATE ORGANIZATION

Greater Sudbury Hydro Inc. ("Greater Sudbury" or "GSHI") is a subsidiary of Greater Sudbury Utilities ("GSU") a holding company that is wholly owned by the Corporation of the City of Greater Sudbury. Various other GSU affiliates operate in the telecommunications, electricity generation and equipment rental businesses. Additionally Greater Sudbury Hydro Plus Inc. another GSU affiliate provides shared corporate services to all GSU affiliates, thereby ensuring the Greater Sudbury and its ratepayers enjoy the advantages found in economies of scope.

These scope economies are ensured by a detailed transfer pricing methodology that was developed to ensure that affiliates responsible for costs carry their share of the financial burden. The methodology was further developed and confirmed over the last IRM period. In 2010 Greater Sudbury hired BDR North America Inc. to provide expert assistance and review of its transfer pricing methodology. Please refer to Exhibit 1, Tab 1, Schedule 11, Attachment 1 for BDR's report.

A brief description of all of GSU's affiliates follows;

Greater Sudbury Hydro Inc. - Greater Sudbury is a rate regulated Local Distribution Company. All employees who are employed solely in the business of the distribution company are housed in this company. Generally speaking this includes operations, engineering and garage staff. This company is responsible for the maintenance, operation and renewal of the electricity distribution system.

Agilis Networks - Agilis Networks provides telecommunications services throughout North East Ontario and owns fiber optic assets as far south as Front Street in Toronto. All Agilis Networks' employees are employed by the competitive affiliate (1627596 Ont. Inc.)

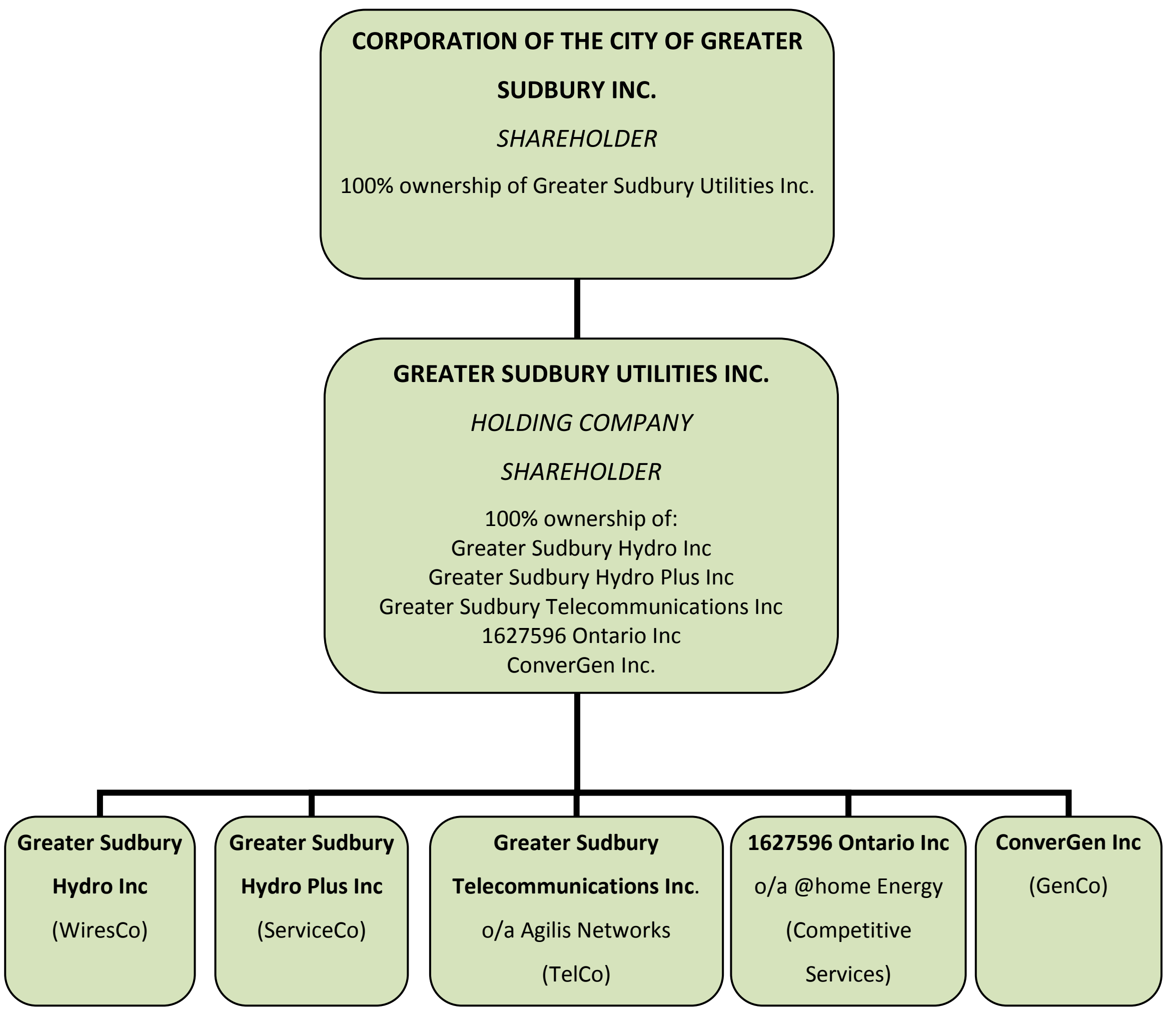
@Home Energy - is a trademark of 1627596 Ont. Inc. This business rents water heaters. All employees working for this business are employed by 1627596 Ont. Inc.

ConverGen - operates a 1.6 MW Landfill Gas Plant at the main City of Greater Sudbury Landfill Site. There are no employees in this company. The plant is operated and maintained by Toromont under a long term agreement. All operating and maintenance costs are paid from the revenues of ConverGen. Additionally ConverGen has installed and is awaiting connection of a 30 kW, ground mounted, solar tracker system at the same location. The facility has been approved for a FIT contract under the first generation FIT rules.

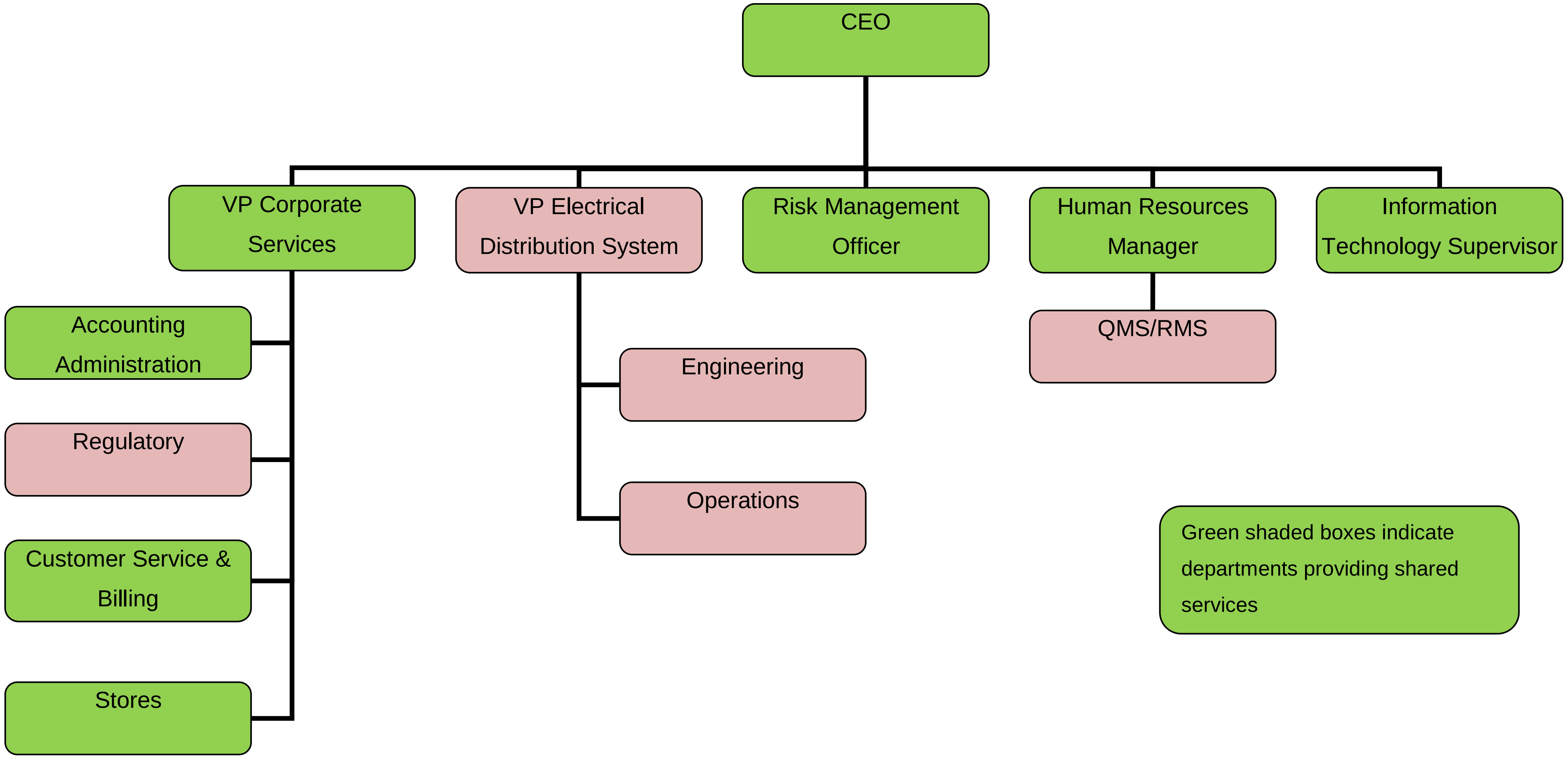
Greater Sudbury Hydro Plus Inc. (GSHP) - is what is commonly known as a ServicesCo. More particularly GSHP provides the full array of corporate services as listed in the Affiliates Relationship Code to all affiliates on the basis of a Service Level Agreement that incorporates the transfer pricing methodology that is derived from our recent Transfer Pricing Study. The resultant report from the study completed by BDR North America Inc. can be reviewed at Exhibit 1, Tab 1, Schedule 11, Attachment 1.

In addition to the shared corporate services, GSHP provides billing services to both Greater Sudbury for electricity and the Municipality for water. The continuance of the water billing service in the test year is in grave doubt, which will result in a loss of scope efficiencies. This issue is discussed in greater detail at Exhibit 1 Tab 2 Schedule 8 and elsewhere throughout this application.

Corporate Entities Chart



Greater Sudbury Hydro Inc
Utility Organizational Chart



PLANNED CHANGES TO THE ORGANIZATIONAL STRUCTURE

Greater Sudbury reorganized at the end of 2011 to provide greater transparency in its transactions with its affiliates. At that time Billing and Customer Services staff remained in GSHPI, the ServicesCo, as they provided billing and customer service functions for both Greater Sudbury and the City. Upon the loss of the water billing contract Greater Sudbury intends to self provide the billing and customer service functions as electricity will be the only service remaining on the invoice.

Self provision of the service will provide for some administrative efficiencies by eliminating the requirement for transfer pricing and service level agreements. Greater Sudbury does not expect an appreciable differential in cost to ratepayers under either scenario.

BOARD DIRECTION FROM PREVIOUS EDR DECISIONS

In its last cost of service filing Greater Sudbury was directed to "...undertake a study of all shared services, and the cost allocation method that would be most appropriate for transfer pricing."[1]

In response to this direction Greater Sudbury procured the services of BDR North America Inc. ("BDR") to review Greater Sudbury's transfer pricing methodology and assist Greater Sudbury in further developing the methodology based cost causality factors. This Application and the budgets underpinning it have been developed following the results of the new transfer pricing methodology.

The BDR study entitled "Review of Transfer Pricing Methodologies and Intra-Company Cost Allocations With Respect to Greater Sudbury Hydro Inc." (the "BDR Study") is at Exhibit 1, Tab 1, Schedule 11, Attachment 1.

The Board in EB-2008-0230 provided further guidance by way of clarifying its expectations for the scope of work that Greater Sudbury should undertake.[2] In general terms, the Board directed that Greater Sudbury to: 1. consider restructuring options and obtain an opinion with respect to the costs and benefits of those options; 2. complete the transfer pricing study on the basis of the outcome to Phase 1; and 3. ensure that the study produced a repeatable output that could be used to determine the appropriate transfer pricing formula for changing circumstances as the requirement for services may change over time. We submit that the BDR Study referred to above as achieved those directions.

Further, Greater Sudbury reorganized, as described below, such that employees engaged exclusively in the business of Greater Sudbury were employed directly by Greater Sudbury and not an affiliate.

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[1] EB-2008-0230 - Decision and Order, page 13

[2] EB-2008-0230 - Decision and Order, Appendix A

In addition to the three phases of study set out in EB-2008-0230 we asked that BDR incorporate into the study a discussion of what the costs to ratepayers might look like in the event that the Utility was required to operate on a stand-alone basis. This analysis should provide the Board with another barometer indicating that ratepayers are benefitting from the relationship with GSU's affiliates.

Finally the Board directed that Greater Sudbury create a variance account to track 50% of its billing, collecting and customer services costs over the life of the IRM period[3]. The account was to be established with an opening balance of $1,821,102 for 2009 and each of the subsequent years. The account is to be adjusted in this proceeding to reflect the actual % of billing costs attributable to ratepayers that resulted from the BDR Study. This Variance Account is dealt with in Exhibit 9 Tab 1, Schedule 2.

[3] EB-2008-0230, page 14

Review of Transfer Pricing Methodologies and Intra-Company Cost Allocations With Respect to Greater Sudbury Hydro Inc.

October 31, 2012

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BDR

Table of Contents

EXECUTIVE SUMMARY

Introduction and Scope

Greater Sudbury Hydro Inc. (“Greater Sudbury“) is an electricity distributor licensed by the Ontario Energy Board (“OEB”) to provide service to consumers within the City of Greater Sudbury and the Municipality of West Nipissing. Greater Sudbury is one of five wholly-owned subsidiaries of Greater Sudbury Utilities Inc. (“GSU”), a holding company which is wholly-owned by the Corporation of the City of Greater Sudbury (“the City”).

At the time of commencement of the study, Greater Sudbury’s staffing consisted only of four employees in the conservation/demand management (“CDM”) function. All other activities of Greater Sudbury were carried out by the Plus Company, with the costs allocated to Greater Sudbury. The Plus Company’s sole business is to provide services to Greater Sudbury and its affiliates, including water billing services to the City. The arrangement is intended to create economies of scope and scale through the sharing of human and other resources. The costs incurred by the Plus Company are recovered through charges made by the Plus Company to the affiliates, including Greater Sudbury. Effective January 1, 2012, the employees in Distribution Electrical Systems (“DES”), the department carrying out system planning, operations and maintenance, and garage services, were transferred from the Plus Company to Greater Sudbury. As a result of that reorganization, Greater Sudbury now self-supplies in respect of the DES functions. Both before and after this reorganization, work of the DES employees was entirely on behalf of Greater Sudbury, except for a small component of the total effort of the department, which involves providing street lighting services to the City under an agreement between the City and the Plus Company.

In addition to services received from the Plus Company, Greater Sudbury purchases certain telecommunications services from its affiliate Agilis Networks (“Agilis”). Greater Sudbury provides space in its buildings and use of its vehicles to affiliates, for which revenue is received.

In its cost of service application for rates effective in 2009, Greater Sudbury’s costs related to the services of the Plus Company were extensively examined by other parties, with particular emphasis on the costs of billing. The Plus Company provides both electricity billing to Greater Sudbury and water billing to the City through a shared system. Approximately 80% of the billing costs were being allocated to Greater Sudbury at the time, although the number of electricity bills and water bills is almost the same. Intervenors suggested that only 50% of the total billing costs should be recovered from the electricity customers. In its Decision and Order in that proceeding, the OEB directed Greater Sudbury to undertake a study of all shared services, and the cost allocation method that would be most appropriate for transfer pricing. The OEB did not require Greater Sudbury to involve stakeholders in determination of the scope of work, but attached two appendices to the Decision and Order with a requirement that they be used in establishing the scope of the study.

In June, 2011, Greater Sudbury retained BDR NorthAmerica Inc. (“BDR”), a Toronto-based consulting firm specializing in energy sector issues with a focus on regulatory compliance, to conduct the study. In so doing, Greater Sudbury accepted BDR’s interpretation of the scope, which was for a study of “the cost allocation method that would be most appropriate for transfer pricing”, with emphasis on the method applicable to billing services since those services had been the specific issue of contention in 2009. BDR interpreted the requirement in the appendices to the Decision and Order for an opinion regarding restructuring options narrowly, and on that basis recommended a “stand-alone” study to be carried out following the review of transfer pricing methodology, to determine whether the shared service organizational structure created net benefits or net costs for the electricity consumers. BDR commenced the work in 2011 on the basis of that understanding.

In June, 2012, having already carried out the transfer of the DES employees as described above on its own initiative, company management requested BDR to review the high level structural options available in 2011, and provide an opinion on those options with reference to compliance with the Affiliate Relationships Code (“ARC”). BDR agreed to carry out the review and incorporate the results into its report on the cost allocation methodology review and stand-alone study.

This report therefore contains:

- BDR’s Opinion with Regard to Organization Structure
- The Transfer Pricing Study, and
- The Stand-Alone Study.

Conclusions

Opinion with Regard to Organization Structure

At the time the Study was commenced, all of the employees performing work for Greater Sudbury were formally in the Plus Company. This review focused on organizational change alternatives consisting of transfers of staff and their functions from the Plus Company to Greater Sudbury.

Continuing the structure of all employees in the Plus Company was defined as Option A. Option B consisted of transferring the employees in the Distribution Electrical Systems Department from the Plus Company to Greater Sudbury, and making no changes with respect to any other employees. Option C consisted of transferring the employees in the Distribution Electrical Systems Department and some or all of the other functions in the Plus Company to Greater Sudbury.

Each option was evaluated on three criteria:

- Compliance with provisions of Section 2 of the ARC regarding standards of conduct;
- Relative costs and benefits of the option including:
  - Ability to continue realizing savings associated with sharing of resources;
  - Minimization of disruption of work groups and established reporting structures; and
  - Minimization of costs associated with implementation of the change.
- Minimization of costs to administer an ARC-compliant transfer pricing regime associated with the option.

It is concluded that as a structure for organization of the work force, Option B provides conditions necessary for ARC compliance and increases clarity in transfer pricing, and is therefore an improvement over Option A. As compared with Option C, Option B is preferred because it minimizes the number of changes, conforms to current contract structures, and provides a structure under which opportunities for expansion of scale and scope could be pursued.

Since Option B does not involve any actual change in the number of staff, the functions performed, or their compensation, and since the basis of allocation of the costs associated with these staff would be the same under all options, there is no impact on the total costs of Greater Sudbury.

While this report was under development, management of the Plus Company informed BDR that it had proceeded with implementation of Option B effective January 1, 2012. All analysis of shared services and transfer pricing arrangements in this report therefore reflect Option B being in effect.

Transfer Pricing Methodology Summary

The following table summarizes the services ***provided by affiliates*** to Greater Sudbury Hydro Inc., the transfer pricing method presently used, and BDR's comment or recommendation.

Table ES-1: Services Provided by Affiliates to Greater Sudbury		
Nature of Service	**Allocation Method Used**	**BDR Comment or Recommendation**
Executive	Time Records	Reasonable and accordance with accepted principles of cost allocation.
Board of Directors	50% of the cost of two boards (Greater Sudbury and GSU)	Reasonable and accordance with accepted principles of cost allocation.
Insurance	Direct assignment	Best treatment of identifiable costs
Risk management (employee safety)	50% assigned directly to Greater Sudbury, other 50% by number of employees	Recommend analysis of programs to determine correct balance for direct assignment.
Procurement, inventory and stores services	Value of issued inventory	Reasonable and accordance with accepted principles of cost allocation.
Human Resources	Directly assigned where possible, number of employees for other costs	Reasonable and accordance with accepted principles of cost allocation.
Information technology and telephone services	Telephone systems, PCs and ERP, by unweighted number of users; telephone sets by weighted number of users reflecting complexity of the units; systems for customer information and billing by factors related to that function; costs directly assigned where specifically identified with an affiliate or function.	Reasonable and accordance with accepted principles of cost allocation.
Payroll	Time tracking for activities identifiable with one affiliate; number of employees for other costs	Reasonable and accordance with accepted principles of cost allocation.
Accounts payable	Time tracking for activities	Reasonable and

Table ES-1: Services Provided by Affiliates to Greater Sudbury

Nature of Service	Allocation Method Used	BDR Comment or Recommendation
	identifiable with one affiliate; number of invoices for other costs	accordance with accepted principles of cost allocation.
Regulatory	No current activities identifiable with affiliates; therefore 100% assigned to Greater Sudbury	Reasonable and accordance with accepted principles of cost allocation.
Accounting, treasury, accounts receivable, financial reporting and audits	A time estimate for forecast; time records for actual	Reasonable and accordance with accepted principles of cost allocation.
Customer billing and related services	Detailed analysis of each cost component, with different allocation methods, including number of bills, call volumes, number of meters, and space occupied on the shared bill. Direct assignment where applicable.	Reasonable and accordance with accepted principles of cost allocation.
Annual fee for cost recovery	For redistribution of costs which were allocated by other methodologies to the Plus Company. In proportion to the allocation of other costs.	Reasonable and accordance with accepted principles of cost allocation.
Payment processing	Number of bills	Reasonable and accordance with accepted principles of cost allocation.
Quality management	Costs of the Plus Company directly assigned to Greater Sudbury, as the other affiliates pay for their own programs directly	Reasonable and accordance with accepted principles of cost allocation.

The following table summarizes the services ***provided by Greater Sudbury Hydro Inc***. to affiliates, the transfer pricing method presently used, and BDR's comment or recommendation.

Table ES-2: Summary of Services Provided by Greater Sudbury to Affiliates		
Nature of Service	**Allocation Method Used**	**BDR Comment or Recommendation**
Vehicles	Apply an hourly charge-out rate computed to recover all costs when applied to forecast vehicle usage hours. Time tracked through the work order system. Costs benchmarked to market.	Reasonable and accordance with accepted principles of cost allocation.
500 Regent Building	Market rate applied to square footage utilized to recover capital costs; allocation by square footage to recover operating costs; costs for utilization by the Plus Company reallocated to affiliates in accordance with the cost of the functional area occupying the space.	Reasonable and accordance with accepted principles of cost allocation.
Dash Substation	Considered to have insignificant value. Space used by Agilis is also used by Greater Sudbury. Use by Agilis compensated through services provided at no charge. Agilis also pays for building improvements as required, and directly	Existing arrangement is not strictly in accordance with accepted principles of cost allocation, but is simple and has a net benefit to electricity customers.

Table ES-2: Summary of Services Provided by Greater Sudbury to Affiliates		
Nature of Service	**Allocation Method Used**	**BDR Comment or Recommendation**
	through separate metering for electricity consumed.	
Staff and Vehicles for Street Lighting Services	Time of staff as recorded in the work order system.	Reasonable and accordance with accepted principles of cost allocation.

Allocation of Billing Costs

Transfer pricing of billing costs was a particular matter of concern to the parties in EB-2008-0230. BDR therefore focused attention on the methodology proposed for this service.

Billing consists of a number of subcomponents that are different as to cost causation. For subcomponents where costs could be directly identified as attributable to either electricity or water, that information was used to assign the cost. All other subcomponents were identified either as primarily related to number of bills or as primarily related to number of customer telephone calls. Information was gathered to develop an allocation factor for each. The result was that costs primarily related to number of bills were allocated 50% to electricity and 50% to water; costs primarily related to number of telephone calls were allocated 60% to electricity and 40% to water. Postage and stationery costs for joint bills were allocated 76% to electricity and 24% to water, based on an analysis of printed characters on the bill. Supervision and system management was allocated 75% to electricity, based on a combined factor, incorporating time tracking, call volumes and complexity.

BDR considers that this approach is reasonable and consistent with accepted principles of cost allocation.

In aggregate, using 2012 budget figures, the proportion of billing costs allocated and directly assigned to electricity by this methodology is **61.4%.**

Efficiencies Resulting from Sharing of Services

For purposes of this analysis, the current level of shared costs allocated to Greater Sudbury was compared with the costs under an Alternative Scenario in which there are no affiliate transactions – i.e. either the affiliates including the Plus Company cease to exist, or all affiliates self-supply all services. For each type of cost, a judgment was made as to whether and how great a reduction in costs could be achieved, if only the needs of Greater Sudbury, rather than the needs of Greater Sudbury and its affiliates, were to be met.

Based on the analysis of costs, it was determined that the potential cost sharing benefit that Greater Sudbury derives from affiliates is approximately **$1.6 million** per year. The most notable areas of sharing benefits come from the sharing of customer service and billing costs between electricity and water. One of the primary activities of the Plus Company is the billing of water and wastewater charges for the City. It was estimated that shared customer service and billing costs result in shared cost saving of more than **$675,000** consisting of shared billing system and IT costs, shared forms, shared postage, shared space, shared manpower, and recovery of shared administrative costs.

Other areas of shared cost savings include shared executive, shared finance and accounting resource, building services and Information Technology services which account for up to **$950,000** of benefit to Greater Sudbury, and therefore, to its electricity distribution customers.

On-going Administration

The Appendices to the Decision and Order in EB-2008-0230 included a requirement 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". BDR has incorporated its documentation of the methodologies, and of the supporting information requirements and business practices in the section on transfer pricing methodology. In recommending methodologies and opining as to their compliance with accepted cost allocation approaches and the requirements of the ARC on transfer pricing, BDR has taken into account the ability of the company to collect and maintain supporting information and make allocation computations based on the information, at a reasonable level of effort and cost. In so doing, BDR has relied on information provided by company management and its own experience.

1 Scope of Study

Greater Sudbury is an electricity distributor licensed by the OEB to provide service to consumers within the City of Greater Sudbury and the Municipality of West Nipissing.

The OEB, which regulates Ontario LDCs, has a mandate to protect the interests of distribution ratepayers by ensuring that rates are just and reasonable. Since affiliate transactions provide a potential opportunity for a shareholder to benefit inappropriately at the expense of electricity ratepayers, the OEB has implemented an Affiliate Relationships Code ("ARC") that establishes requirements for affiliate transactions. The nature and magnitude of affiliate transactions may be reviewed by the OEB on a compliance basis, and the appropriateness of costs and revenues from affiliate transactions may also be scrutinized as part of the LDC's distribution rate application. In its last cost of service application for rates effective in 2009, Greater Sudbury's costs related to the services of the Plus Company were extensively examined by other parties, with particular emphasis on the costs of billing. The Plus Company provides both electricity billing to Greater Sudbury and water billing to the City through a shared system. Approximately 80% of the costs were allocated to Greater Sudbury, despite the fact that the number of electricity bills and water bills is almost the same. Intervenors suggested that only 50% of the total billing costs should be recovered from the electricity customers.

In the Decision, the OEB approved the billing costs as proposed by Greater Sudbury, but ordered as follows:

> "The Board directs Greater Sudbury to undertake a study of all shared services, and the cost allocation method that would be most appropriate for transfer pricing. The Board notes that Greater Sudbury is addressing some outstanding Affiliate Relationships Code issues, which may result in corporate reorganization. The study should reflect any new corporate structure that may result. Appendix A and Appendix B to this Decision are to be used by Greater Sudbury in establishing the scope of the study.
>
> The Board will not require stakeholder involvement. Any corporate re-organization is clearly a matter for the corporation's executive and board of directors."[1]

In May, 2011, Greater Sudbury requested BDR to provide a proposal to conduct the independent study as ordered. In preparing its proposal, BDR reviewed the OEB's

[1] EB-2008-0230, Decision and Order dated December 1, 2009, pages 13-14

language ordering the study, and Appendices A and B to the Decision and Order. It was BDR's understanding from the language in the Decision and Order that the focus of the required study was to be "the cost allocation method that would be most appropriate for transfer pricing", with emphasis on the method applicable to billing services since those services had been the specific issue of contention in 2009. From that language, BDR also understood that changes in corporate organization were being contemplated, and that the OEB considered decisions as to such changes to belong to the company's management and board of directors.

Therefore, in considering the Phase 1 work as defined in Appendix A, BDR understood the requirement to be for an assessment of costs and benefits derived from the supply of services between affiliates, and that a recommendation for a change in organization, or in the scope of affiliate transactions might be made if analysis showed that the existing arrangement produced diseconomies or negative impacts on ratepayers that would not be addressed through cost allocation methodology.

BDR therefore recommended that the scope of work include a "stand alone" study, which would identify the changes in costs to Greater Sudbury that would result from termination of the various sharing arrangements with its affiliates. If any diseconomies were identified, a recommendation for change in either the corporate organization or service arrangement would be made in the final report. Because the cost/benefit analysis in the "stand alone" study would be a comparison with the existing shared cost arrangement, it was BDR's opinion that the "stand alone" study had to follow, rather than precede, the transfer pricing study component, which Appendix A defined as Phase 2. BDR therefore proposed that the transfer pricing study proceed first, followed by the "stand alone" study.

Greater Sudbury accepted BDR's proposal in June, 2011. Starting at that time, BDR received data from Greater Sudbury, held discussions with its staff, and collected other information as specified in this report, in order to prepare the transfer pricing and "stand alone" components of the work.

During the fall of 2011, Greater Sudbury reviewed its organization options to address the previously identified ARC compliance issues on its own initiative, and proceeded with a reorganization involving the transfer of employees from an affiliate into the distributor effective January 1, 2012. BDR was advised of the change in structure and advised that it should reflect the structural change in its description of affiliate services in the report.

In June, 2012, Greater Sudbury advised BDR that it had reviewed the definition of Phase 1 of the study as defined in Appendix A, and requested BDR to review the structural options that had been available to Greater Sudbury in 2011 and to provide an opinion on those options with respect to compliance with the ARC. Greater Sudbury management explained to BDR:

- That the guiding principle of the reorganization was that employees entirely dedicated to the functions of the regulated business should be in the regulated business;
- That several factors resulted in the end of December, 2011 being considered by Greater Sudbury as a deadline for the planned reorganization, one of which was that the OEB had set that date for completion of the transfer pricing study, and others of which were administrative in nature; and
- That the reorganization would not result in any change to the activities being carried out by the staff, or to the costs allocated to the electricity distribution business.

Greater Sudbury and BDR both interpreted the OEB’s Decision and Order as placing the reorganization entirely within the power of the company’s board of directors and management. However, Greater Sudbury wished to ensure that any issues were identified and documented for review in its next cost of service proceeding. As a result, BDR gathered information through discussions with management, prepared the requested opinion, and incorporated that opinion into this report.

This report is organized into four parts, reflecting the scope of work required by the OEB’s order, as understood by BDR, and the opinion requested by Greater Sudbury as to the restructuring:

- Section 2: Opinion with Regard to Organization Structure;
- Section 3: Transfer Pricing Study;
- Section 4: Stand-Alone Study.

Appendix A included a requirement for an “ongoing administration” phase, to “establish 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 rebasing applications.” Having completed the transfer pricing analysis and documented its conclusions, BDR considered that pricing methodologies had been established, and that information requirements and business practices in support of those methodologies had been identified as part of that work, and documented in the findings. This report therefore does not contain a separate section addressing “on-going administration”.

In the course of the study, BDR was provided with spreadsheets prepared by the company summarizing allocations of 2012 budget according to the methodology documented in this report. BDR reviewed the computations as part of its work in understanding and confirming the application of the methodology, but accepted all financial and statistical data as provided by the company without independent verification.

2 OPINION WITH REGARD TO ORGANIZATION STRUCTURE

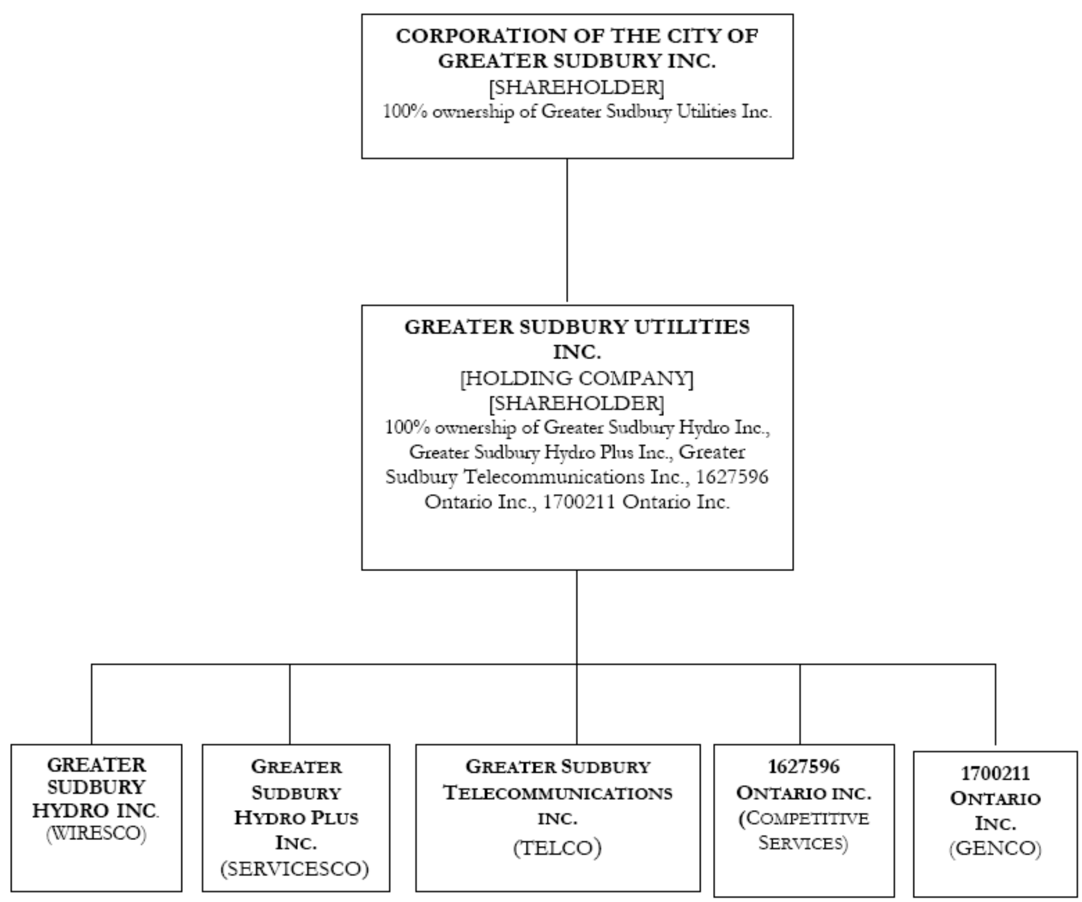
2.1 *Introduction*

Greater Sudbury is 100% owned by GSU which is in turn owned 100% by the City. As well as Greater Sudbury, GSU owns 4 other corporations. The ownership relationship of these corporations is shown in Figure 2.1.

At the time of commencement of the study, Greater Sudbury's staffing consisted only of four employees in the conservation/demand management ("CDM") function. All other activities of Greater Sudbury were carried out by the Plus Company, with the costs allocated to Greater Sudbury.

The competitive affiliate 1627596 Ontario Inc. has employees who work in the telecommunications services (Agilis Networks) and in the competitive customer services marketed under the ***@home*** brand. The Plus Company, in addition to providing services to Greater Sudbury, provides services to other affiliates, including water billing services to the City under a 10-year contract which was entered into in 2004. Thus, while the costs of much of the activity of the Plus Company can be distinguished and assigned directly to Greater Sudbury, some costs are allocated between Greater Sudbury and other affiliates.

Figure 2.1 – Corporate Organization Structure of Greater Sudbury and Affiliates



The OEB's Decision and Order dated December 1, 2009, in EB-2008-0230¸included the following provision:

> "The Board directs Greater Sudbury to undertake a study of all shared services, and the cost allocation method that would be most appropriate for transfer pricing. The Board notes that Greater Sudbury is addressing some outstanding Affiliate Relationships Code issues, which may result in corporate reorganization. The study should reflect any new corporate structure that may result. Appendix A and

Appendix B to this Decision are to be used by Greater Sudbury in establishing the scope of the study."

The Appendix A mentioned in the paragraph above set out a scope of work which included the following:

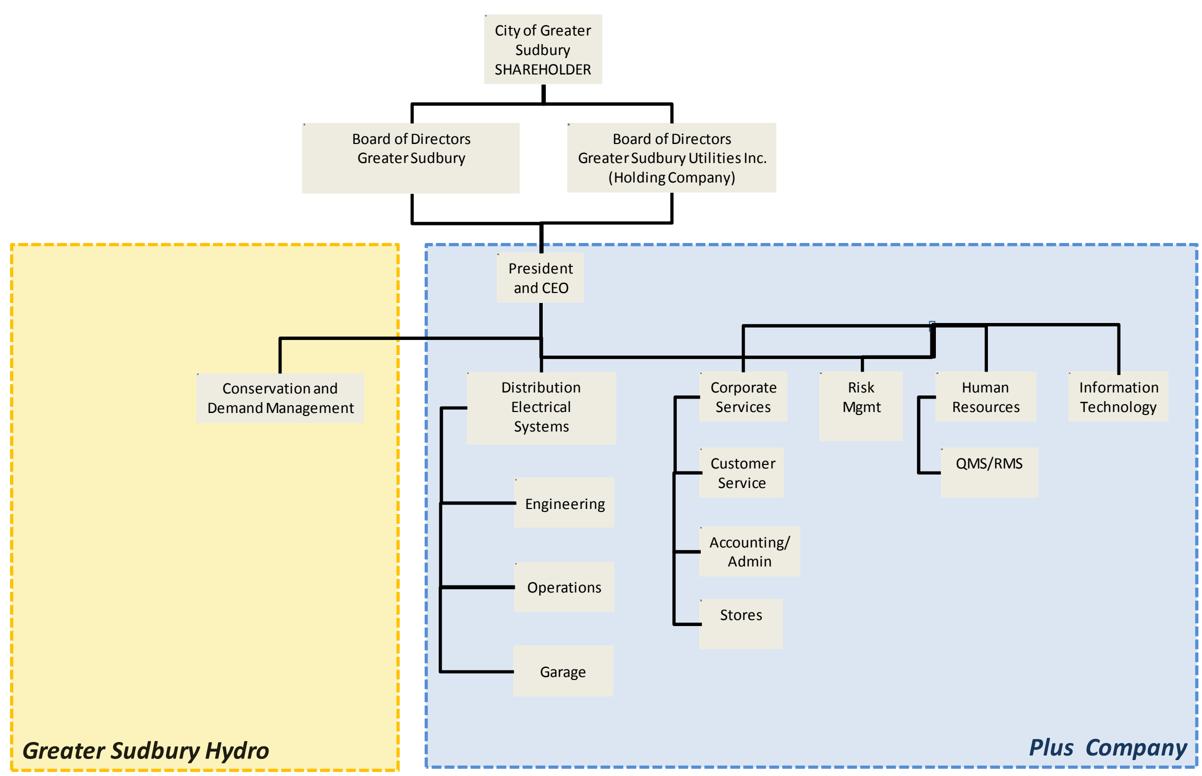
> "**PHASE 1.** Obtain opinion regarding restructuring options, costs and benefits of those options with specific attention to the services currently purchased from Greater Sudbury Hydro Plus Inc."

This component of the report is intended to address this direction of the OEB.

2.2 *Definition of Options and Approach to Evaluation*

Until January 1, 2012, all of the employees performing work for Greater Sudbury except for CDM were formally in the Plus Company. The organizational structure is shown in Figure 2.2:

Figure 2.2: Affiliate Organization Structure Prior to January 1, 2012



A list was made of all services received by Greater Sudbury from affiliates. Except for certain telecommunications services received from its affiliate Agilis Networks, all affiliate supplies to Greater Sudbury are from the Plus Company. All services received by Greater Sudbury from the Plus Company are necessary to the operation of an electricity distribution business, and therefore no consideration was given to outright termination of any function. This review focused on potential organizational changes that would consist of transfers of staff and their functions from the Plus Company to Greater Sudbury.

Each staff function in the Plus Company was then reviewed to determine which if any were 100% or virtually 100% electricity distribution-related functions. It was determined that except for the Distribution Electrical Systems Department (“DES”), whose only shared function is the provision of labour resources for street lighting services, all of the functions within the Plus Company are broadly shared, with ten percent or more of the activity supporting unregulated affiliates.

The options for consideration were therefore broadly defined as follows:

A. Maintain the organization structure as shown in Figure 2.2 (status quo option);
B. Transfer the DESs Department to Greater Sudbury, and leave all other functions in the Plus Company as shown in Figure 2.4;
C. Transfer the DES Department and some or all of the other functions in the Plus Company to Greater Sudbury.

Each option was evaluated on three criteria:

- Compliance with provisions of Section 2 of the ARC regarding standards of conduct;
- Relative costs and benefits of the option including:
    - Ability to continue realizing savings associated with sharing of resources;
    - Minimization of disruption of work groups and established reporting structures; and
    - Minimization of costs associated with implementation of the change.
- Minimization of costs to administer an ARC-compliant transfer pricing regime associated with the option.

2.3 *Analysis*

2.3.1 Compliance with Section 2 of the ARC

BDR reviewed Section 2 of the ARC regarding standards of conduct. The Section has four components:

- Accounting and financial separation of the distribution company from all affiliates and maintenance of separate financial records and books of accounts;

- At least one-third of distribution company's Board of Directors independent from any affiliate;
- Transactions conducted in accordance with an ARC-compliant service agreement;
- Protection of confidential information of the distribution company from the affiliate; and
- Sharing of employees.

BDR was advised by management that separate records and books of accounts are maintained for Greater Sudbury and for each affiliate. Since none of the options contemplates creation of a new affiliate, and therefore of an additional set of records and accounts, development of financial statements, audits, or other associated costs, all of the options are essentially equal with regard to this dimension of compliance. All that would change under any reorganization scenario is the detail of affiliate transactions recorded in the accounts. While this might entail a change in costs and administration, the fundamental issue of compliance is not impacted.

BDR was advised by management that there are two boards of directors in the Greater Sudbury corporate "family"—one for Greater Sudbury Hydro Inc. (the distribution company), and one for GSU. BDR was also advised that the distribution company board of directors is comprised of 5 individuals, of whom 2 are independent within the meaning of the ARC, having no position as directors of the holding company or any employment position at the City of Sudbury or at any affiliate of the distribution company, or any beneficial interest in any affiliate of the distribution company. This exceeds the requirement of the ARC for one-third of the directors to be independent of any affiliate. Since none of the options contemplates creation of a new affiliate or a new board of directors, all options are neutral as to compliance with this aspect of the ARC.

BDR was provided with copies of the existing Service Agreements between Greater Sudbury and its affiliates. It is anticipated that a reorganization entailing changes in the structure of affiliate transactions would require some revisions to the Service Agreements. Discussion with management and legal counsel indicated that amendments to the Service Agreements would be neither complex nor costly in terms of fees. BDR therefore regards all options as neutral as to compliance with this aspect of the ARC.

The analysis of options with regard to compliance with Section 2 of the ARC therefore focuses on only two aspects: protection of confidential information, and sharing of employees.

The ARC Section 2.2.2 establishes requirements for the protection of confidential information from access by an affiliate. This section is relevant since the information systems of the Plus Company are a shared resource for all of the affiliates.

Management advised BDR that it has established appropriate access and protection procedures, which would continue to apply regardless of any future reorganization. BDR therefore accepted that compliance with this provision of the ARC is neutral for all of the evaluated reorganization options.

The ARC (Section 2.2.3) establishes a distinction in the rules for sharing of employees when the affiliate is an "energy service provider", and generally prohibits the sharing of employees with access to "confidential information", where:

- "energy service provider" means a person, other than a utility or a shareholder of a utility that is a municipal corporation or the provincial government, involved in the supply of electricity or gas or related activities, including: retailing of electricity; marketing of natural gas; generation of electricity; energy management services; conservation or demand management programs; street lighting services; sentinel lighting services; metering (including smart sub-metering that is the subject of the Smart Sub-Metering Code and wholesale metering); billing other than solely for the delivery and supply of electricity or natural gas or for sewer or water services; and appliance (including water heater) sales, service and rentals; and

- "confidential information" means information the utility has obtained relating to a specific smart sub-metering provider, wholesaler, consumer, retailer or generator in the process of providing current or prospective utility service.

Figure 2.3 – Determination of Whether Affiliate is an "Energy Service Provider"				
Service Provided	**Plus Company**	**Telco**	**1627596 (Competitive)**	**1700211 (Genco)**
Retailing Electricity				
Marketing of Natural Gas				
Generation of Electricity				
Energy Management Services				
Conservation or Demand Management Programs				
Street Lighting Services				
Sentinel Lighting Services				
Metering or Submetering				
Billing Other than for Electricity, Natural Gas, Sewer or Water				
Appliance Sales, Service and Rentals				

The red fill indicates a function carried out by a company.

This analysis shows that the Plus Company, the Competitive Company, and Genco are all energy service providers within the meaning of the ARC. Compliance with Section 2.2.3 is therefore required with regard to the sharing of employees between any of these companies and Greater Sudbury. The status of the Plus Company as an energy service provider is related to the contract with the municipality for street lighting services.

The following discussion relates to ARC compliance with respect to the sharing of employees.

Option A: Maintain All Functions within the Plus Company, as Shown in Figure 2.2

In this model, there are no shared employees who are employees of the utility. All employees work for both the utility and for the competitive affiliates, except for those employees in the DES group not involved in street light maintenance. There is no issue with respect to sharing of distribution employees with street lighting, since these employees do not collect and have no access to confidential information acquired in the course of utility work.

A category of employees with access to confidential information is the Call Centre/Billing function, since these employees have access to customer information. Since the ARC specifically exempts billing services for water and sewer from the definition of an energy service provider, these employees are not involved with an energy services function in the normal course of their work. This billing resource does not perform any billing services that would be part of the definition of an energy service provider.

In BDR's view, the arrangement complies with the broad intent of the ARC, which is to protect confidential information from becoming a source of unfair advantage to a competitive affiliate. There may be, however, an issue as to whether the arrangement constitutes a technical breach of the ARC, because provision of street lighting services by the Plus Company defines the Plus Company as an energy service provider. On this basis the ARC would prohibit the sharing of the billing employees between Greater Sudbury and the Plus Company.

Option B: Transfer of DES only to Greater Sudbury (see Figure 2.4)

In this option, the DES employees, including those shared between distribution functions of Greater Sudbury and street lighting, would become employees of Greater Sudbury. Since the street light maintenance contract is between the City and the Plus

Company, the employees would be rendering their services to the Plus Company, and the Plus Company would then be fulfilling its contract with the City.

Since these employees do not collect or have access to confidential information, the sharing of their services with the Plus Company is not a breach of the ARC.

This option represents no change from Option A with respect to the sharing of any other employees.

To the degree that there is an ARC compliance issue with respect to sharing of billing employees in Option A, there would be a similar issue with respect to Option B as described. However, Option B offers the potential for remedies that are not available under Option A; since the employees shared with street lighting are no longer in the Plus Company, but instead in Greater Sudbury, the Plus Company would cease to be an “energy service provider” within the meaning of the ARC, if the Plus Company ceased to be the contractor for street lighting services. Company management indicated that it would explore the issues associated with alternative structures for the provision of the street lighting services.

The flexibility offered by Option B is considered by BDR to make Option B superior to Option A.

Option C: Transfer of All Functions and Employees from the Plus Company to Greater Sudbury

Option C is distinguished from Option B in that billing/customer service functions and some or all of the “shared corporate services” would be transferred from the Plus Company to Greater Sudbury.

Since the ARC allows employees in shared corporate service functions and in the billing of electricity and water to be shared, and is silent as to where those employees should reside in the corporate structure, it is concluded that that this option is neutral as to ARC compliance with Options A and B with respect to employees providing “shared corporate services”.

With respect to the potential transfer of billing/customer service functions to Greater Sudbury, as long as these employees continue to be shared by Greater Sudbury and the Plus Company, Option C is neutral with Option B, and preferable to Option A, for reasons related to the transfer of the line crews to Greater Sudbury.

2.3.2 Relative Costs and Benefits, including Costs to Administer a Compliance Transfer Pricing Regime

The following series of tables summarizes the analysis and conclusions related to costs and benefits.

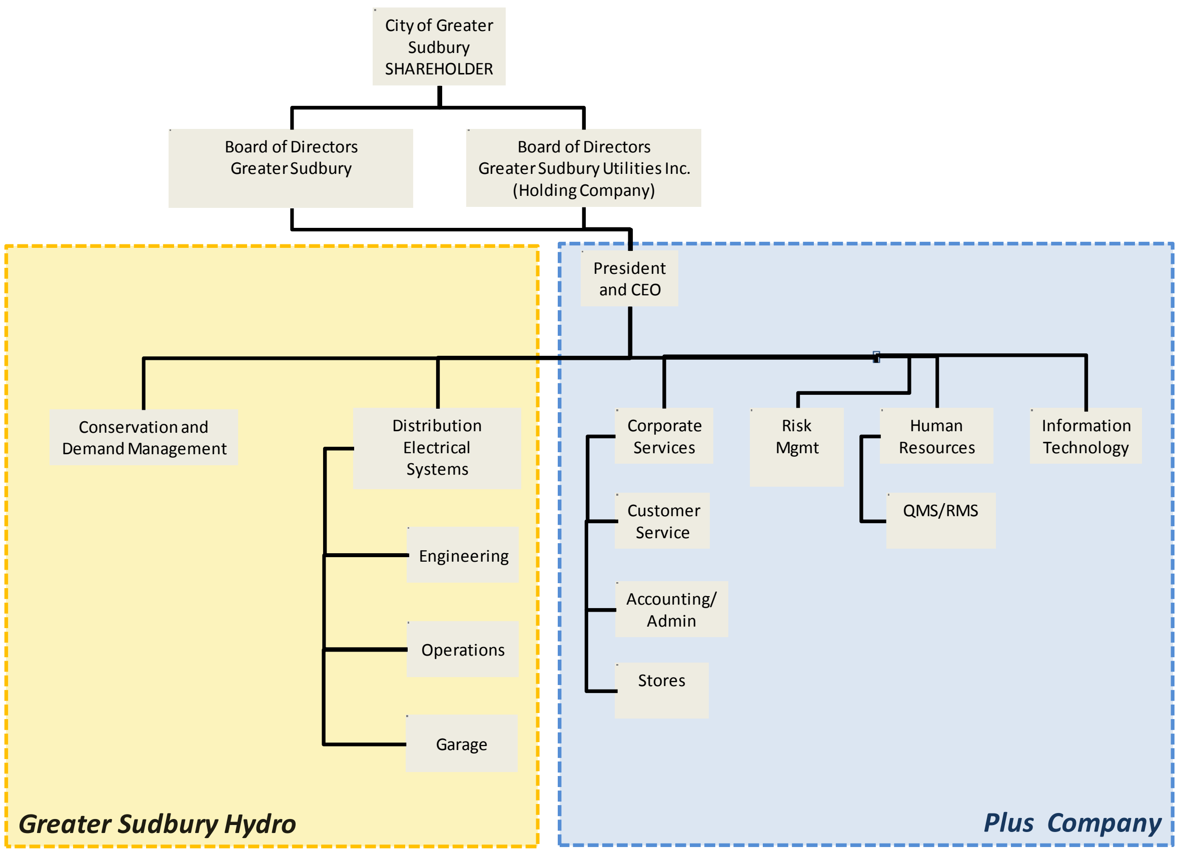
Option A: Maintain All Functions within the Plus Company, as Shown in Figure 2.2

Savings from Sharing of Resources Savings are realized from sharing related to “shared corporate services” as defined in the ARC, billing services, and the utilization of distribution field staff to provide street light maintenance services. In the status quo structure, all of these staff are employees of the Plus Company. See the “stand alone” component of the report for estimates of the savings realized.
Work Groups and Reporting Structures In the status quo structure, all employees to the level of the CEO are employees of one company (the Plus Company), and functionally organized, so that work groups and reporting structures are well integrated.
Costs Associated with Implementation of the Change In the status quo option, there is no change, and therefore no associated cost.
Costs to Administer an ARC-compliant Transfer Pricing Regime Administration of the transfer pricing regime is carried out by the Plus Company. Information necessary for the sharing of costs of DES staff with the street light maintenance function is gathered through the work order system. Information required to allocate the costs of billing services is collected within the customer information system (number of bills), and through other analysis, such as call volumes and time. Information to allocate various shared corporate services is gathered through staff time records, invoice information, and financial information (such as number of invoices processed), or is based on information related to operations, such as square footage utilization of the building.

Option B: Transfer of DES only to Greater Sudbury (see Figure 2.4)

Savings from Sharing of Resources Since this option does not involve any actual change in the number of staff, the functions performed, or compensation, the value of sharing resources is unchanged from the status quo.
Work Groups and Reporting Structures Since the entire DES group is transferred in this option, there is no change in its internal organization or reporting structure. Reporting of the entire group to the CEO is not expected to be affected by the change under this option. All existing efficiencies should be maintained.
Costs Associated with Implementation of the Change There are no costs associated with corporate organization, since the number and nature of the affiliates is unchanged. Management has advised that no labour relations issues or costs related to a transition of payroll arrangements are anticipated in this scenario. No changes in employee job descriptions or compensation would be expected as compared with the status quo.
Costs to Administer an ARC-compliant Transfer Pricing Regime Since the sharing of services of the DES group would continue to be based on the work order system, no change in costs is anticipated.

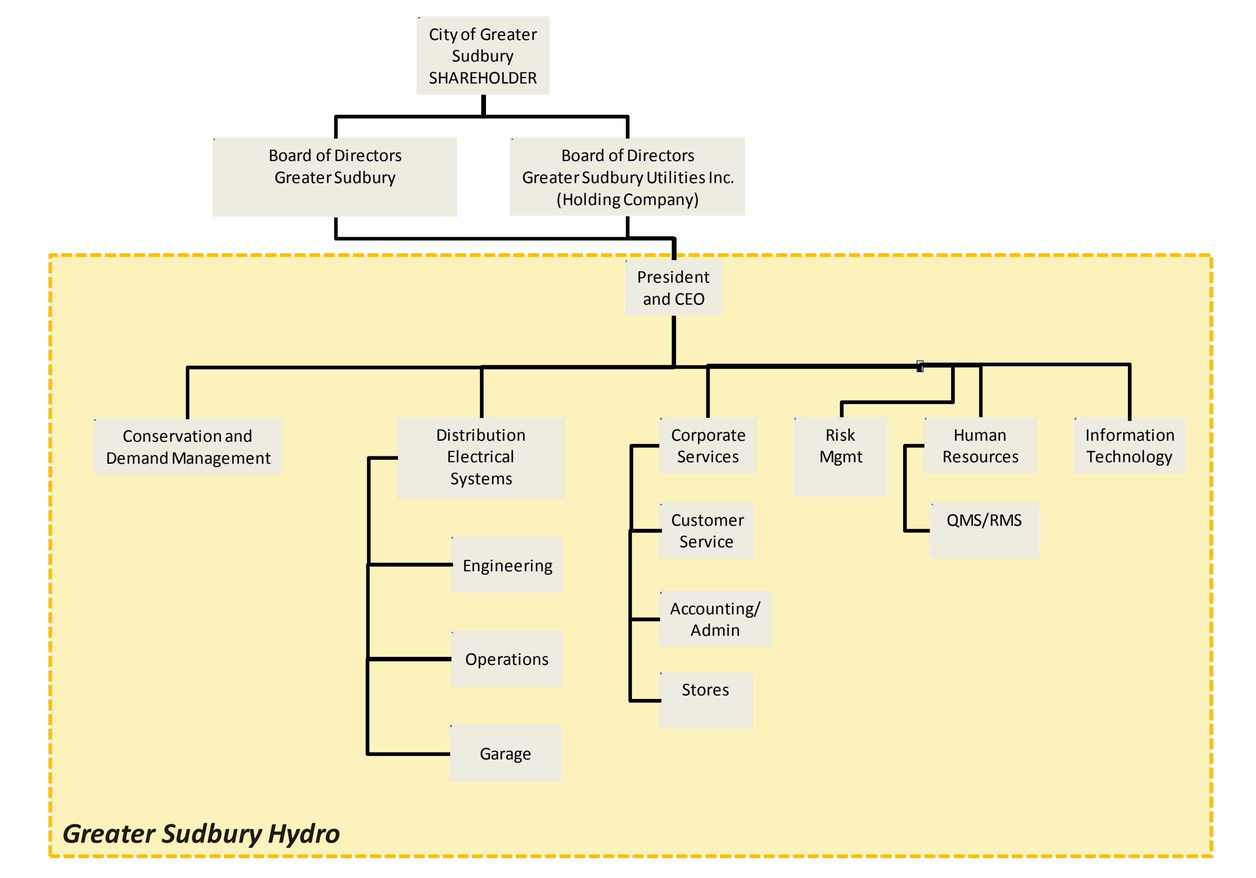
Figure 2.4: Organization Structure under Option B, Transfer of DES Staff to Greater Sudbury



Option C: Transfer of All Functions and Employees from the Plus Company to Greater Sudbury

Savings from Sharing of Resources In defining Option C, it is assumed that the businesses and level of activity of Greater Sudbury's affiliates would be unchanged from the status quo, and that therefore the level and type of demands for resources would be unchanged. Since the sharing of employees is allowed by the ARC, there should be no change in the required number or type of human resources, or their compensation. Since work groups would be transferred entirely, there would be no additional requirement for reporting or supervision. Management has indicated that no changes in compensation would result. It is therefore concluded that Option C would be neutral with Options A and B with regard to the benefits realizable from sharing of resources.
Work Groups and Reporting Structures Since the work groups would be transferred entirely, there would be no significant disruption to work groups or reporting structures. However, Option C clearly involves more changes, for more employees than Option B.
Costs Associated with Implementation of the Change There are no costs associated with corporate organization, since the number and nature of the affiliates is unchanged. Management has advised that no labour relations issues or costs related to a transition of payroll arrangements are anticipated in this scenario. No changes in employee job descriptions or compensation would be expected as compared with the status quo.
Costs to Administer an ARC-compliant Transfer Pricing Regime Since there would continue to be a sharing of services (both billing and "shared corporate services"), the requirement for an ARC-compliant transfer pricing regime would be unchanged. Staff responsible for administration of the regime would, under Option C, reside in Greater Sudbury, and would do all work related to transfer pricing on the same basis as if they resided within the Plus Company. All resources related to compilation of data to support transfer pricing would be available on the same basis as in the status quo. It is therefore concluded that there would be no changes in cost to administer an ARC-compliant transfer pricing regime under Option C.

Figure 2.5
Option C: Transfer of Shared Corporate Services, Customer Service and DES Group to Greater Sudbury



2.4 *Summary of Options and Conclusion*

On the basis of this analysis, it is concluded that Options B and C provide a mechanism for all provisions of Section 2 of the ARC to be complied with, and are therefore preferable to Option A. Of these two options, Option B involves fewer changes than Option C.

Transfer of the DES group of employees from the Plus Company into Greater Sudbury has the advantage over Option A of adding clarity and simplifying the sharing and transfer pricing arrangements for purposes of reporting to the OEB. Most of the activities of these staff serve the electricity distribution business of Greater Sudbury, and no transfer pricing is required for the majority of these costs if these staff are organizationally located within Greater Sudbury. Under this structure, the activities of DES employees for street lighting would be charged on a time basis to the affiliate that has the contractual responsibility for services to the City.

With respect to the billing services that are shared between Greater Sudbury for electricity billing and the Plus Company with respect to provision of water billing services to the City, all options require a transfer price to be established. Location of the billing resources within the Plus Company (Option B) has the advantage of conforming to the structure of contract currently in place with the City. While some LDCs are currently billing for water and sewer services using resources of the LDC (which would be the structure under Option C), the result is that the services are first provided by the LDC to its affiliate, and then re-sold by the affiliate to the municipality, resulting in additional complexities of contract administration. Location within the Plus Company would also facilitate an expansion of services, for example, to other LDCs, if such an opportunity were ever available to, and contemplated by management. These considerations therefore all favour Option B.

It is BDR's understanding of the ARC provisions related to "shared corporate Services" that these are key functions normally shared among affiliates and not normally contracted out to third parties; as such, fully allocated cost is the appropriate basis for transfer pricing of these services. The ARC is silent on the issue of whether such services should be housed in an affiliate or in the LDC, as long as the costs are allocated appropriately. Options A, B and C therefore appear neutral with respect to shared corporate services.

It is therefore concluded that Option B provides conditions necessary for ARC compliance and increases clarity in transfer pricing, and is therefore preferable to Option A. As compared with Option C, Option B is preferred because it minimizes the number of changes, conforms to current contract structures, and provides a structure under which opportunities for expansion of scale and scope could be pursued.

As explained in Section 1, Option B was implemented effective January 1, 2012. All analysis of shared services and transfer pricing arrangements in this report reflect the organizational structure of Option B. Specifically, there is no transfer pricing related to services performed for the distribution business by DES employees, but a transfer price does apply to services performed by DES employees in respect of street lighting services provided by the Plus Company to the City. Had Option A remained in effect, there would have been transfer pricing related to the distribution activities of the DES employees, and no transfer pricing related to street lighting activities.

3 TRANSFER PRICING REVIEW

3.1 *Overview of Inter-Affiliate Services*

3.1.1 Shared Corporate Services

The ARC, in providing direction as to inter-affiliate transfer pricing, provides the following important definition:

> "shared corporate services" means business functions that provide shared strategic management and policy support to the corporate group of which the utility is a member, relating to legal, regulatory, procurement services, building or real estate support services, information management services, information technology services, corporate administration, finance, tax, treasury, pensions, risk management, audit services, corporate planning, human resources, health and safety, communications, investor relations, trustee, or public affairs".[2]

Section 2.3.5 of the ARC provides that fully allocated cost based pricing is the appropriate treatment for these costs.

Greater Sudbury receives all of the shared corporate services listed below from the Plus Company.

- Executive and Board of Directors
- Insurance and risk management
- General financial services and regulatory services
- Procurement, inventory and stores services
- Human resources
- Information technology and telephone services.

All of these functions are part of the normal scope of activity of a local distribution company, and necessary to provide service to consumers. Through discussions with management, BDR ascertained that none of these functions duplicate a service that is self-supplied or otherwise procured by Greater Sudbury.

The charge made by the Plus Company to its affiliates, including Greater Sudbury, for all of the shared corporate services is a fully allocated share of actual cost, plus an allocated share of $36,000. The cost allocation methodologies result in a certain share of each type of cost being allocated by the Plus Company to itself. These allocations to the Plus Company amount to $36,000.

[2] ARC, Section 1.2.

Since the Plus Company at present has no functions or businesses other than to provide services to the affiliates, costs allocated to the Plus Company must then be re-allocated to the affiliates in order to ensure that all costs of the Plus Company are recovered.

BDR concurred with Plus Company management that this difference should be recovered from the affiliates in proportion to each affiliate's share of the specific allocated services provided by the Plus Company.

3.1.2 Other Services Provided by the Plus Company to Greater Sudbury

The service provided by the Plus Company to Greater Sudbury which is not a "shared corporate service" within the meaning of the ARC is billing and related customer services. The Plus Company provides these services on a shared basis to Greater Sudbury and to the City of Sudbury in respect of water billing. Section 3.3 of this report addresses billing services.

3.1.3 Services Exchanged between Agilis and Greater Sudbury

Greater Sudbury uses telecommunications services from its affiliate, Greater Sudbury Telecommunications Inc., which does business as Agilis Networks ("Agilis"). These services include interconnection of facilities in West Nippissing, telecommunications to support smart metering, and internet services. At present, fees are charged to Greater Sudbury by Agilis for some, but not all of these services. Management advised BDR that where a fee is paid by Greater Sudbury (for example for the use of fibre strands belonging to Agilis), the fee is at or below the fees charged by Agilis for similar services to its arms-length customers, and is therefore at or below a market-based rate.

Agilis uses Greater Sudbury's network of poles for its attachments, for which it pays the fee of $22.35 per attachment that applies by agreement to telecommunications attachments across Ontario.

BDR has concluded that these are "market" rates, appropriate to the circumstances and consistent with the ARC, and that no further review is required.

Agilis also occupies space (934 square meters out of 3,500 square meters in total) at a Greater Sudbury substation, for which no rent is paid. The space used by Agilis is also used by Greater Sudbury. Use by Agilis compensated through services provided at no charge. Agilis also pays for building improvements as required, and directly through separate metering for electricity consumed.

The present arrangement of under which Agilis provides some services to Greater Sudbury without fee is beneficial to the electricity customers, since the ARC allows a market-based fee to be charged to Greater Sudbury. As an offset, a fee could be charged to Agilis for rental of the substation space. However, management advised BDR, and BDR understands from its experience, that the space occupied is not of a quality that would normally have a market, and would therefore have insignificant value. BDR has therefore concluded that the arrangements between Greater Sudbury and Agilis for telecommunications services and use of space result in a net benefit to electricity customers.

3.1.4 Services Provided by Greater Sudbury

Greater Sudbury owns a building (500 Regent St.) which is used in providing directly assignable and shared services to the group of companies. All of the vehicles used by the companies are owned by Greater Sudbury. The basis of charges to affiliates for use of the building and vehicles is discussed in Section 3.4.

Greater Sudbury provides electricity distribution service to its affiliates. This service and pricing are regulated by the OEB. As such, no issue was considered to exist as to the appropriateness of transfer pricing with respect to these services.

As discussed in Section 2, effective January 1, 2012, the DES group of employees became part of Greater Sudbury. This group renders distribution engineering and operations services to the LDC, and, except for the sharing of linemen resources for purposes of street lighting, is 100% dedicated to the service of the electricity customers. Therefore the only allocation with respect to this cost is with respect to street lighting services. This allocation is addressed in Section 3.4.3.

3.2 *Transfer Pricing of Shared Corporate Services*

3.2.1 Pricing Based on Fully Allocated Costs

Pricing for all of the shared corporate services is cost-based. In reviewing the transfer pricing for the cost-based services, consideration was given to whether the total amounts are determined on the appropriate basis (i.e. cost as incurred, without arbitrary “markup”, but including, where applicable, depreciation, return on assets, and any payments in lieu of tax attracted by the return). Staff within the Plus Company is organized functionally, with departmental costs accumulated for allocation. For each of the shared corporate services listed except IT and telephone services, costs of shared resources and activities are allocated on a basis reflecting the use of the service by the affiliate companies. IT and telephone services are addressed by first allocating the cost of this function to the user departments. The allocated share of IT and telephone services is then considered, for shared service cost allocation purposes, to be part of the user department cost for allocation along with staffing and other costs of the user department.

Activities and outside services that are carried out in the Plus Company but which are used by only one affiliate (rather than shared) are specifically identified and the costs are passed through to that affiliate as incurred. As a result, certain costs (for example, membership in the Electricity Distributors Association and costs associated with compliance with regulation by the OEB) are borne 100% by Greater Sudbury. If a cost is specifically incurred for the benefit of an affiliate other than Greater Sudbury, this methodology results in Greater Sudbury being excluded from sharing in that cost.

In the course of the study, BDR discussed with management the issue of reflecting the sharing of employees in the treatment of costs for which number of employees is the cost driver. For example, an employee in the financial function performing services for several affiliates is supported by the services of human resources, risk management and the payroll function. This implies that a correct allocation of these services would reflect the allocated costs of the employees in other shared functions, rather than reflecting the formal employment arrangements. To implement such a refinement would require a second iteration of allocations.

In order to determine whether such a refinement should be pursued, management computed a reallocation of human resource and risk management costs. The impact was to reduce the allocation to Greater Sudbury by $17,000 or one half of one percent of its portion of allocated costs. Management therefore concluded that this approach did not result in a material change in the allocations, sufficient to justify the additional effort on a continuing basis.

On review, BDR accepts management's view that the additional level of allocation adds a level of complexity to the allocation computations that would need to be carried out on an on-going basis, and that the amount involved is small from the point of view of Greater Sudbury and its ratepayers. BDR's recommendations below as to employee-based allocations therefore accept a formal employment basis, rather than an allocated FTE basis, as reasonable.

3.2.2 Information Technology and Telephone Services

Costs of this function were first identified to the following categories: telephone systems; personal computers ("PCs"), Enterprise Resource Planning system ("ERP") and the fibre cable connection to West Nipissing ("WNES Fibre") WNES fibre serves three functions: the transfer of smart meter data from the West Nipissing service territory; connection of the telephone system to allow toll-free incoming calls from electricity customers in West Nipissing to call centre staff in Sudbury; and integration of staff telephones in West Nipissing with the Sudbury central phone system (operations). The WNES fibre costs were first assigned by management judgment as being related to smart meters, telephones and operations. The portions of costs related to smart meters and operations were allocated 100% to Greater Sudbury, since these relate entirely to electricity service. The component associated with phones was re-grouped with phone-related costs for re-allocation. The West Nipissing fibre telephone component was kept separate for purposes of allocation of a share of telephones to customer service and billing, as Greater Sudbury does not provide water billing services in West Nipissiing.

Systems for customer information and billing were specifically assigned to that function, and are addressed in Section 3.3.

For telephone systems, PCs and ERP the number of users in each affiliate and department was identified. PCs and ERP were allocated to departments based on the unweighted number of users. For telephones, a weighting factor was used in the allocation. Based on management judgment, customer service received a weighting factor of 2, to reflect the complexity of the telephone system supporting that function. All other functions received a weighting factor of 1.

The costs of IT and telephones allocated to shared functions were then incorporated into the total costs of those functions, to be allocated on the same basis as the other costs of those functions.

BDR considers this treatment to be in accordance with accepted principles of cost allocation.

3.2.3 Executive and Board of Directors

Costs of the Chief Executive Officer function include salaries of the CEO and an administrative assistant, and related expenses, including an allocation of IT, telephones and building costs.

Over the several months that preceded the preparation of this report, the Chief Executive and the administrative assistant have maintained records of time utilization. Those time records are being used to for budget estimates. The time tracking process will continue into the future.

BDR considers this treatment to be in accordance with accepted principles of cost allocation.

The governance structure of the corporations includes a Board of Directors for Greater Sudbury (the LDC) and a Board of Directors for Greater Sudbury Utilities Inc. (the holding company). Since the LDC has its own Board, the holding company board is almost entirely involved with the governance of the affiliates. The Plus Company management has therefore proposed that each Board be considered to cause

50% of the cost of the two Boards. The cost of one Board (or 50% of the total) is allocated entirely to Greater Sudbury, and the other 50% (the cost of the other Board) is allocated equally among the affiliate companies, excluding Greater Sudbury.

***BDR considers this treatment to be in accordance with accepted principles of cost allocation*.**

3.2.4 Insurance

Plus Company management advised that the insurer's invoice separately identifies the business functions insured and the related premiums. The insurance cost can therefore be directly assigned.

In BDR's view direct assignment of this expense is the treatment that best reflects accepted principles of cost allocation.

3.2.5 General Financial Services

These services comprise accounting, treasury, regulatory functions for Greater Sudbury, accounts payable and receivable, financial reporting and audits. It also includes employee payroll.

(a) Payroll

Activities of the payroll staff are specifically identified with affiliates as far as possible, and reflected in time tracking. For those activities that have a shared benefit, the related time is allocated based on number of employees on the payroll of each affiliate.

On review, BDR considers that the tracking of time, where possible, reflects cost causation and is consistent with accepted principles of cost allocation. For costs that cannot be identified with a specific affiliate, an allocation based on employees reflects cost causation with respect to this function, and is consistent with accepted principles of cost allocation.

(b) Accounts Payable

A time tracking system is used to record time spent where it can be specifically identified by affiliate. Where the time cannot be specifically identified, accounts payable costs are allocated based on the number of invoices processed. Management considers that the level of effort in processing invoices is relatively consistent, and that most invoices can be easily identified with one affiliate.

BDR considers this approach to be reflective of cost causation and consistent with accepted methods of cost allocation.

(c) Regulatory

This function provides the affiliates with all services related to compliance with regulation and licensing by the OEB. There is typically no activity with regard to maintaining licensing for the generation and competitive services business units, in practice the costs of this function can be attributed 100% to Greater Sudbury. The function is carried out in the Finance area of responsibility, and assignment of the costs is allocated according to time spent.

BDR considers that the allocation of costs of the regulatory function to Greater Sudbury is appropriate and consistent with accepted principles of cost allocation.

(d) Other Finance Functions

Where possible, the Plus Company identifies any costs that can be directly assigned to an affiliate. Costs that cannot be directly assigned are allocated according to the time of staff in the department. Data was collected through a time record system in 2011. For purposes of budgeting in 2012, staff was requested to provide an estimate of the proportion of their time used to provide service to each affiliate, which reflects the 2011 experience and expectations of activity in 2012. The time system will continue to be maintained, and management intends to true up the charges as actual data for 2012 become available.

BDR considers that time records are the most appropriate method for allocation of the costs of services that consist primarily of labour.

For purposes of forecasting, BDR considers that the time estimation approach is reasonable under the circumstances and reflects accepted principles of cost allocation

3.2.6 Administrative Services

This function is primarily related to payment processing. The cost is allocated according to the number of bills.

BDR considers this treatment to be in accordance with accepted principles of cost allocation.

3.2.7 Quality Management

Agilis and @home have their own quality management programs for which the costs are recorded separately. The costs of a quality management program are incurred by the Plus Company on behalf of Greater Sudbury, and therefore directly assigned to Greater Sudbury.

BDR considers this treatment to be in accordance with accepted principles of cost allocation.

3.2.8 Procurement and Stores Services

A percentage of the value of goods in inventory is applied, to recover the cost of procurement and stores services. This approach allocates the cost by the value of goods. The function is used primarily by Greater Sudbury, but the same percentage approach is used for inventory related to street lighting services provided to the City of Sudbury. Agilis (telecommunications) and the water heater businesses have arrangements with their suppliers that include warehousing services. As a result, they do not share in the costs of this function.

BDR considered methodologies that would more closely relate to cost drivers for this function, and concluded that procurement and warehousing overheads are causally related to a mix of factors which include complexity of procurement requirements, inventory turnover rate, handling and storage requirements, number of items and variety of items. Some or all of these factors might vary considerably on an item by item basis, and would be very complex to track and weight in an allocation formula.

BDR has therefore concluded that an allocation based on the value of issued inventory is reasonable in the circumstances, when applied to inventory items.

3.2.9 Human Resources

Services provided by this department include: employee records, labour relations, union contract administration, salary administration, staff training, staff recruitment, human rights management, and job evaluation administration. Where specific program costs are incurred for a specific affiliate (for example – training, search fees, advertising, legal fees, etc.) these costs are assigned directly. The remaining costs are allocated to affiliates on the basis of the number of employees in each business unit.

On review, BDR considers an allocation based on employees to reflect cost causation with respect to any parts of this function that cannot be directly assigned, to be consistent with accepted principles of cost allocation.

3.2.10 Risk Management

The service category designated as “Risk Management” was clarified as related entirely to programs for employee safety. Safety risks are considered by management to be higher for employees involved with the electricity system, and that therefore the function includes costs that focus on these risks.

At the time of the study, data were not available to allow costs specific to electricity-related safety programs to be separated.

As a result, 50% of the risk management costs are first allocated to Greater Sudbury. The remaining 50% of costs are allocated to the affiliates using number of employees.

BDR considers this simplified treatment to be reasonable in the absence of more detailed analysis of the programs that make up the Risk Management expense. BDR recommends that where possible, costs related specifically to electricity work risks be separately identified and directly assigned to Greater Sudbury before allocating the remaining (shared) activity costs using number of employees.

3.3 *Customer Services Related to Billing*

3.3.1 Issue Background

This transfer pricing study was undertaken to comply with the OEB’s order in EB-2008-0230. At that time, one of the major issues for intervenors was the sharing of billing and related costs incurred in the Plus Company between Greater Sudbury (for its electricity accounts) and the City of Sudbury (for its water accounts). At the time of that application, only 21% of the total costs were being allocated to the City, even though the number of water accounts and electricity accounts is almost the same. Intervenors argued that this ratio of accounts supports a relatively equal sharing of the costs. In ordering the present transfer pricing study to be performed, the OEB ordered Greater Sudbury to establish a variance account to record the differences and determine whether a future credit to ratepayers is appropriate.

Despite the fact that a number of Ontario distributors share the costs of customer billing with municipal water and sewer services on a cost recovery basis, customer billing is not a “shared corporate service” within the terms of the ARC. As a result, the first step in determining a pricing approach is to establish whether or not a “reasonably competitive market” exists. If there is no “reasonably competitive market”, the utility acquiring service from an affiliate may not pay more than fully allocated cost (including rate of return at the utility’s approved weighted average cost of capital. If it is established that a “reasonably competitive market” exists for the product or service, the utility may pay no more than the “market price”.

The ARC allows the utility to establish a market price by benchmarking if the value of the transaction is relatively small. Otherwise, the ARC provides that when renewing a contract with an affiliate, a competitive bidding process is the accepted manner to discover the market price. However, the ARC does not compel the utility to actually purchase from the lowest bidder in such a process, or even to consider the lowest price as the "market" price. The ARC is also silent on the issue of how competitive bids should be viewed and compared if the offered goods or services differ significantly. In purchasing a service, important differentiating features can include scope of services, quality of service, terms of payment, transition costs, seamlessness or synergies with other activities or services, other contract terms (such as offers of employment to existing employees of the utility), warranties and guarantees, reputation of the supplier, and financial stability of the supplier.

BDR has therefore adopted the following approach for this transfer pricing study. First, a cost allocation approach was developed, reflecting the assumption that either a "reasonably competitive market" does not exist, or that a market price is not discoverable under the current circumstances. The company reviewed the related costs as reflected in its accounts and considered the data available for the various factors of cost causation and proposed an initial methodology for cost-based pricing. This information and initial methodology was reviewed by BDR and fine-tuned in discussion with the company through several iterations as further analysis was undertaken, resulting in the cost-based pricing methodology set out in Section 3.3.2. The cost-based methodology has been adopted and applied to 2012 costs.

Second, BDR addressed the issue of whether a "reasonably competitive market" exists, and explored alternatives for the discovery of a market price. Market pricing is addressed in Section 3.3.3.

It is important to note that the function designated as "customer billing" actually includes several sub-functions, specifically call centre, meter reading, bill computation and printing, bill mailing, settlement, collections, and customer account maintenance.

To address these requirements, a distributor could make different supply arrangements for each sub-function, or for specialized components within a sub-function, creating a mix of self-supply, affiliate supply, and supply by one or more arms' length third parties. For example, a distributor might contract out production and mailing of bills, while maintaining an in-house call centre, or the reverse. A distributor with a business-hours call centre might nonetheless contract out call response outside business hours. Meter reading is a function that has frequently been contracted out by distributors.

In a cost-based transfer pricing approach, each of the components must be examined separately to determine whether or not the same allocation treatment is appropriate for all.

3.3.2 Fully-allocated Cost Approach

In proposing a cost allocation approach related to cost causation, it is important to start from an understanding that "billing" as a line item for reporting purposes is in fact the aggregate of a number of components that are different as to causation. Management worked in consultation with BDR to identify a list of subcomponents of "billing" cost at a level of differentiation that allowed each subcomponent to be considered homogeneous in terms of cost causation.

The initial step in addressing each subcomponent was to answer the question of whether costs could be directly identified as attributable to either electricity or water. If such an identification could be made, that information was used to assign the cost.

For the other subcomponents, the major factor or combination of factors in cost causation was identified by considering the nature of the function. These are summarized in the following table:

Table 3-1 Summary of Allocation Factors for Components of Billing and Customer Service Costs

Cost Component	Allocation Factor	Percentage Allocated to Electricity by this Method
Billing Expenses	Number of meters	50%
Customer Service/Account Management	Call volumes	60%
Collections Management	Call volumes	60%
Supervision and business analyst	Call volumes	60%
IT Costs and Amortization	Based on component drivers including telephones, desktop workstations, support and maintenance	50%
Stationery for billing	Combined factor of number of bills and number of printed characters on bills	60%
Postage for billing	As for stationery	60%
Miscellaneous	Number of bills	50%
Bank charges	Number of bills	50%
Occupancy cost	Number of bills	50%

Table 3-1 Summary of Allocation Factors for Components of Billing and Customer Service Costs		
Cost Component	**Allocation Factor**	**Percentage Allocated to Electricity by this Method**
Training	Call volumes	60%
Software Support	OEB Order in previous cost of service decision	79%
Hub support	Direct Assignment	100%
Cash processing	Number of bills	50%
Meter reading	Water related readings identified and charged directly to the City	13%
Wholesale and retail settlement	Costs identified to the function by time, directly assigned to electricity	100%
Third party collection costs	Electricity and water components charged directly by third party	100% of costs charged to electricity (water component charged directly to the City and not included in Greater Sudbury accounts)
Bad debts	Directly Identified	100% of electricity related amounts
Weighted Total		**61.4%**

This methodology incorporates certain refinements to the methodology initially considered by management and BDR, which was to use either number of calls or number of bills for each type of cost, as most appropriate. Bill printing and mailing costs were analyzed with respect to number of printed characters on the page. To develop an allocator for number of telephone calls, management retrieved data from the telephone system. Incoming calls are coded as water-related, electricity-related, or related to both, and also as to the nature of the inquiry. Since there is no way to estimate the split in conversation between water and electricity of calls coded as “both”, these calls were ignored in computing an allocation factor. The number of electricity-only calls and the number of water-only calls were summed. The allocation factor for electricity is the number of electricity-only calls divided by the sum, and the allocation factor for water is the number of water-only calls divided by the sum. This approach implicitly assumes that the utilization of resources between water and electricity on a “both” call will be in the same proportion as the number of calls for each individually. In BDR’s view, this assumption is reasonable.

For costs related to customer calls, a statistic weighted by the duration of effort associated with different types of calls would clearly be more accurate. The existing system does not provide this information. In BDR's opinion, if call duration information is not collected by an automated system, the choices available are to use a non-weighted number of calls, or to apply judgment to the number of calls. This decision should be made based on the level of confidence that management places in a judgmental weighting. At this time, management is not confident of a judgmental weighting. On that basis, a non-weighted number of calls is best in BDR's opinion, because the data are automatically collected without extra cost, and can be objectively verified. This approach implies the assumption that on average, the level of effort associated with electricity and water calls is the same. The approach can be revisiting in the future if better information becomes available.

Cost elements that can be identified as directly applicable to either electricity or water have been separated and treated accordingly. All other cost components have been allocated based on the number of bills, the number of telephone calls, number of printed characters on the shared bill, or a combination of factors as applicable. On review, BDR considers that this approach is reasonable and consistent with accepted principles of cost allocation.

3.3.3 Market Pricing

3.3.3.1 Does a "Reasonably Competitive Market Exist?"

The ARC requires a market approach to be taken to transfer pricing if a "reasonably competitive market" is found to exist. Research undertaken in connection with this study has determined that although self-supply is the most common approach of Ontario distributors, a few distributors are outsourcing elements of the group of activities related to billing. The question therefore is, is the existence of some alternatives to self-supply sufficient to justify a conclusion that a "reasonably competitive market" exists, or should a more rigorous criterion be applied?

BDR searched the Internet for definitions of "competitive market" and "competition" that could be used as a guide in answering this question. The following material was typical.

> **perfect competition**
>
> In economics, a market in which there are many potential and actual buyers and sellers, each being too small to be an individual influence on the price; there are no barriers to entry or exit; and the products being traded are identical. At the same time, the producers are seeking the maximum profit and consumers the best value for money. Consumers have perfect knowledge of this type of market.

The unrealistic, underlying assumptions behind this type of market mean that perfect competition is a theoretical model rather than a practical reality. Nevertheless some elements are applicable in free trade.

Source: http://encyclopedia.farlex.com/Competitive+market

COMPETITIVE MARKET:

A market with a large number of buyers and sellers, such that no single buyer or seller is able to influence the price or control any other aspect of the market. That is, none of the participants have significant market control. A competitive market achieves efficiency in the allocation of scarce resources if no other market failures are present.

http://www.amosweb.com/cgi-bin/awb_nav.pl?s=wpd&c=dsp&k=competitive+market

Competitive Markets

Competitive markets are characterised by:

Many firms as opposed to a small number
Low barriers to entry and exit. - Contestable market
Low profits of incumbent firms
Relatively low prices.

http://www.economicshelp.org/dictionary/c/competitive-markets.html

What Is a Purely Competitive Market?

By Indrajit Dutta, eHow Contributor updated July 12, 2011

Also known as perfect competition, a purely competitive market supports free trade. The basis of the model is the assumption that no player in the market is so big or so strong that it can control the industry. Several buyers and sellers exist, and each one is small. Companies can sell any quantity of output at the market price. The firms in this form of market face a horizontal demand curve, and all firms produce homogenous products.

Large Numbers of Buyers and Sellers

- A large number of small sellers and buyers exist in this market form. No entity is so powerful that it can change the face or direction of the industry. No firm can yield any control over the price or quantity of the product. Even if any firm increases or decreases prices and output, the industry as a whole remains unaffected.

Identical Products

- Under a purely competitive market form, every firm in the industry manufactures homogenous and identical products. The ultimate consumers cannot distinguish any difference in the products of competitors. The product of one firm is a perfect substitute for a competitor's product. If a firm changes the price of the product, buyers immediately switch to a competitor's product. Similarly, if one firm lowers prices, buyers all start purchasing from this firm.

Free Entry and Exit

- Firms can freely enter and exit from the industry at their own discretion. No major barriers exist to the entry or exit of firms, and firms do not have difficulty complying with governmental rules and regulations. In addition, the industry scenario remains unaffected by the entry or exit of firms. For example, if an industry has four firms and two additional players enter the industry, the amounts of revenues and profits could remain the same.

Complete Knowledge

- In the purely competitive market condition, all buyers and sellers have complete knowledge of a firm's prices and products. All firms in the industry manufacture their products using similar technologies and systems, and the production turnaround times and strategies are identical. If any firm tries to affect the market by raising prices or by changing the product, buyers would merely switch to the competitors' product.

http://www.ehow.com/info_8725298_purely-competitive-market.html

Each of the key criteria that appear to be part of a generally accepted definition is discussed below:

(a) Many Potential and Actual Buyers and Sellers

Ontario situation:

In the Ontario electricity distribution sector, there are currently 70-80 potential buyers. However, of these, many self-supply directly as part of their distribution business, and others self-supply through an affiliate. Except for meter reading services which, until the advent of Smart Meters, was widely contracted out to for-profit firms specializing in that line of business, and market settlement, for which there is a small number of specialized third party suppliers, Ontario is not a marketplace in which many specialized sellers of customer billing and related services provide such services to electricity distributors. Based on a sample of distributors, a typical type of third party supplier (see PUC Services and Ecaliber in the table below) is an affiliate of a distributor, seeking to obtain economies of scale to reduce the costs of supply to its affiliated distributor.

At the time of this report, BDR was advised that Greater Sudbury had received two quotations solicitations for call centre services from specialized third party suppliers. It can be reasonably assumed that if Greater Sudbury issued a Request for Proposals to supply billing and related services, it would receive proposals from specialized sellers and from the affiliates of other Ontario distributors. These proposals might be for the total bundle of billing and related services, or for components of the services.

Discussion:

There are many products and services in which for-profit suppliers compete with the consumer's self-supply option, as well as with one-another. For example, a consumer of a family dinner can choose to prepare the meal at home, to heat and serve prepared food from the grocery store, or to purchase a restaurant meal. Domestic cleaning services, gardeners, painters and car washes also compete with self-supply. Nonetheless, there is typically no doubt that these services have a "reasonably competitive market", because the number of actual buyers is sufficient to permit multiple for-profit suppliers to survive. However, if the situation in a specific community were such that almost all homeowners did their own gardening, with a few obtaining services from a relative or neighbor, that community could not, in our view, be said to have a "reasonably competitive market" for gardening services, even though there were many *potential* buyers, as long as the number of actual buyers does not support the existence of a number of competing sellers.

A change that might affect whether a largely self-supply consumer population could be said to be part of a "reasonably competitive market" is the commencement of solicitation of these consumers to purchase some or all of their supply from a for-profit supplier. To continue the example of the gardening community, if several (not only one or two) gardening services from a neighboring community began to solicit the home gardeners by phone, mail or door-to-door solicitation, those consumers might be said to be part of a "reasonably competitive market" even if most of them ultimately chose to continue cutting their own lawns and planting their own flowers.

(b) Identical Products

Ontario situation:

The essential requirements for billing and related services are similar for all Ontario distributors. However, distributors have individual strategies in terms of the computer systems and business processes that are used to address these requirements, and to interface with other systems and business processes. As well, because self-supply is generally preferred, the service elements being or proposed to be outsourced will not necessarily be the same.

Discussion:

For example, one distributor might choose to outsource full call centre functions; another, partial call centre functions; another bill mailing; and another, CIS system and bill computation. Different suppliers might offer different value added options, such as supervision or program management, or bundles with a wider scope of field services, training or management services. As such, it may not be simple to compare services or prices.

(c) Perfect Knowledge

Ontario Situation:

The nature of the service is not such that "price tags" are open to view. In making a price and service offer to an individual distributor, a competitive supplier would not be required to make its proposal public information. Keeping pricing confidential would be to the advantage of bidders; it would enable them to make different price offers to different potential customers.

Electricity distributors are regulated by the OEB. In their cost of service filings they are required to disclose:

- Customer billing costs as a line item, for historic years and a forecast year
- The names of arms' length suppliers and value of the contract on an annual basis, and broadly, the nature of the goods or services.

They are not required to disclose the basis of pricing, the volume of goods or services, or details at a level that would allow prices to be effectively computed and compared.

Discussion:

While the absence of "perfect information" disqualifies this as a perfectly competitive market, a competitive tendering or RFP process would allow the purchaser to make fairly good comparisons of value before selecting the preferred supplier.

(d) Free Entry and Exit

Ontario Situation:

There are no specific barriers to entry in terms of regulation or taxation of potential suppliers. However, there are requirements for bill computation, for market settlement and for customer service that are established in Ontario by legislation and regulation. The business processes of the distributor must comply with all requirements, whether the activity is self-supplied or contracted out.

As a result, a vendor which is not itself a distributor or service affiliate of a distributor would need to acquire at least a minimum size customer base in order to make the costs of a compliant system and business processes sustainable. A vendor who is awarded a first contract by a small distributor would thus face some risk in making the commitment without the assurance of enough additional contracts to achieve necessary economies of scale. The vendor would need contracts of sufficiently long term to recover costs of system development, employee training, and on-going modifications to address changing requirements as they occur. These risks may be perceived as barriers to entry by vendors.

Discussion:

Although the factor of barriers to entry is generally interpreted as applicable to sellers rather than to buyers, with respect to a core business process such as customer service and billing, there are clear barriers applicable to the buyer. If the distributor is self-supplying directly or through a service affiliate, and chooses to contract out to an arms-length supplier, the distributor or its affiliate may have to write off the cost of adequate systems or call centre technology and make alternative arrangements for the employment of staff, unless the successful bidder agrees to make offers of employment. This may mean that even if the seller's price offer is adequate in terms of service quality and otherwise compares well in terms of cost, the transition costs may be high enough to make the business case for contracting out poor in the medium term.

Furthermore, once the transition to outsourcing has been made, the costs of re-establishing self-supply would become all but prohibitive. Depending on the investments necessary to put systems and staff in place, it is possible that once the choice of vendor has been made, the cost advantages to that vendor will be so significant that the distributor will be effectively "wedded" to that vendor for decades because of the costs and uncertainties of transitioning to a new vendor. For example, in its 2010 Annual Report, Hydro One reported its risk as follows:

> "Consistent with our strategy of reducing operating costs, we amended and extended our outsourcing services agreement with Inergi LP, effectively renewing the arrangement until February 28, 2015. If the agreement with Inergi LP is terminated for any reason, we could be required to incur significant expenses to transfer to another service provider, which could have a material adverse effect on our business, operating results, financial condition or prospects."[3]

These considerations are of course more significant as long as short term cost, rather than quality of service and control over services, is the key consideration in the

[3] Hydro One 2012 Annual Report, page 39.

decision. Recent cases, including those of Terasen Gas (now FortisBC) and ENMAX, provide examples of early adopters of outsourcing models now returning to self-supply, and are discussed in the following section.

However, it can be concluded that in this situation, barriers to entry and exit exist for both the seller and the buyer.

3.3.3.2 Trends in Sourcing of Utility Customer Care and Billing Functions

Extensive information can be found related to trends sourcing of customer care and billing functions among major North American utilities in material filed by Terasen Gas (now FortisBC) in its June, 2009 application to the BCUC for a Certificate of Public Convenience and Necessity approving the plan and costs to acquire assets (including systems) and staffing to bring its customer care and billing functions in-house after a decade of outsourcing[4]. Included in over 600 pages of its Amended Application dated August 28, 2009 are expert reviews of the qualification of potential suppliers and a series of case studies of other utilities who were early adopters of an outsourcing model, and have now returned, or are considering return, to significant self-supply of these business activities. Concerns expressed included lack of flexibility to respond to new demands created by business or regulatory needs, declining levels of specific utility knowledge and skills of call centre and billing staff (exacerbated by relocation, especially offshore), and lack of control over the response to these factors by the utility itself.

The application, requesting approval for a capital expenditure of $155 million[5], included analysis supporting the reasonableness of the expected long term costs, but the management decision to propose a move to significant self-supply was based primarily on the issues of control, quality of service, and the ability to respond to changes in the business environment and in the expectations of customers.

In 2002, Terasen Gas began to procure its customer care services including the call centre, meter reading, billing and collection activities through a Business Process Outsourcing ("BPO") agreement with CustomerWorks LP. As with most of the early utility BPO deals, Terasen Gas' outsourcing arrangement with CustomerWorks LP was based on an asset transfer model. Under this model, the provider (in this case CustomerWorks LP) acquires the resources and systems of the outsourcing utility client in order to build the base capabilities to support the services going forward. A key assumption made at the time these deals were negotiated was that the systems and business processes of these anchor clients would form the basis for a platform of

[4] http://www.bcuc.com/Documents/Proceedings/2009/DOC_22716_B4_TGI_Amended_Application.pdf

[5] Cost estimates were later reduced to $115 million, and actual project cost was slightly less than this figure.

operational and technical capabilities that would launch additional business opportunities for the outsourcer and would lead to efficiencies and economies of scale that would benefit the outsourcer, the client company and its customers. A further assumption was that the systems and processes would be sustainable over the long term and that changes would be facilitated through the addition of new clients and the scope change provisions of the agreement.

Although the arrangement met Terasen's original outsourcing objectives and in general met service levels for measured metrics, Terasen considered that the quality of service provided to customers in recent years had declined. The service provider was unable to leverage the technical platform for use by other clients and therefore only made minimal investments to sustain the supporting applications to meet the terms and conditions of the Client Services Agreement. The business processes also remained static and largely reflect the way the functions were performed prior to outsourcing.

After several years, the overall sustainability of the Business Process Outsourcing arrangement with CustomerWorks LP became a concern. Without significant investment the outsourcing arrangement could not keep pace with the Company's changing business needs and customer expectations related to service delivery and increased information. Terasen Gas identified two key factors that challenged the sustainability of the arrangement with CustomerWorks LP:

1. Investment was required to upgrade to more robust CIS and call centre technologies; and
2. Investment was required to support a more skilled workforce.

After extensive analysis, Terasen recommended what it termed a "Strategic Outsourcing" model, whereby the utility assumes direct control of customer facing processes and critical customer process technologies, supported by outsourcing of certain selected specialized services.

In its final submissions in the case, Terasen summarized its reasons for proposing a return to self-service of customer care functions (specifically, call centre and customer billing), Terasen said:

> "Outsourcing, by its very nature, limits the Company's ability to exercise direct control over critical, customer facing processes. In the past, this was an acceptable trade-off for relative cost certainty and transfer of risk. However, the dynamics of the existing outsourcing relationship have changed such that the benefits of cost certainty and risk transfer are no longer present to the same degree. Necessary service improvements, such as adding service channels or updating service metrics that have remained static since 2001, come at an additional cost to customers (determined through "captive" negotiations with the incumbent) with no real assurance of success in meeting the challenges. The declining state of customer service under the current arrangement, and the

> increasing disconnect between the level of service [Terasen] is currently capable of providing and what customers expect to receive, represent long-term risks to the Company and its customers …. [A] Strategic Sourcing model in which the CIS, call center, and billing and back office functions are brought in-house, and high volume, specialized transactions remain outsourced, will best serve [Terasen's] customers. Bringing key customer service functions in-house allows the customer care function to be developed as a strategic asset, which can be used to alter existing services and implement new ones cost effectively."[6]

After some adjustments to the amounts involved, Terasen received its Certificate of Public Convenience and Necessity from the BCUC in February 2010, and its own call centres will open in British Columbia in 2012.

Discussion:

This experience, tested in a rigorous regulatory process, effectively endorses the view that customer billing and call centre services are a "strategic asset" requiring appropriate internal governance, in the same way as many of the "shared corporate services" as defined in the ARC. While benchmarking and cost comparison of alternatives, whether internally or externally provided, are always appropriate and impose a valuable level of discipline on a regulated utility, it raises questions as to the appropriate role of third party pricing, as established through a competitive tendering process, in determining affiliate transfer pricing for these functions.

In the case of Greater Sudbury, the service provider is an affiliate, and the letter of the ARC would require competitive tendering on expiry of the existing Service Agreement. Depending on the results, Greater Sudbury would be in the position of having to directly in-house the function, with potential issues in terms of continuing to share costs with the municipality, or to accept a third party provider and with it, all the concerns and risks that Terasen and others began in recent years to find unacceptable. Under the current arrangement, the shared governance structure as between the Plus Company and Greater Sudbury effectively provides Greater Sudbury the same control over customer care as a strategic asset as would be the case if this function were conducted by Greater Sudbury directly.

It is also possible that the result of this trend to insourcing will impede further development of a competitive market for third party customer care services, perhaps except for shared service arrangements among LDCs themselves in Ontario.

[6] An Application by Terasen Gas Inc. for a Certificate of Public Convenience and Necessity for the Customer Care Enhancement Project, Submissions of Terasen Gas Inc. December 9, 2009, page 2

3.3.4 Analysis of Available Benchmark Pricing Data

3.3.4.1 Purpose of the Analysis

In the absence of pricing obtained through a competitive tendering process, the best available alternative in determining what might be a market price for billing services would be to examine, to the extent available:

(a) the costs achieved by other utilities who have contracted out the services; and
(b) the costs levels of other utilities who are self-supplying.

In this section, we examine the limited data found in connection with this study.

It should be noted that only a very small number of Ontario LDCs have outsourced to arms' length parties the full range of billing and customer care services provided to Greater Sudbury by the Plus Company. Conclusions must therefore be drawn based on those, with additional consideration of examples where part of the services are outsourced to third parties.

The purpose of examining the cost levels of self-supplying LDCs is that the cost of continuing the self-supply option would presumably be one of the most important elements in developing the business case for contracting out. While the ARC mandates a business case only if the proposed supplier of a previously self-supplied service is an affiliate, one would expect the same level of prudent analysis to govern a decision to outsource where the supplier is an arms' length third party.

3.3.4.2 Comparison of Greater Sudbury's Billing Costs with Ontario LDCs, based on Historical Statistical Summary

For this comparison, recent statistics, compiled on a consistent basis, as to billing cost in each Ontario LDC would have been desirable. The best available LDC financial and statistical database is released annually by the OEB. Unfortunately for purposes of this study, 2007 was the last year in which billing cost was a separate line item on the OEB's statistical report.

The 2007 report[7] was therefore examined before moving on to less global but more current data.

For each of the 84 LDCs then existing, the data was extracted for the cost of billing and collection included in OM&A, and for the number of customers excluding street lighting connections. The cost was divided by number of customers, to compute a

[7] www.ontarioenergyboard.ca Comparison_of_distributors_20081203@2012-07-09T20;53;44.xls

cost of billing and collection expense per customer. These results were then sorted lowest to highest and graphed. Greater Sudbury's reported value of $36.16 per customer ranked it in the best quartile (20th of 84). The average value was $51, and the median value $49.

Figure 3.1 illustrates these results.

This comparison assumes that all LDCs reported the data on the same basis. We therefore next looked at total billing and collection costs reported for historic and budget years in Greater Sudbury's previous cost of service application.[8] Rather than a total of $1.5 million as reported in the OEB's statistical summary, Greater Sudbury reported total billing and collection expenses for 2007 in that cost of service filing of $2.15 million. Management confirmed that this figure included the costs of the West Nipissing service territory (which was not the case in the OEB statistical summary, and also costs for building occupancy and IT related to the function. At $2.15 million, the average cost per customer would be $49.81, or approximately the average and median value of the range of LDCs, assuming that other LDCs' figures included meter reading, bad debts and miscellaneous. BDR did not canvas other LDCs to determine the basis of their reported costs.

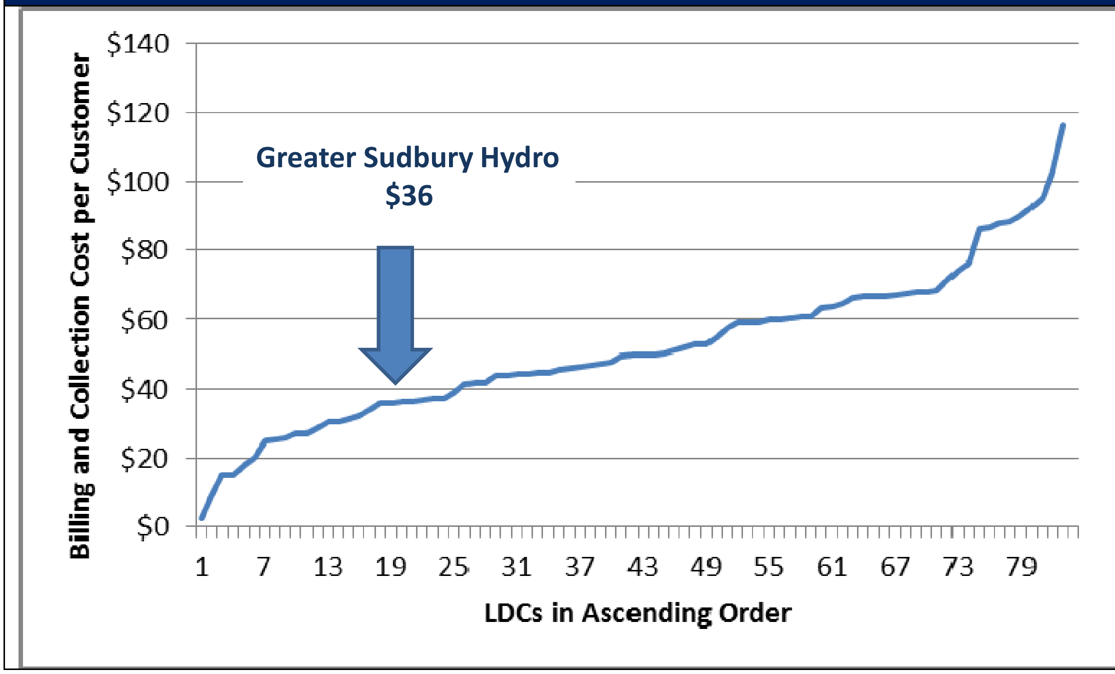
As projected for the 2009 test year, Greater Sudbury's total billing costs were $2.5 million, or $53 per customer, based on the costs and allocation formula at that time. If it is estimated that the billing costs of other LDCs increased by about 5% between 2007 and 2009, Greater Sudbury's projected billing costs per customer for its 2009 test year would still have been, at worst, about average for an Ontario LDC.

Management provided BDR with several figures related to 2012 projected billing costs for purposes of comparison. The total OM&A forecast in the Plus Company for billing and related expenses was $3.1, and the methodology proposed by management and reviewed by BDR allocates $1.9 million to Greater Sudbury for electricity billing. Assuming 47,000 customers, and an allocation of 79% or $2.45 million to Greater Sudbury as proposed in the 2009 cost of service application, the cost per electricity customer would be $52, approximately the same level as in 2009. Assuming that the customer billing costs of all LDCs rose by ten percent between 2007 and 2012, this would put Greater Sudbury 25th, or in the best one-third of LDCs. If it is assumed that the allocation, as presently proposed, is about 61.4% of the costs, the cost per customer would be only $40, putting Greater Sudbury in the best third of LDCs for 2012. Note that the figure for Greater Sudbury includes the cost of the computer systems and facilities supporting customer care and billing, and BDR has not clarified whether the data for other LDCs is on the same basis.

[8] Greater Sudbury Hydro Inc. EB-2008-0230 Exhibit 4 Tab 2 Schedule 2 Page 2 of 2 Filed: December 22, 2008

The analysis generally supports the conclusion that at least half and potentially as many as two-thirds of Ontario LDCs would have a better business case for third party outsourcing at any given price than Greater Sudbury. If these LDCs have not outsourced to a third party, it is reasonable to assume that either those LDCs have not been offered an outsourcing opportunity at a satisfactory pricing level, or other considerations outweigh the benefits of a favourable price.

Figure 3.1: Billing and Collection Costs Per Customer, 2007, from OEB Statistical Data



3.3.4.3 Comparison of Greater Sudbury's Billing Costs with Available Benchmarks for Contracting Out

The following examples of costs related to contracting out of billing-related services were examined:

- Hydro One Networks
- Oshawa PUC Networks Inc.
- Newmarket Tay Power

As pointed out previously in this report, one difficulty in making pricing comparisons for outsourced services is that for different utilities, the bundle of services outsourced may be different. No detailed pricing was available, and in any case the prices might not have been directly comparable. Therefore the approach was taken of comparing the total costs of each utility for billing and collection (i.e. excluding meter reading and bad debts), where each consists of a different combination of contracted and self-supplied services.

According to Hydro One's distribution cost of service application for 2010 distribution rates[9] the Customer Care services of billing, settlements, contact handling, and collections are delivered through an outsourcing contract with Inergi LP. The Base Services represent the largest cost component of the Customer Care Work Program, and include the provision of meter reading, billing, settlements, contact handling and collection services to Hydro One Distribution customers, as well as work activity related to policy, planning, and service management. According to Table 1 on page 3 of 13, 2011 costs for the base services were forecast at $81.5 million. Of this, customer service operations includes billing, contact handling, collections and settlements services, and was forecast at a cost of $42 million. Because Hydro One Distribution serves a predominantly low density service territory, it is reasonable to consider only centralized office functions in making comparisons with an urban distributor. Hydro One has approximately 1.2 million customers, bringing the costs of billing, contact handling, collections and settlements services at the forecast 2011 level to about $35 per customer.

According to its cost of service filing in 2011[10] Oshawa PUC Networks Inc. outsources billing to a non-affiliated third party, but has its own customer service staff. Since a significant service is outsourced by Oshawa, however, the information was reviewed. For its 2011 bridge year, Oshawa forecast $994,000 for billing and $347,000 for collecting, giving a total of $1,341,000, which appears comparable to the figures shown above for Hydro One Networks. Oshawa serves about 53,000 customers, so that the amount per customer for these services is $25.

Newmarket Tay Power[11] contracts with Olameter, an arms-length third party, to provide meter reading, billing, collections, processing, scanning, printing, envelope stuffing and mailing. In addition to the resources provided by the third party, Newmarket Tay appears from its filed material[12] to have a billing supervisor and a billing assistant (2 FTEs) on its own staff, as well as 10 customer service staff, including a manager, to fulfill requirements related to billing and call centre services. This illustrates that many combinations of outsourced and self-supplied services are possible, and that in-depth analysis would be required in order to be sure that price benchmarking is an "apples to apples" comparison. Newmarket Tay's combined costs for billing and collections in 2010 are shown at $1.45 million (including

[9] Updated: September 25, 2009 EB-2009-0096 Exhibit C1 Tab 2 Schedule 5 Page 2 of 13

[10] Oshawa PUC Networks Inc. EB-2011-0073 Exhibit 4 Page 23 of 196 Filed: May 31, 2011
[11] Newmarket Tay Power Filed: July 21st, 2010 EB-2009-0269 Exhibit 4 Tab 3 Schedule 1 Page 1 of 9.
[12] Newmarket Tay Power Filed: July 21st, 2010 EB-2009-0269 Exhibit 1 Tab 2 Schedule 3

supervision, billing and collection, but not reading or bad debts) for 32,672 customers, or $44 per customer.

BDR used the total billing costs, net of reading and bad debts, proposed to be allocated to electricity based on the methodology described in Section 3.3.2 as the best comparison with the costs of these three benchmark utilities. This figure is approximately $1.6 million, based on 2012 budget figures, or $35 per customer. This is approximately the average cost level of the three benchmark utilities, or slightly better than average, given that the Greater Sudbury data is for 2012 and the data for the other utilities is from earlier years.

While the comparison sample is admittedly a small one, BDR concludes that the total cost of electricity billing services to Greater Sudbury customers as provided by the Plus Company and priced on the proposed fully-allocated cost basis is reasonable by comparison with other Ontario LDCs who contract out some or all of the services to arms' length third parties.

3.3.5 Conclusions as to Market-Based Pricing

On review, BDR has concluded that a number of sources of supply for billing services may be available to Greater Sudbury. However, it is also concluded that scale and scope issues present some barriers to supplier participation. Although management advised BDR that Greater Sudbury had received two proposals from suppliers of call centre services, it has not received solicitations from third parties to outsource the full business process related to billing. The benchmarking survey did not suggest that other LDCs are moving toward third party outsourcing of what Terasen called the "strategic" components of its billing services. It is therefore concluded either that specialized providers are not actively pursuing these potential clients, or that like Terasen, LDCs are not seeing outsourcing to third parties as desirable when compared with self-supply within the LDC or supply by an affiliate under conditions where the LDC management, or a common management, has control of all aspects of this strategic business process.

Also of key significance in our view are the barriers that prevent ready change by a distributor among the supply choices that may be available, in response to changes in pricing opportunities, level of service, or strategic issues. This includes changes from one third party supplier to another, or from a third party supplier to self-supply. We therefore conclude that even where competing offers are available, a simple review of pricing would not be sufficient to allow comparison of the total costs and benefits of staying with an established supplier (whether self-supply, supply by an affiliate, or supply by an arms' length vendor) as compared with returning to self-supply or with an alternative offer received in a competitive tender or RFP process. A requirement by an LDC in its RFP that competitive bidders absorb the transition costs might assist in establishing a level playing field;

however, it may also result in no proposals being received, or in the length of contract being so long as to preclude competition in the future.

3.3.6 Effects of Competition for Water Billing Services

This transfer pricing study has concentrated on consideration of the appropriate pricing for customer billing services as they apply to the electricity bills rendered by Greater Sudbury. However, the potential impact of the alternatives available to the City of Sudbury for water billing on the cost responsibility of Greater Sudbury can be considered as an issue in appropriate pricing of the water billing services. Under the current organizational structure, the sale of water billing services by the Plus Company to the City of Sudbury is not an affiliate transaction; but if the City of Sudbury failed to renew its contract, and if the Plus Company was not able to find another client for its billing services, there would be no choice but to move the billing function into Greater Sudbury and to request approval by the OEB to include the costs in Greater Sudbury's proposed revenue requirement in its next cost of service application.

Cambridge North Dumfries Hydro recently lost a contract to supply the City of Cambridge and the Regional Municipality of Waterloo with billing services. The contract provided the distributor with $689,000 in revenues on a cost recovery basis. The distributor revised its cost of service application to request recovery of $440,000 as the amount of lost revenue net of realizable savings. In its Decision in EB-2009-0260, the OEB noted[13] that some costs would take time to be removed from the billing cost base, and other costs could probably never be removed. The OEB therefore gave the distributor approval to recover some of the lost billing revenue in the distribution revenue requirement, thereby increasing the costs to electricity customers.

Similarly, the City of Barrie has recently brought its water billing in-house, terminating the service it had previously received from PowerStream. PowerStream is scheduled to rebase in 2013.

From the standpoint of the interests of Greater Sudbury's electricity consumers, to the extent that they benefit from the sharing of billing costs with the City of Sudbury, an allocation approach that results in a charge to the City which is above market, or above the costs of self-supply to the City, risks causing the City to cancel the sharing arrangement, thereby increasing the costs that must be absorbed by electricity ratepayers.

[13] Page 20 of the Decision.

Section 4 of this report addresses the "stand alone" service model, and estimates the effect on the costs of Greater Sudbury that might arise from self-supply by Greater Sudbury of billing services.

3.3.7 Results of Transfer Pricing Methodology Review with Respect to Billing

For the reasons set out in Section 3.3.5, BDR has concluded that a market-based price for billing services rendered by the Plus Company to Greater Sudbury either does not exist or is not discoverable, and that a transfer price based on fully-allocated cost is in compliance with the transfer pricing provisions of the ARC.

Management provided BDR with budget figures for billing for 2012, broken down into the categories specified in Section 3.3.2. That methodology resulted in some costs being allocated on the basis of number of bills, some costs being allocated on the basis of number of telephone calls, some costs being allocated by more refined analysis approaches, and some costs being specifically identified and directly assigned either to water or to electricity. The analysis resulted in bill-based allocation factor of 50% to electricity and a call-based allocation factor of 60% to electricity. In aggregate, the proportion of billing costs allocated and directly assigned to electricity by this methodology, and based on 2012 budget is **61.4%..**

BDR has concluded that the allocation approach is reasonable and consistent with accepted methods of cost allocation.

3.4 *Services Provided by Greater Sudbury to Affiliates*

3.4.1 Vehicles

The affiliate companies make use of vehicles owned by Greater Sudbury.
Costs are allocated by applying an hourly charge-out rate to all vehicle usage. When an employee logs time to the work order system, the associated use of vehicle is tracked by work order within Greater Sudbury and also to the affiliates. Rates are set to recover actual costs when applied to all vehicle hours, where actual cost includes fuel, maintenance, and amortization. Different rates are set for each of several vehicle classes, based on review by Finance staff as to the relative cost of each vehicle class.

In discussion with management, BDR determined that allocated costs include depreciation but do not include a rate of return on capital.

BDR notes that vehicle use would be a service for which there may be a market. Section 2.3.3.6 of the ARC requires that for such services, when sold by the utility to an affiliate, the price should be no less than the greater of fully allocated cost or the market price. For large vehicles and construction equipment, a charge is made by competitive contractors when the equipment is used in conjunction with a contract for labour. Greater Sudbury has also rented vehicles without labour on a monthly basis. The charges incurred for these services represent a market comparator and the data shared with BDR indicates that this market price when applied on an hourly basis is approximately 30% lower than Greater Sudbury's charges, and does not include fuel or certain other costs. BDR has therefore concluded that the transfer price based on fully allocated cost would in this case exceed a market-based price.

For ordinary passenger vehicles a potential market comparator exists in the rates of competitive hourly and daily renters such as Zipcars[14]. At the time of this report, the hourly rate posted on the website of Zipcars was $9.00 per hour, and the rate for 24 hour usage was $71 per day. These rates include insurance and fuel. Zipcars does not operate in the Sudbury area at this time, and therefore while it provides a price benchmark, it does not represent a true arms' length alternative to the service provided by Greater Sudbury.

Greater Sudbury's cost-based hourly charge for 2012 for passenger vehicles is in excess of $10 per hour. On that basis, fully allocated cost is the greater of cost or market.

On review, BDR concludes that fully allocated cost is the appropriate basis for pricing for the use of Greater Sudbury's vehicles by affiliates. The allocation of costs based on hourly use, at rates that reflect the costs of vehicle classes, is reasonable and in accordance with accepted principles of cost allocation.

BDR recommends that rate of return be included in the cost base for rates charged to affiliates for vehicle usage. BDR also recommends that allocated vehicle usage costs is a reasonable basis for allocation of building costs for the garage.

3.4.2 Building

The Plus Company owns no buildings. Greater Sudbury owns the head office and service centre complex at 500 Regent Street, the Dash Substation and a building in West Nipissing. The West Nipissing building is entirely dedicated to the use of Greater Sudbury, and all costs are assigned to that company. The Dash Substation is largely used in its function as a substation; however, part of the building is used by Agilis, on a non-exclusive basis (i.e. the space is also used by Greater Sudbury). Agilis' electricity use in the building is metered separately and invoiced to them at OEB-approved rates. Agilis has also paid directly for building enhancements to accommodate its special needs (security, air conditioning and electrical).

[14] Zip Car rental rates http://www.zipcar.com/toronto/business/check-rates

Space in the building at 500 Regent Street is used directly by Agilis and @home. The rest of the space, which consists of office, garage, and warehouse areas, houses the shared functions of the Plus Company and the engineering/operations functions of Greater Sudbury.

In preparation for this review, Plus Company management provided two key pieces of data: a breakdown of the building square footage by user department, separately identifying the space used directly by Agilis and @home; and an opinion letter from Royal LePage as to the commercial rates for rental of comparable space in the City of Sudbury. Royal LePage indicated that the rate for space comparable to the office component of the 500 Regent building was in the range of $12.50 to $13.50 per square foot, and the rate for comparable industrial (garage and warehousing) space was $6.50 to $7.50 per square foot. The market-based rental rates were therefore set at the mid-points of each range: $13.00 for the office space and $7.00 for the industrial space. The building was determined to consist of approximately two-thirds industrial-type space and one-third office-type space. The rental rate for the common areas was therefore determined as a weighted average of the rates for office and industrial space.

As is common with commercial tenancy arrangements, in addition to such rate, a charge is made to cover operations costs of the building, including taxes, electricity, heating, water and sewer, insurance, janitorial, repairs and maintenance, recomputed periodically during the tenancy based on actual cost.

Since rental real estate is a service available on a competitive market basis, the ARC requires that charges made by the LDC to an affiliate be on the basis of the higher of market rates or fully allocated costs. Fully allocated costs would include all operating and maintenance costs for the building, plus recovery of the capital costs, including amortization expense and pre-tax rate of return, the latter reflecting the OEB-approved capital structure, interest on debt, and return on shareholders' equity.

The Plus Company provided a spreadsheet showing the square footage breakdown and computations. As a first step, the common areas were re-allocated to user departments in proportion to the number of staff in each department. Building operating and maintenance expenses were then allocated to each user department based on the square footage.

The total of amortization and rate of return was then computed based on the capital cost of the building, and the amount per square foot was computed. As this amount per square foot was less than the market-based rental rate, it was determined that the amount allocated to @home and Agilis for directly used space would be its pro-rata share of building operating and maintenance costs, plus $13.00 per square foot of directly used office space, plus proportionately allocated common area at the weighted average of the rates for office and industrial space.

An allocation of cost was also computed for the user departments where staff is within the Plus Company, providing shared services to Greater Sudbury and affiliates. The allocation operation and maintenance expense, amortization and pre-tax rate of return, was made in proportion to square footage. These allocations were then included in the costs of each type of shared service, and allocated on the same base as the service provided. For example, building costs associated with the Human Resources function were then allocated to the affiliates on the same basis as all other Human Resources costs.

On review, BDR finds that this methodology reflects accepted principles of cost allocation, and is reasonable under the circumstances.

In reviewing the treatment of use of building space, BDR considered the issue of whether a charge should be made to Agilis for the use of space in the Dash Substation. Management has advised BDR, and BDR understands from its experience, that the space occupied is not of a quality that would normally have a market, and would therefore have insignificant value. Furthermore, Agilis provides services to Greater Sudbury at no charge. BDR concludes that the existing arrangement has a net benefit to electricity customers.

3.4.3 Staff for Street Lighting Services

Effective January 1, 2012, the transfer of the DES work group from the Plus Company into Greater Sudbury resulted in distribution engineering and operations services previously supplied on a transfer pricing basis by the Plus Company being self-supplied within Greater Sudbury. The work of these staff is 100% dedicated to electricity distribution functions, with one exception that is addressed in this Section.

The Plus Company has a contract to provide street lighting installation and maintenance services to the City. For these services, the Plus Company utilizes staff in the DES group, who also provide distribution operations and maintenance services to Greater Sudbury. With the transfer of the DES group to Greater Sudbury, the street lighting services became an affiliate service rendered by Greater Sudbury to the Plus Company, and as such a transfer price needs to apply.

The time of the staff is recorded routinely in the work order system, and as such provides the basis for allocation of the staff’s salary and benefits, as well as related vehicle costs.

No change is anticipated in the compensation of the staff as a result of the reorganization. The transfer price is therefore the same price at which the Plus Company obtained the services directly, prior to the reorganization.

On review, BDR considers recorded time to be a basis of allocation that is reasonable and consistent with accepted principles of cost allocation. The costs recovered are the costs of the related staff and vehicles. Any related administrative and executive oversight functions are provided directly by the Plus Company for itself, and therefore do not have to be considered in the transfer pricing mechanism.

4 ANALYSIS OF COST SAVINGS DUE TO SHARING OF SERVICES

4.1 *Summary of Methodology*

In Section 3 of this report, services provided by Greater Sudbury to affiliates and services acquired by Greater Sudbury from affiliates were identified and reviewed. These services as listed in the report were used as a basis for further detailed cost analysis with the view to assessing the potential cost savings that accrue to Greater Sudbury from the existence of affiliates. The analysis compares the existing approach of Greater Sudbury, involving affiliate transactions, with an "Alternative Scenario" in which there are no transactions between Greater Sudbury and any affiliate, including the holding company, GSU.

In this analysis there are several underlying assumptions:

1. That with the elimination of affiliates, fixed costs currently shared with affiliates will be absorbed by Greater Sudbury,
2. That costs for resources (including staff) that are considered to be in excess to Greater Sudbury's needs will be removed from the cost base to the extent possible consistent with normal business practices, and
3. That Greater Sudbury would have no legal obligation to guarantee continuing employment to displaced affiliate employees, beyond some reasonable period.

To the extent that the net potential change in costs to Greater Sudbury can be reasonably measured or estimated, then the net benefit due to sharing of services can be estimated.

Cost data was provided by management for each of the identified services that are currently shared by Greater Sudbury and the affiliates, based on 2012 budget figures. This data was analyzed and estimates were made as to the potential costs (identified as the Cost Sharing Benefit) that would remain to be absorbed by Greater Sudbury if the cost sharing arrangement, or the affiliate itself, were eliminated.

4.2 *Analysis*

The two tables in this Section set out each shared cost, the rationale for conclusions as to the effect of the stand-alone scenario on costs, and the amounts involved based on 2012 budget figures. Note that the summary figures from Schedule B are incorporated into Schedule A.

If it was concluded that the stand-alone scenario would result in a reduction of total costs incurred (for example, that a reduction in staff could take place if service was no longer required to be provided to the competitive affiliates), this was assumed to result in a reduction in total budget, but this new budget figure would then be entirely the cost of Greater Sudbury. The benefit from sharing is therefore the difference between a revised (and in some cases lower) total cost to be absorbed by Greater Sudbury, and Greater Sudbury's current allocation of the cost to provide service on a shared basis with affiliates. In several cases, the stand-alone scenario was not expected to produce any reductions in total costs.

Table 4-1: Analysis of Cost Savings Resulting from Sharing of Services with Affiliates, Schedule A

Identified shared service	Basis for Estimated Reduction or Increase in Costs of Stand Alone Scenario	2012 Budget	Portion Allocated to Greater Sudbury with Sharing	Percentage Allocation	Estimated (Reduction)/ Increase from 2012 Budget on Stand Alone Basis	Cost to Greater Sudbury on Stand Alone Basis	Net Benefit to Greater Sudbury from Sharing
Boards of Directors	Two boards of 5 members each, three common. If stand alone and only one board of five members costs would be 5/7ths of total - $88,400 x 5/7 = $63,143. Net benefit is difference between this calc and 50% allocation	$ 88,400	$ 44,200	50%	$ (25,257)	$ 63,143	$ 18,943
Executive	Number and compensation of executives unchanged; Full time positions would still be required in the Wires company	$ 644,242	$ 536,806	83%	$ -	$ 644,242	$ 107,436
Pooled Corporate Costs (advertising/corporate image/memberships/general legal and consulting, etc)	Estimate that costs continuing to be incurred on a stand alone basis are equal to the amount now allocated to the wires company	$ 157,523	$ 78,762	50%	$ (78,762)	$ 78,762	$ -
General financial services -- , treasury, financial statements, accounting, A/P, payroll - audit charged direct to corporations	No change in number of staff or their compensation, minor savings for stationery only	$ 830,313	$ 621,612	75%	$ (5,000)	$ 825,313	$ 203,701
Building services/occupancy costs	No change in total cost incurred. All costs would have to be absorbed by Greater Sudbury.	$ 648,289	$ 517,662	80%	$ -	$ 648,289	$ 130,627
Linemen shared with street lighting (plus supervision)	Two linemen positions would be eliminated. As the related costs are now recovered through a revenue offset (charged to affiliate), there would be no related change in the costs to Greater Sudbury. Benefits of sharing are in the related supervisory cost, which would not be eliminated in the stand alone scenario.	$ 1,105,340	$ 1,046,961	95%	$ -	$ 1,105,340	$ 58,379
Human Resources	No change in number of staff, or their compensation.	$ 356,841	$ 306,418	86%	$ -	$ 356,841	$ 50,423
Administrative -- payment processing	still require relief coverage so no elimination of staff - large volume of walk-in traffic	$ 153,600	$ 126,852	83%	$ -	$ 153,600	$ 26,748
Quality Management	Cost is entirely for Greater Sudbury, as the affiliates have their own programs separately costed. Therefore no change in this cost in the stand alone scenario.	$ 183,391	$ -	100%	$ -		$ -
Procurement and Stores	The facilities and services are used primarily by Greater Sudbury. No reduction in costs if affiliate work eliminated	$ 402,433	$ 355,673	88%	$ -	$ 402,433	$ 46,760
Information Technologies	Costs are fixed, therefore a reduction in the number of users would have no effect on the cost of major systems and services, which would have to be absorbed by Greater Sudbury. Some savings could be realized in licensing, work station hardware, printers and maintenance.	$ 669,406	$ 522,159	78%	$ (25,000)	$ 644,406	$ 122,247
Risk management	No cost reductions in the stand alone scenario.	$ 261,474	$ 226,364	87%	$ -	$ 261,474	$ 35,110
Customer Services Related to Billing	Carried forward from Schedule B.	$ 3,103,032	$ 1,904,412	61%	$ (523,165)	$ 2,579,867	$ 675,455
Telecommunications services	Calculated value of the no-charge services received based on fair market value. In a scenario without affiliate relationships, Greater Sudbury would need to pay market rates.	$ -	$ -		$ 74,544		$ 74,544
Use of vehicles	Ceasing to share would enable GSH to reduce the fleet so amortization and operating costs would be reduced but not staff levels	1,265,797	1,086,547	86%	$ 100,000	$ 1,165,797	$ 79,250
Total estimated cost sharing benefit accruing to Greater Sudbury		**$9,870,081**	**$7,374,429**		**$ (482,640)**	**$ 8,929,507**	**$ 1,629,623**

Table 4-2: Analysis of Cost Savings Resulting from Sharing of Services with Affiliates, Schedule B

	Allocator	2012 Budget	Greater Sudbury Hydro Share of Budget	Greater Sudbury City Share of Budget	Key Assumptions for Computation of Benefit of Sharing	Est'd Net Benefit to Sudbury Hydro
Billing Expenses						
		-		-		-
Billing Expenses	% of meters - 50/50 split (3 CSRs)	272,065	136,032	136,032	Of 63 cycles, only 13 of them (or 20%) are water only. It would take the same amount of time to bill all other cycles. Regardless of number of services effort would be comparable	136,032
Savings in total budget					20% of 2 staff, including payroll burdens	(28,820)
Customer service/account management	based on call volumes - 60/40 split	801,194	480,716	320,477	Regarding customer contacts, only 17% are water only. Balance are electric only or both. Reasonably we could assume only time saved for the percentage water only calls - for ease of calculation use the 20% figure similar to billing	320,477
Savings in total budget					20% of 8 CSRs, including payroll burden; front counter cost cannot be reduced	(115,281)
Collections management	Based on call volumes - 60/40 split of costs of .5 FTE	37,467	22,480	14,987	No change in staffing	14,987
Supervision & business analyst	based on call volumes - 75/25 based on system complexities/time tracking	173,200	129,900	43,300	No change in staffing	43,300
	SUBTOTAL	1,283,926	769,129	514,797	Subtotal of above	370,696
IT costs & amortization	allocation based on drivers (phones/PCs/support/mtce)	119,458	59,729	59,729	Specialized reports for water tracked separately by IT - direct charge/these costs are CSR component of costs. Only minor savings of $9/phone per month if fewer CSRs. Hardware would be absorbed by GSH. Assume zero change.	59,729
Stationery	# of bills issued and occupied space on the bill	130,000	77,500	52,500	Elimination of costs for water-only bills	15,874
postage	# of bills issued and occupied space on the bill	267,000	160,000	107,000	Elimination of costs for water-only bills	35,487
miscellaneous	# of bills issued	3,350	1,675	1,675	# bill forms will not be reduced, GSH absorbs full cost. Not a material amount.	1,675
bank charges	# of bills issued; costs are incurred as a fixed fee per transaction.	35,000	17,500	17,500	Only the costs of water-only transactions would be eliminated. Costs now incurred for combined bills continue to be incurred.	7,875
- Rent (Occupancy, + Prop Tax & Dep'n)	sq footage of dept/total building/# of bills issued	31,145	15,573	15,573	No associated cost reduction.	15,573
Training	60/40 split based on call volumes	12,000	7,200	4,800	Assume water related costs could be eliminated.	-
Software support	use the 79/21 split based on amortization (Board order COS)	127,988	101,111	26,877	No reduction, as all costs would continue to be incurred by Greater Sudbury for electricity billing	26,877
Hub support	wires activity only	30,000	30,000			
Subtotal	**Per 2012 Budget**	**2,039,867**	**1,239,416**	800,451		**533,786**
Cash processing		216,471	108,236	108,236	No change in staffing	108,236
Meter reading	Direct charge to the City	233,200	29,200	204,000	GSH rate would go up for those accounts read with City accounts	7,500
Wholesale settlement	% of time on timesheets	43,545	43,545		hub support reported above	
Retail settlement	% of time	78,669	78,669		Unchanged. All costs attributable to electricity.	
3rd party collection - electricity (water billed to affiliate)	charged direct to electric & water - no sharing	202,784	142,784	60,000	Costs incurred on a variable basis. No benefits from sharing.	
- software	79% of billing software as per Board approved order (2009 COS filing)	123,497	97,562	25,934	GSH would otherwise absorb full cost of CIS system	25,934
Bad debts		165,000	165,000		Includes only costs related to electricity.	
Estimated total Test Year Customer Service & Billing Costs		**3,103,032**	**1,904,412**	**1,198,620**	**Estimated Net Cost Sharing Benefit to Greater Sudbury**	**675,455**

4.3 *Findings*

Based on the analysis of costs, it was determined that the potential cost sharing benefit that Greater Sudbury derives from affiliates is approximately **$1.6 million** per year. The most notable areas of sharing benefits come from the sharing of customer service and billing costs between electricity and water. One of the primary activities of the Plus Company is the billing of water and wastewater charges for the City. It was estimated that shared customer service and billing costs result in shared cost saving of more than **$675,000** consisting of shared billing system and IT costs, shared forms, shared postage, shared space, shared manpower, and recovery of shared administrative costs.

Other areas of shared cost savings include shared executive, shared finance and accounting resource, building services and Information Technology services which account for up to **$950,000** of benefit to Greater Sudbury, and therefore, to its electricity distribution customers.

5 ADMINISTRATIVE ISSUES RELATED TO MAINTENANCE OF THE TRANSFER PRICING REGIME

This section addresses the issue of whether the requirements of the recommended transfer pricing regime can be reasonably maintained.

1. As discussed in Section 2 above, the reorganization of staff which took place on January 1, 2012 simplifies transfer pricing. Since all services related to engineering and operations of the distribution system are now self-supplied within Greater Sudbury, transfer pricing ceases to be required for these services, which represent a very significant portion of the ongoing costs of operation of Greater Sudbury.
2. Since the commencement of this study, and as a result of the work done, Greater Sudbury and the Plus Company moved forward from certain arbitrary pricing formulas set out in the services agreements to methodologies consistent with accepted principles of cost allocation. Spreadsheets were developed to gather and apply the appropriate cost drivers, and these can be used as a basis of budget allocations and true-ups in the future.
3. In preparation for and in the course of this review, time record systems were implemented for the services where costs are composed primarily of labour. Time record systems impose an administrative burden on the staff involved. However, management has indicated its intention to maintain such systems into the future.
4. Costs of billing and related services have been priced at fully allocated cost. This entails allocation of costs related to the time of call centre staff and supporting facilities. To the degree that calls relate either to the water bill or

the electricity bill, rather than to both equally, a system that records telephone and follow-on time related to individual calls could support a weighted allocation of these costs. Management has advised BDR that the present technology allows tracking of the number, but not the duration or level of effort associated with individual calls. As a result, the allocation assumes that call centre staff time is spent in proportion to the number of electricity and water calls, without any weighting. If supportive technology is implemented in the future, a refinement to the allocation approach could be added at that time.

APPENDIX A – COMPLIANCE WITH SECTION 13A.03, ONTARIO ENERGY BOARD RULES OF PRACTICE AND PROCEDURE

(a) Name, Business Name and Address, and General Area of Expertise

This evidence was prepared entirely by:

Paula Zarnett, Vice President
BDR NorthAmerica Inc.
34 King Street East, Suite 1000
Toronto, Ontario M5C 2X8

Paula has more than 25 years broadly based experience specializing in regulatory compliance, regulated rates and pricing issues for electricity and gas utilities.

(b) Qualifications, including relevant educational and professional experience in respect of each issue in the proceeding to which the expert's evidence relates.

Paula's evidence in this proceeding relates to the basis of transfer pricing for services provided by Greater Sudbury Hydro Inc. to its affiliates, and for services purchased by Greater Sudbury Hydro Inc. from affiliates.

Selected projects illustrating her cost allocation experience and expertise include:

- studies for natural gas utilities in Manitoba and Alberta;
- leading an in-house team in a one-year cross functional project to perform Toronto Hydro's first cost allocation study (1985);
- a cost allocation and rate design study for Enwave District Energy;
- two cost allocation studies for Saint John Energy, a municipal utility in New Brunswick;
- advice to the municipal utilities of New Brunswick in their interventions in NB Power Distribution and Customer Service (Disco) rate approval applications in 2005 and 2007, including analysis and critique of Disco's cost allocation methodology;
- a study on behalf of the Toronto Hydro-Electric System Ltd. to allocate the costs of service to customers who are individually metered suites in multi-unit residential buildings (2010-2011).

She participated on behalf of a client in the Ontario Energy Board's stakeholder processes regarding cost allocation for electricity distribution service, and was an instructor in cost allocation and rate design (advanced) at CAMPUT's annual utility regulation course in 2006, 2007 and 2008. She has testified before the regulators in Ontario, New Brunswick and British Columbia, and has been accepted as an expert in cost allocation by the Ontario Energy Board.[15]

[15] EB-2010-0142, Transcript dated March 29, 2011, page 20.

A former Toronto Hydro employee, Paula is knowledgeable in the typical business processes of distribution utilities and their affiliates. As a consultant, she performed a study for Toronto Hydro to identify regulatory issues associated with self-dealing and transfer pricing in considering the formation of a new affiliate. She prepared evidence in support of FortisOntario's shared cost allocation and transfer pricing approach in successive cost of service applications since 2006, and also provided evidence for EnWin Utilities on shared cost allocation and transfer pricing in its 2009 cost of service application, and for Kingston Hydro in an application for its 2011 cost of service. A similar study authored by Paula was filed very recently with the OEB on behalf of Bluewater Power. She is presently involved in similar studies for other Ontario clients.

Paula is a Certified Management Accountant, and has an MBA degree (finance) from the University of Calgary.

(c) Instructions provided in Relation to the Proceeding and to the Issue

BDR NorthAmerica Inc. proposed the following scope of work for the assignment, which was accepted by Greater Sudbury:

> The OEB has required that Appendix A and Appendix B of the Decision be used in establishing the scope of the study. Those Appendices are attached to this proposal for reference.
>
> In BDR's view, the Phase II component identified in Appendix A, the Transfer Pricing Study, needs to be performed first, in order to provide the correct basis of costs to Greater Sudbury and the electricity customers as a base case for comparison with the costs of any restructuring alternative, such as a stand-alone arrangement. Costs of a restructuring alternative must be assessed only in-so-far as they would be recoverable through the electricity distribution rates of Greater Sudbury. The Phase I requirement, assessment of the costs of a restructuring alternative would be addressed by identifying the incremental costs or benefits of self-supply through resources located within the Greater Sudbury organization, rather than within the Plus Company or any other affiliate, as compared with the status quo organization and transfer pricing as recommended by the Transfer Pricing Study.
>
> The Phase III requirement, Ongoing Administration, will assess the requirements in respect of the status quo organization and transfer pricing as recommended by the Transfer Pricing Study, and of a restructuring alternative to the extent that a restructuring alternative continues to involve affiliate transactions.

Appendix B sets out the3-prong test was defined in the Board's Decision in EBRO 493/494:

- cost incurrence;
- cost allocation; and
- cost/benefit.

BDR proposes that the issues of cost incurrence and cost allocation be addressed as part of the Transfer Pricing Study, and that the cost/benefit prong will be addressed by the Stand-Alone Study.

BDR notes in its review of Appendix A that reference is made to both a fair market approach and a cost allocation approach in transfer pricing. The Affiliate Relationships Code ("ARC") identifies certain types of services as "shared corporate services". Shared corporate services are not subject to the test of whether a market exists, and must be priced at no greater than fully allocated costs when provided by an affiliate to the LDC. Services that are not shared corporate services within the definition established by the ARC must be reviewed to determine whether a reasonably competitive market exists for the services. If so, fair market value is the required basis for transfer pricing; otherwise, fully allocated cost is the required basis for transfer pricing.

Working with Greater Sudbury, BDR will determine, for each service purchased from or supplied to an affiliate, an ARC-compliant transfer pricing methodology based on information that can be compiled by Greater Sudbury or the affiliate at reasonable cost. BDR will document the data and computation requirements of the methodologies to satisfy the Phase III requirement. The costs of services based on the recommended transfer pricing methodology will be the base case for comparison with the costs of a restructuring (stand-alone) alternative, to satisfy the Phase I requirement."

(d) Specific Information and Documents Relied on in Preparing the Evidence

Information from Public Sources:

- Affiliate Relationships Code for Electricity Distributors and Transmitters, Ontario Energy Board, Revised March 15, 2010 (Originally issued on April 1, 1999)
- Zip Car rental rates http://www.zipcar.com/toronto/business/check-rates
- EB-2008-0230, Decision and Order dated December 1, 2009, regarding Greater Sudbury Hydro Inc., including Appendices A and B
- Distribution Rate Application of Greater Sudbury Hydro Inc. to the Ontario Energy Board, EB-2008-0230, dated December 22, 2008.

- http://encyclopedia.farlex.com/Competitive+market
- http://www.amosweb.com/cgi-bin/awb_nav.pl?s=wpd&c=dsp&k=competitive+market
- http://www.economicshelp.org/dictionary/c/competitive-markets.html
- http://www.ehow.com/info_8725298_purely-competitive-market.html
- Hydro One 2012 Annual Report
- http://www.bcuc.com/Documents/Proceedings/2009/DOC_22716_B4_TGI_Amended_Application.pdf
- An Application by Terasen Gas Inc. for a Certificate of Public Convenience and Necessity for the Customer Care Enhancement Project, Submissions of Terasen Gas Inc. December 9, 2009
- www.ontarioenergyboard.ca Comparison_of_distributors_20081203@2012-07-09T20;53;44.xls
- Greater Sudbury Hydro Inc. EB-2008-0230 Exhibit 4 Tab 2 Schedule 2 Page 2 of 2 Filed: December 22, 2008
- Hydro One Application for 2010 Distribution Rates, Updated: September 25, 2009 EB-2009-0096 Exhibit C1 Tab 2 Schedule 5
- Oshawa PUC Networks Inc. EB-2011-0073 Exhibit 4 Page 23 of 196 Filed: May 31, 2011
- Newmarket Tay Power Filed: July 21st, 2010 EB-2009-0269

Information Provided by Greater Sudbury Hydro Inc. and/or Greater Sudbury Hydro Plus Inc.:

- Operations and Maintenance Services Agreement between Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc ("Servicesco") and 1627596 Ontario Inc. ("Genco") dated as of October 23, 2006
- Operations and Maintenance Services Agreement between Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc. ("Servicesco") and Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc. ("Wiresco") dated as of November 1, 2000.
- Excel spreadsheets documenting cost allocation methodology and computations
- Conference calls and emails exchanged between June 15, 2011 and the date of this report

(e) Points of Agreement and Disagreement with other Expert's Evidence

Not applicable.

Appendix B
Detailed Curriculum Vitae of Paula Zarnett

PAULA ZARNETT

Paula Zarnett has more than 30 years broadly based experience specializing in regulatory compliance, regulated tariffs and pricing issues for electricity and gas utilities. She has been responsible for design and implementation of a wide variety of innovative rates including time of use, both for large industrial and for residential customers, curtailment incentives, and special rates for retention of water heating loads. She has performed cost allocation studies for utilities serving customers with electricity, natural gas and steam, including leading a one-year, cross-functional team project to develop cost allocation methodology and analysis tools for a major electric distribution utility.

Following a series of rate specialist positions in both the electricity and natural gas sectors, she was promoted to the position of Manager of Marketing and Energy Management at Toronto Hydro. There, her responsibilities included all rate and regulatory issues, customer research including load research and forecasting, and customer program design with a focus on conservation and demand management.

In her consulting practice, Paula provides a variety of advisory and analytical services to clients facing the challenges of a changing technological, policy and business environment, with a focus on issues impacted by regulatory policy and process. Her work includes business case and project feasibility analysis, cost allocations and pricing designs, energy sector mergers and acquisitions, and expert testimony before regulators. She is a skilled hands-on analyst and facilitator of cross-functional project teams.

Paula was a member of the Ontario Energy Board's cost allocation working groups in 2003 and 2005-2006. She was an instructor in Cost Allocation and Rate Design at CAMPUT's Energy Regulation Course, 2006, 2007 and 2008, and has been accepted as an expert witness in cost allocation by the regulators in Ontario and New Brunswick.

She has performed assignments for clients in North America, China, Ghana, and Barbados.

SELECTED EXPERIENCE BY SUBJECT AREA

(INCLUDES PROJECTS UNDERTAKEN AS A CONSULTANT, AND IN THE COURSE OF RESPONSIBILITIES WITHIN ORGANIZATIONS)

Preparation of Customer Cost Allocation Studies

Toronto Hydro-Electric System – Study to allocate the cost of service to customers that are individually metered suites in multi-unit residential buildings.

Perth-Andover Electric Light Commission – study to allocate the bundled costs of electricity service to customer classes and assess the impacts on cost allocation of changes to the wholesale rate structure.

Saint John Energy – two studies to allocate the bundled costs of electricity service to customer classes; one of these studies included analysis of metered system load profiles and publicly available typical customer profiles to develop demand allocation factors

Enwave District Energy Limited – study to allocate costs of service for a district steam system as a basis for pricing redesign; study included analysis of detailed time-related customer consumption data as a basis for allocation of costs, as well as operating and financial data.

Toronto Hydro – planning and execution of customer load research projects, including deployment of research metering, load data analysis and related customer research and surveys for use in cost allocation study

Toronto Hydro – coordination of first comprehensive cost of service study, a one-year cross-functional project, including in-depth data collection, selection of allocation methodologies and development of computer-based analytical tools. Led subsequent updates and refinements to the study.

ICG Utilities Ltd. – fully allocated cost of service studies for natural gas distribution systems in Manitoba and Alberta, including data analysis and development of computer-based analytical framework.

Review of Customer Cost Allocation Studies, Methodology Consultations

IGPC Ethanol Inc. – supported the intervention of this industrial consumer in the rate application of its gas supplier, Natural Resource Gas including issues of cost allocation methodology

Summerside Electric/City of Summerside – advisory and analysis service with regard to proposals of Maritime Electric for an Open Access Transmission Tariff, including use of cost allocation methodology to establish transmission revenue requirement

Nova Scotia Department of Energy – advisory and analysis services to support intervention in Nova Scotia Power's request to the regulator for approval of a fuel adjustment mechanism, including customer cost allocation impacts

Rogers Cable and Communications Inc. – represented a consumer stakeholder in a regulator-sponsored stakeholder process to determine a cost allocation methodology and analysis approach for information filings by all electric distribution utilities in Ontario.

Saint John Energy – Review of cost allocation methodology and results in the Cost Allocation and Rate Design application of New Brunswick Power Distribution and Customer Service Corp, including expert testimony recommending certain changes to the methodology, which were adopted

Member – Ontario Energy Board Cost Allocation Working Group (2003 and 2005-6)

Member – Municipal Electric Association Cost of Service Sub-Committee (1986-1988)

Cost Allocation for Affiliate Transfer Pricing

FortisOntario – methodology review of allocation of shared costs to regulated and non-regulated business units and preparation of evidence for application to Ontario Energy Board for approval of 2006 electricity distribution rates

FortisOntario – Three update studies to allocate corporate and shared costs among regulated and non-regulated affiliates

Kingston Hydro – study to review transfer pricing methodologies and allocation of shared costs for services provided by non-regulated affiliates.

EnWin Utilities – study to allocate corporate and shared costs among corporate affiliates

4 studies now in progress, not yet filed.

Rate Designs and Pricing Studies

Rogers Cable and Communications Inc. – representation at Ontario Energy Board staff consultation process with regard to rate designs for Ontario's electric distribution utilities; development of policy and position documents, attendance at stakeholder meetings, analysis in support of positions on rate design for General Service classification and unmetered scattered loads

Oklahoma Gas and Electric – review of results of residential time of use rate pilot including estimation of impact of the rate design on total customer consumption and peak hour consumption (load shifting).

BC Hydro – assisted a staff team in development of a Phase I report on long-term rate strategy; research on rate designs in several North American jurisdictions.

Energy East (RGE and NYSEG) – analysis as to the potential value of load shifting which might take place as result of rate-driven (time of use or critical peak pricing) programs supported by universal interval metering in the State of New York; regulatory precedents as to cost recovery for advanced metering and meter reading technology

East China Grid Company – advice in developing and simulating an unbundled electricity distribution tariff for Shanghai Municipal and four provincial electric power companies

British Columbia Ministry of Energy and Mines – advisory and due diligence services with regard to recommendations by the British Columbia Utilities Commission for implementation of proposed Heritage Contract and stepped rates to wholesale and industrial customers.

Perth-Andover Electric Light Commission – long-term rate strategy and detailed bundled retail rate designs for all electricity consumer classifications.

Volta River Authority (Ghana) – development of tariff structure and preliminary rates for open access use of the national electric transmission system in Ghana.

Enwave District Energy Limited – determination of appropriate customer classification and pricing design alternatives for a district steam system in a context of competitive electricity and gas markets and wider service choices for existing and potential customers.

Toronto Hydro – development and initial implementation of time of use rates for residential and large industrial customers; development of pricing strategies and policies for all customer classes.

Toronto Hydro – development of all customer rate designs, implementation strategy, and preparation of annual submissions for approval of the rates. Managed a team of specialists in the preparation of associated detailed studies, load forecasts and load research.

Testimony before Regulators

ORAL:

Toronto Hydro-Electric System – Testified before the Ontario Energy Board in support of the allocated costs of service to customers that are individually metered suites in multi-unit residential buildings.

Saint John Energy – Testified before the New Brunswick Public Utilities Board in support of intervention in the Cost Allocation and Rate Design application of New Brunswick Power Distribution and Customer Service Corp.

Rogers Cable and Communication Inc. – Testified before Ontario Energy Board in support of consensus for treatment of certain unmetered electricity loads in the development of guidelines for electricity distribution rates.

Toronto Hydro – Testified before Ontario Energy Board on bulk power rate issues

ICG Utilities -- testified in three hearings before British Columbia regulator on the subject of lead-lag studies.

WRITTEN ONLY:

Kingston Hydro – study to review transfer pricing methodologies and allocation of shared costs for services provided by non-regulated affiliates.

FortisOntario – Three studies to allocate corporate and shared costs among regulated and non-regulated affiliates

EnWin Utilities – study to allocate corporate and shared costs among corporate affiliates

Ontario Power Authority – model development and analysis in support of evaluation of a potential generation, transmission and demand response alternatives in York Region; report in support of generation alternative to the Ontario Energy Board.

City of Summerside – expert testimony in support of intervention in the application of Maritime Electric to the Island Regulatory and Appeals Commission for approval of an Open Access Transmission Tariff (public oral hearing to follow).

City of Summerside – preparation of evidence in support of application for leave to construct transmission line, to the Island Regulatory and Appeals Commission (oral hearing scheduled for November, 2012)

Other Assignments Showing Knowledge of the Ontario Electricity Sector

City of Sault Ste. Marie – review of municipally-owned electricity distribution company with regard to ownership options, capital structure and financing.

Brantford Power – facilitation of strategic planning session for Board of Directors.

Orillia Power – facilitation of strategic planning session for Board of Directors and key staff

Oakville Hydro – facilitation of regulatory strategic plan

Burlington Hydro Inc. – advisory services and analysis in connection with bid to acquire a local distribution utility.

Markham Hydro Distribution Inc. and Town of Markham – Due diligence services in support of proposed amalgamation with Hydro Vaughan Distribution Inc.

City of Guelph – independent advisor to the City with regard to fairness of ownership proportion in proposed merger; analysis of ownership options

Oshawa PUC Networks Inc. – policy recommendations for customer connections and capital contributions.

Township of King - advice to municipality staff with regard to potential construction of a peaking generator in response to a contract award from Ontario Power Authority

Hydro Ottawa Holdings Inc. – as part of a larger project to provide strategic advice on four business units, provided financial modeling for valuation of Energy Ottawa Generation.

Town of Markham, City of Vaughan and City of Barrie – analysis, due diligence and advisory services in evaluation of potential investment in the solar business of PowerStream Inc.

PUC Distribution Inc. – advisory services and analysis in connection with certain issues of new assets and affiliate relationships

Regulatory and Industry Policy	**Ontario Energy Board** – cross-jurisdictional review and assessment of regulatory approaches to the issue of farm stray voltage across North-America
	Ontario Energy Board – comparison of heritage contracts and similar arrangements in leading jurisdictions
	Ontario Energy Board – identification of appropriate roles and responsibilities for the OEB under alternative industry and market structure scenarios, including default supply arrangements
	Barbados Public Utilities Board – study to recommend procedures, rules and systems for oversight of the natural gas sector by a new regulatory agency.
	Electricity Distributors Association -- analysis of cash flow patterns of electricity distribution utilities in Ontario reflecting customer payment patterns and market settlement requirements
	Electricity Distributors Association – study to determine the financial benefit to municipalities of ownership of local distribution companies (LDCs).
	National Grid Co. -- Assessment and overview report on regulatory framework and issues in Ontario.
	Bruce Power – Assessment and overview on industry structure, generation and transmission capacity, pricing and issues in New Brunswick
	CMS Energy – report on Ontario electricity industry structure, market, and regulatory environment, in support of decision to respond to RFP for new generation in the province
	New Brunswick Municipal Electric Utilities Association – cross jurisdictional survey with respect to policy as to regulation of municipal utilities and rural cooperatives.
	Ontario Energy Board – assistance to Board Staff on application of a wireless telecommunication service provider for access to distribution poles

CAREER HISTORY

2001 – Present	**BDR** – consultant specializing in rate designs, cost and financial analysis, business planning and energy market restructuring issues.
1998 – 2001	**In association with Acres Management Consulting** – consultant specializing in rate designs, cost and financial analysis, business planning and energy market restructuring issues.
1995 – 1998	**Toronto Hydro** – Manager, Marketing and Energy Management

1993 – 1995	**Toronto Hydro** – Special Assistant to the General Manager (responsible for organizational performance improvement initiatives)
1986 – 1992	**Toronto Hydro** – Supervisor of Rates and Cost Analysis
1984 – 1986	**Toronto Hydro** – Senior Rate Analyst
1981 – 1984	**ICG Utilities Ltd**. – Coordinator, Rate Administration
1979 – 1981	**H. Zinder & Associates Canada Ltd**., Senior Analyst

EDUCATIONAL AND PROFESSIONAL QUALIFICATIONS

Degrees and Designations	Society of Management Accountants of Manitoba, CMA University of Calgary, Masters of Business Administration (Finance) University of Toronto, Bachelor of Arts (Hon), Anthropology
Professional Association	Society of Management Accountants of Manitoba
Continuing Professional Development	Queens University School of Business, Marketing Program Queens University School of Business, Sales Management Program Society of Management Accountants of Canada—Customer Profitability Analysis Society of Management Accountants of Canada—Strategic Cost Management Society of Management Accountants – Auditing I

PROFESSIONAL INVOLVEMENT

Teaching and Training, Industry Committees	Instructor in Cost Allocation and Rate Design for Annual Energy Regulation Course, CAMPUT (Canadian Association of Members of Public Utility Tribunals) 2006, 2007, 2008. Member and Vice-Chair, Electricity Distributors Association Commercial Members Steering Committee (member 2007 to present) Member – Ontario Energy Board Cost Allocation Working Group (2003 and 2005-6) Member – Municipal Electric Association Cost of Service Sub-Committee (1986-1988)

October, 2012

PROCEDURAL ORDERS, MOTIONS & CORRESPONDENCE

On January 26, 2012, the OEB filed a letter indicating which distributors were expected to file a cost of service application in respect of 2013 rates. Greater Sudbury was included on het list for consideration in 2013.

On August 24, 2012 Greater Sudbury filed a letter indicating that there would be a delay in its filing.

Otherwise, as of the date of filing this Application Greater Sudbury has not been served with any other utility-specific Procedural Orders, Motions or Correspondence which relate, directly or indirectly, to this Application.

ACCOUNTING ORDERS AND USOA CONFORMITY

Greater Sudbury does not have any accounting orders nor are we requesting any accounting orders in this Application. Greater Sudbury confirms that this Application complies with the Uniform System of Accounts.

ACCOUNTING TREATMENT OF NON-UTILITY RELATED BUSINESS

For the years 2009 to 2013 Greater Sudbury has conducted OPA sponsored CDM programs. Commencing on January 1, 2012 Greater Sudbury has rented space, in its building that are additional to its needs, to its affiliates at commercial lease rates. The charges to affiliates for space are supported by a market study that is a component of the BDR Report, see Exhibit 1, Tab 1, Schedule 11, Attachment 1.

The CDM activity has been recorded in Accounts 4375 – Revenues from Non Rate-Regulated Utility Operations and 4380 – Expenses of Non Rate-Regulated Utility Operations. CDM Revenues and expenses have been treated as distinct from the utility related revenues and expenses.

Proceeds from the rental of office space commenced on January 1, 2012 and has been recorded in OEB Account 4210 – Rent from Electric Property as miscellaneous income which offsets Greater Sudbury's revenue requirement.

COMPLIANCE ORDERS

Greater Sudbury is not subject to any compliance orders.

OTHER BOARD DIRECTIONS

Other than the direction noted at Exhibit 1, Tab 1, Schedule 11 from the Board's decision in EB-2008-0230, Greater Sudbury is not subject to any further Board Directions.

CONDITIONS OF SERVICE

Greater Sudbury Hydro's current Conditions of Service document is publicly available on the utility's website at: http://www.sudburyhydro.com/about_conditions.htm. There are no rates or charges documented within the Conditions of Service and the document would not require any changes as a result of approval of the application.

Exhibit 1: Administrative Documents

Tab 2 (of 4): Overview of Filing

SUMMARY OF APPLICATION

Pre-rates Customer Consultation

Prior to commencing work on this 2013 Cost of Service Application Greater Sudbury Hydro Inc. ("Greater Sudbury") attempted to consult with its customers in an effort to determine if the priorities addressed in this Application were in alignment with customer expectations. This consultation was intended to be specific to the rate setting process and designed to determine how customer's valued specific aspects of Greater Sudbury's service delivery. Additionally the consultation was designed to determine what were the customer perceptions of the applicant's performance level.

Greater Sudbury planned a telephone poll that would seek customer feedback on value and performance in four areas; rates vs. reliability, conservation and demand management programs, customer service and system renewal.

Greater Sudbury contracted with Oracle Research to perform the customer survey. Oracle conducted the survey in the Spring and early summer of 2012. The results of the survey are attached as Exhibit 1, Tab 2, Schedule 1, Attachment 1.

In developing this application Greater Sudbury is responding to customer feedback. This application attempts to strike a balance between maintaining excellent reliability with the continually increasing pressure to maintain and renew the system.

In this Application Greater Sudbury has included a new position, Communications Officer. This new position is necessary to ensure that the Utility uses every means possible to ensure that customers are informed with respect to the work of their distribution company and to ensure that Greater Sudbury decision makers are responding to customers concerns in the development of practices and programs. From the results of the survey it is apparent to the applicant that the level of communication between Greater Sudbury and the customers it serves bears attention and improvement.

Greater Sudbury has recognized the disconnect between the value that customer place on high quality customer service (valued at 94%) and the performance grade that customers awarded of 64%. The Communications Officer and Business Process Improvement / System Integration project proposed at Exhibit 4, Tab 1, Schedule 1 and included as Exhibit 4, Tab 1, Schedule 1, Attachment 2 is part of Greater Sudbury's proposal to respond to its customers' concerns. The Communications Officer will ensure that Greater Sudbury is delivering consistent, clear and complete messages to customers about the organization and the industry. The BPI/SI Project will ensure that all of the Company's systems and processes are optimized before making any decisions about staffing.

1. Introduction

Greater Sudbury is applying to the Ontario Energy Board (the "Board") for distribution rates to be effective May 1, 2013. As shown in Table 1 below, the proposed rates will recover Greater Sudbury's forecast base revenue requirement of $23,554,760 Greater Sudbury's proposed rate increase will address the forecast 2013 revenue deficiency of $844,288.

Table 1 - Summary of Revenue Requirement

Rate Base		
2012 ending Net Fixed Assets	68,090,111	
2013 ending Net Fixed Assets	79,344,639	
Average Net Fixed Assets		73,717,375
Working Capital Allowance Base	110,479,500	
Working Capital Allowance	13.0%	14,362,335
Rate Base		**88,079,710**
Return On Rate Base		
Deemed Short-Term Debt %	4.00%	3,523,188
Deemed Long-Term Debt %	56.00%	49,324,638
Deemed Equity %	40.00%	35,231,884
Short-Term Interest	2.08%	73,282
Long-Term Interest	4.41%	2,175,217
Return On Equity	9.12%	3,213,148
Return On Rate Base		**5,461,647**
Distribution Expenses & Taxes		
OM&A	15,564,617	
Amortization	3,876,864	
PILs/Taxes	201,660	**19,643,141**
Revenue Offsets		**-1,550,028**
Distribution Revenue Requirement		**23,554,760**
Distribution Revenue at Existing Rates	*22,710,472*	
Revenue Sufficiency (Deficiency)	***-844,288***	

Greater Sudbury's Board of Directors Approval

The Board of Directors (BoD) of Greater Sudbury reviewed the Capital and OM&A budgets that are the basis of this application on November 8, 2012 and approved them under motion #2012-GSHI-IC-08-01. The BoD further considered this Application, the amount of the requested increase and the Bill Impacts on Greater Sudbury's consumers flowing from the proposed rates and approved the Revenue Requirement under BoD motion #2013-GSHI-IC-08-02.

Application Prepared on a CGAAP Basis

- This application is submitted on a CGAAP basis. To be specific, Greater Sudbury has elected to delay its implementation of IFRS until 2014 based on the recent announcement from the Accounting Standards Board. Barring a further deferral, Greater Sudbury will comply with the requirement to transition to Modified International Financial Reporting Standards accounting on January 1, 2014. As such Greater Sudbury Hydro has not prepared detailed schedules comparing CGAAP values to MIFRS. OEB Appendices 2-B Fixed Asset Continuity Schedules on MIFRS Basis, 2-CH Depreciation and Amortization Expense (MIFRS), and 2-EB IFRS-CGAAP Transitional PP&E Amounts had no relevance to this application therefore are not included. OEB Appendix 2-CG Depreciation and Amortization Expense was used to calculate depreciation upon adoption of extended useful lives in accordance with Greater Sudbury's Typical Useful Lives Study Exhibit 4, Tab 7, Schedule 1 Attachment 1.

Greater Sudbury has updated the CGAAP accounting policies for capitalization of assets that will reflect the requirements of MIFRS with respect to capitalization of overheads. In addition, Greater Sudbury will adopt new useful lives for purposes of amortizing capital assets as of January 1, 2013 based on the Board initiated asset useful lives study completed by Kinetrics and management expertise. The Useful Lives Study can be located at Exhibit 4, Tab 7, Schedule 1, Attachment 1.

Revenue Requirement - The comparison of the Revenue Requirement for the Test Year compared to the last Board Approved Revenue Requirement, being for the year 2009, can be found in Exhibit 6, Tab1, Schedule 2. The major Components of the Revenue Requirement are summarized under the following headings:

- Rate Base (Exhibit 2)
- Load Forecast (Exhibit 3, Tab 1)
- Distribution Expenses and Taxes (Exhibit 4)
- Cost of Capital (Exhibit 5)
- Smart Meters (Exhibit 9, Tab 4)
- Stranded Meters (Exhibit 9, Tab 1, Schedule 3)
- Deferral and Variance Dispositions (Exhibit 9)
- Rates and Rate Impacts (Exhibit 8, Tab 4)

2. Rate Base

The Rate Base for the 2013 Test Year and trends in Rate Base are set out at Exhibit 2, Tab 1 of this Application. By way of summary, Table 2 is provided below to describe Greater Sudbury's Rate Base over the period from 2009 to 2013.

Table 2 – Rate Base

2009 Approved	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual
76,620,014	75,585,841	77,293,607	79,836,829	82,217,817	88,079,710

Greater Sudbury's last rate rebasing occurred during its 2009 Cost of Service. The projected Rate Base in this application exceeds the 2009 Rate Base by $10,825,683. This increase in rate base is driven by an increase in fixed assets coupled with a $927,239 increase in Working Capital Allowance.

Greater Sudbury's fixed assets, net of stranded meters, are projected to grow by $9,898,444 to a 2013 closing level of $73,083,362. The reasons for this increase in fixed asset value are an increased level of capital spending seeking to renew the distribution system at an appropriate rate and the addition of smart meter assets in the proposed net amount of $5,811,934.

A $927,239 increase in working capital allowance was driven primarily through increased distribution expenses and an approximate 25% increase in the Power Supply Expenses. The increase was tempered however, by a reduction in the Board approved Working Capital factor from 15% to 13%. As Greater Sudbury has not pursued a lead/lag study, it has used the Board's approved formulaic approach.

Complete Rate Base calculations and data are available at Exhibit 2, Tab 1.

3. Load Forecast

Greater Sudbury acquired the assistance of Elenchus Research Associates in preparing its 2012 and 2013 weather normalized load forecasts for all classes (Exhibit 3, Tab 1, Schedule 2, Attachment 1). In addition, a forecast of customer numbers was developed based on historic trends and economic signals with in Greater Sudbury's service territory.

With this rebasing application, Greater Sudbury has incorporated targeted CDM results into the forecast. We propose to utilize the LRAM Variance Account to capture over/under-performance on those targets. This treatment will provide smoother rate adjustments rather than a retrospective LRAM deferral account to capture the entire impact of CDM activities.

4. Distribution Expenses and Taxes

Distribution expenses include operations, maintenance and administration (OM&A); depreciation and amortization; capital and property taxes; and income taxes. Greater Sudbury's total distribution expenses are discussed in Exhibit 4.

OM&A expenses are discussed in greater detail at Exhibit 4, which in turn discusses OM&A trends at Exhibit 4, Tab 1, Schedule 1 beginning at page 1. Analysis of trends in that Schedule indicate a significant commitment on the part of Greater Sudbury to increasing attention to clearing corrective actions found during routine distribution system inspections by completing maintenance activities to correct the issues identified.

When reviewing Exhibit 4 and considering the OM&A included in the Application against historic levels care must be taken to normalize the numbers to account for the effects of several factors, including both the change in capital policies affecting capital burdens that has shifted dollars from capital expenditures to OM&A, along with a shift in dollars as a result of the methodology used for transfer pricing accounting that affects some accounts in 2012 and 2013 by moving costs between cost categories. Care should be exercised in reviewing the cost drivers and trends provided in Exhibit 4, Tab 1.

5. Cost of Capital

Greater Sudbury has followed the *Board's Report of the Board on the Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors* in calculating its cost of capital. The ROE has been set at the most recent Board approved rate and the long-term debt costs reflect the weighted average cost of third party debt and deemed debt. A full discussion on this issue can be found at Exhibit 5, Tab 1.

6. Smart Meters

Greater Sudbury has filed its request for the disposition of smart meter costs with this Application. The filing has followed the guidance found in OEB guidance G2011-0001 and Chapter 2 of the filing guidelines generally. A more detailed discussion of Greater Sudbury's smart meter application can be found in the Specific Approvals Requested section of this Schedule and in Exhibit 9, Tab 4, Schedule 1. Greater Sudbury is seeking to include $7,020,288 capital in its fixed assets and to recover $576,783 in smart meter OM&A costs incurred to December 31, 2012.

7. Stranded Meters

Greater Sudbury is filing its request for the disposition of stranded meter costs as a result of the installation of smart meters, with this Application. Greater Sudbury is seeking to remove from rate base $1,193,861 worth of metering assets (net of proceeds) that were retired before the end of their useful life. Greater Sudbury is seeking to recover these stranded meter assets by way of a rate rider over 2 years.

8. Deferral and Variance Dispositions

Greater Sudbury is filing its request for the disposition of Group 1 and Group 2 deferral and variance accounts totaling a refund to customers in the amount of $4,042,668 over a four year period. As well, Greater Sudbury is requesting to recover $1,418, 528 of Global Adjustment to Non-RPP customers over the same period.

9. Rates and Rate Impacts

Greater Sudbury is requesting 2013 distribution rates as noted in the Tariff of Rates and Charges in Exhibit 8, Tab 4, Schedule 2, Attachment 1. The impact on Greater Sudbury's customers is reflected in Exhibit 8, Tab 4, Schedule 2.

July 2012
Customer Survey Report

Prepared by:

oraclepoll RESEARCH

For:

Greater Sudbury Hydro

July 12, 2012

TABLE OF CONTENTS

METHODOLOGY & LOGISTICS

OVERVIEW

- This report represents the findings from survey of Greater Sudbury Hydro customers conducted by Oraclepoll Research Limited for Greater Sudbury Hydro a division of Greater Sudbury Utilities.

STUDY SAMPLE

- A total of 400 completed interviews were conducted between the days of July 6th and July 11th 2012.
- The margin of error for this 1,000-person survey is +/- 4.9%, 19/20 times.

SURVEY METHOD

- Greater Sudbury Hydro provided Oraclepoll Research Limited with a customer list to be used as a sample frame.
- The survey was conducted using computer-assisted techniques of telephone interviewing (CATI) and random number selection. A total of 20% of all interviews were monitored and the management of Oraclepoll Research Limited supervised 100%.
- Some results may not add up to 100% as a result of rounding.

LOGISTICS

- Initial calls were made between the hours of 5 p.m. and 9 p.m. Subsequent callbacks of no-answers and busy numbers were made on a (staggered) daily rotating basis up to 5 times (from 10 a.m. to 9 p.m.) until contact was made. In addition, telephone interview appointments were attempted with those respondents unable to complete the survey at the time of contact.

EXECUTIVE SUMMARY

RATES VS OUTAGES

All respondents were first read the following preamble.

"Greater Sudbury Hydro delivers electricity to your home and is responsible for providing local services and maintaining and rebuilding the electricity distribution infrastructure. These costs make up approximately 1/5th of your total hydro bill and are included in the delivery line."

They were then asked the following question related to the cost of power in relation to security of supply.

"First I am going to ask your opinion on the issue of balancing the price you pay for maintenance and renewal of your local electricity infrastructure with the security of your electricity service delivery or "keeping the lights on". Please respond on a scale from one having the lowest rates possible with regular outages to five having the highest rates possible with no outages – 3 would be a balance between rates and outages."

1-lowest rates – regular outages	**8%**
2-low rates – occasional outages	**9%**
3-neutral – a balance between rates and outages	**58%**
4-high rates – only a few outages	**11%**
5-highest rates – no outages	**8%**
Don't know	**6%**

A 58% majority of customers favour a balance between the price that they pay for electricity in relation to ensuring the security of supply. There was a split among the remaining respondents with respect to those that prefer lower rates while accepting some degree of outages (17%) and customers that stated they would pay higher rates in order to reduce the chance of outages (19%). A total of 6% of those interviewed did not know or were unsure.

CONSERVATION

The following statement was read and then two questions related to conservation were asked to customers.

"The Government of Ontario is encouraging a culture of conservation in the province. Please rate the importance of each of the following issues related to conservation using a scale from one being not at all important to five very important."

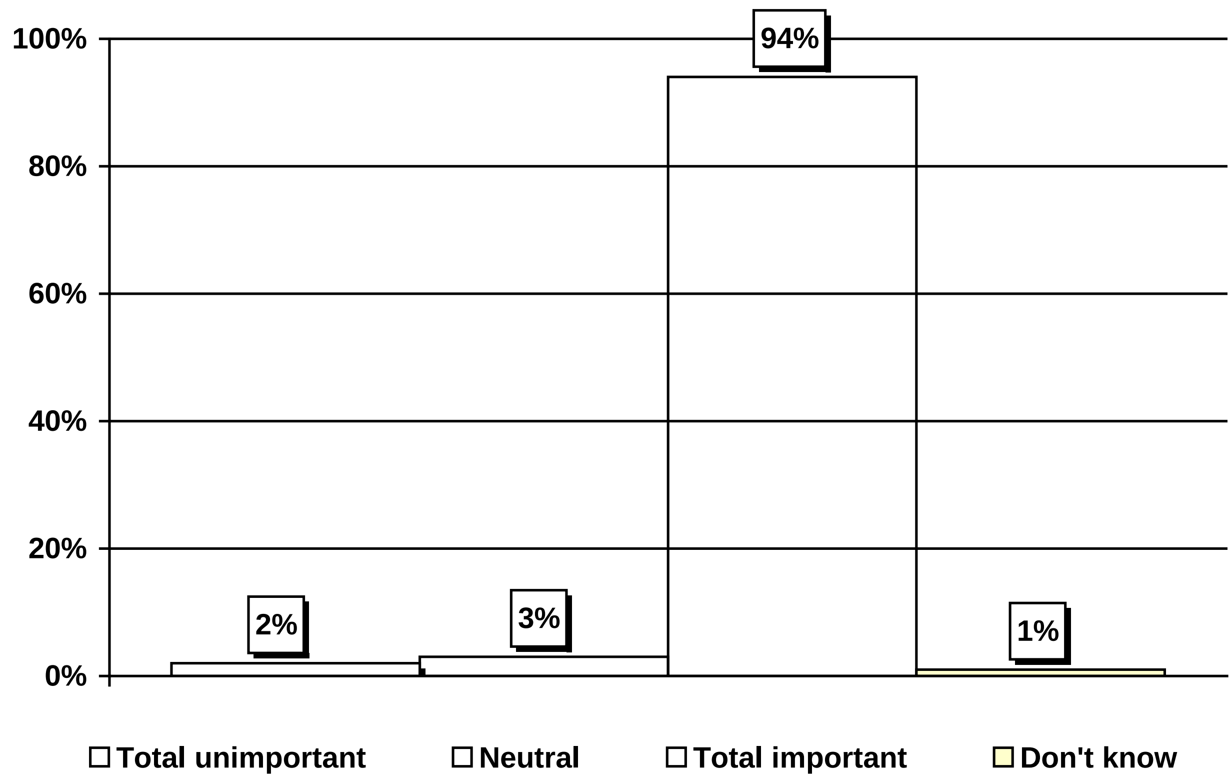
PROGRAM AREAS	***Total unimportant***	***Neutral (neither important nor unimportant)***	***Total important***	***Don't know***
That conservation programs are available to you	3%	1%	95%	1%
That your local utility provides these programs to assist you in conservation	4%	8%	88%	-

A very high 95% of customers surveyed are of the opinion that it is important or very important to have conservation programs available to them, while a still high but lower 88% stated that it is also important or very important that their LDC (local utility) provides these programs to assist them in conserving.

CUSTOMER SERVICE - IMPORTANCE

Next customers were asked about the importance of quality customer service.

"How important is quality customer service to you when you contact Greater Sudbury Hydro?"

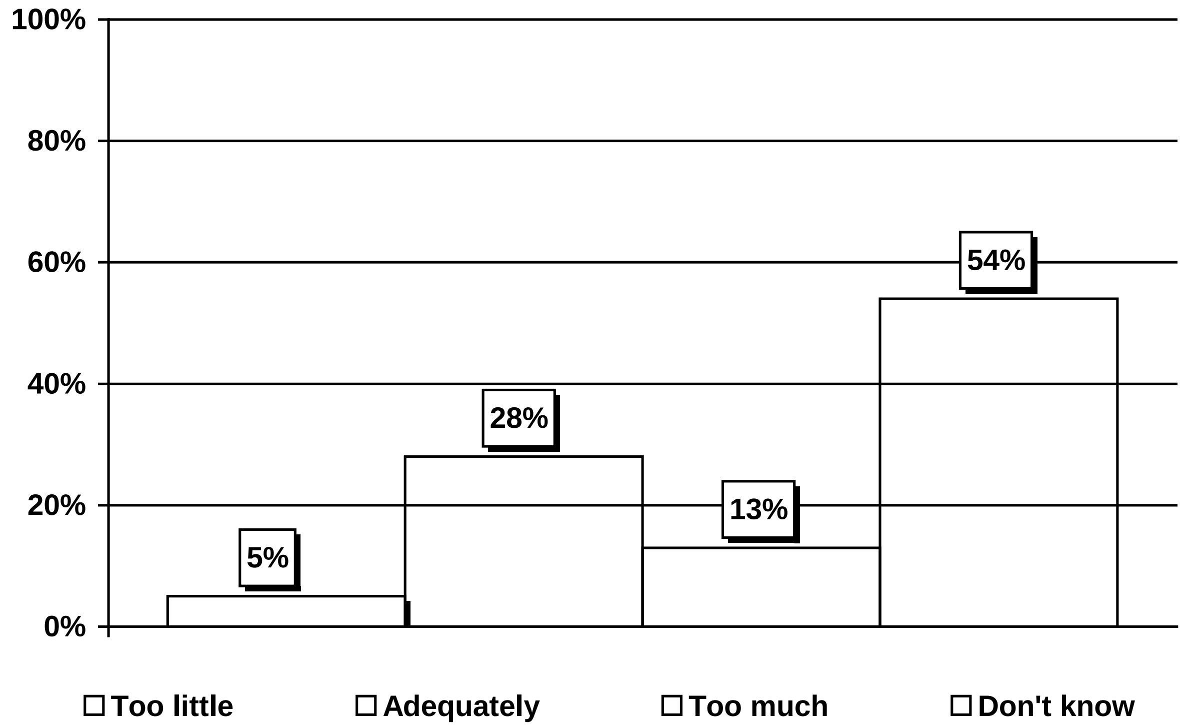


Having quality customer service is important or very important to 94% of Greater Sudbury Hydro customers, compared to only 2% that feel it is unimportant, while 3% had a neutral view (neither important nor unimportant) and 1% did not know.

CAPITAL & MAINTENANCE SPENDING

A question on the level of capital and maintenance spending by Greater Sudbury Hydro was asked.

"Does Greater Sudbury Hydro spend appropriatley in Capital Renewal and maintenance programs?"



When it came to the issue of Greater Sudbury Hydro spending apprriopriatley in Capaital Renewal and maintenace, more than half of customers or 54% did not know. Among those with an opinion, 28% said its spend adequaltly, while only 5% said too little and 13% too much.

RATING GREATER SUDBURY HYDRO

Respondents were asked to rate Greater Sudbury Hydro in the following three categories.

"Next please rate Greater Sudbury Hydro in each of the following areas using a scale from one being very poor to five being very good."

RATING AREAS	***Total poor***	***Neutral (neither poor nor good)***	***Total good***	***Don't know***
Their power outage response times (how quickly the lights are turned back on)	5%	15%	68%	12%
Providing you with energy conservation programs	20%	23%	44%	13%
Providing quality customer service when you contact Greater Sudbury Hydro	8%	15%	64%	13%

Greater Sudbury Hydro rated highest (good & very good) for responding to power outages (68%), next followed by providing quality customer service when contacted (64%), both areas where negative scores (poor or very poor) were low. Customers were divided on the issue of providing energy conservation programs as only 44% accorded this area a positive rating, compared to 20% that scored it negative and 23% as neutral or neither poor nor good. Across all areas there was a consistent and significant number of those that answered "do not know" being unaware of each issue or having no experience.

When asked if they had any final comments, more than six in ten or 61% did not. Among those that responded, 14% named price or rate issues or concerns, 4% cited a dislike of smart meters, 4% approved of the work that Greater Sudbury Hydro is doing and 3% find the bills confusing. There were 2% of mentions for each of poor service, a dislike of time of use, liking smart meters and wanting to be informed of any outages before hand.

RESULTS BY QUESTION

Greater Sudbury Hydro delivers electricity to your home and is responsible for providing local services and maintaining and rebuilding the electricity distribution infrastructure. These costs make up approximately 1/5th of your total hydro bill and are included in the delivery line.

Q1. First I am going to ask your opinion on the issue of balancing the price you pay or maintenance and renewal of your local electricity infrastructure with the security of your electricity service delivery or "keeping the lights on". Please respond on a scale from one having the lowest rates possible with regular outages to five having the highest rates possible with no outages - 3 would be a balance between rates and outages.

	Frequency	Percent
Lowest rates - regular outages	31	7.8
Low rates - occasional outages	35	8.8
Neutral - a balance between rates and outages	233	58.3
High rates - only a few outages	46	11.5
Highest rates - no outages	32	8.0
Don't know	23	5.8
Total	400	100.0

The Government of Ontario is encouraging a culture of conservation in the province. Please rate the importance of each of the following issues related to conservation using a scale from one being not at all important to five very important.

Q2. That conservation programs are available to you

	Frequency	Valid Percent
Not at all important	13	3.3
Not important	19	4.8
Neither important nor unimportant	61	15.3
Important	101	25.3
Very important	203	50.8
Don't know	3	.8
Total	400	100.0

Q3. That your local utility provides these programs to assist you in conservation

	Frequency	Valid Percent
Not at all important	17	4.3
Not important	21	5.3
Neither important nor unimportant	61	15.3
Important	104	26.0
Very important	190	47.5
Don't know	7	1.8
Total	400	100.0

Q4. Overall, how important is quality customer service to you when you contact Greater Sudbury Hydro? Please use the same scale from one not at all important to five very important.

	Frequency	Valid Percent
Not at all important	5	1.3
Not important	1	.3
Neither important nor unimportant	14	3.5
Important	64	16.0
Very important	312	78.0
Don't know	4	1.0
Total	400	100.0

Q5. Does Greater Sudbury Hydro spend appropriately in Capital Renewal and maintenance programs? Does it...

	Frequency	Valid Percent
Spend too little	20	5.0
Spend adequately	111	27.8
Spend too much	53	13.3
Don't know	216	54.0
Total	400	100.0

Next please rate Greater Sudbury Hydro in each of the following areas using a scale from one being very poor to five being very good.

Q6. Their power outage response times (ie - how quickly the lights are turned back on)

	Frequency	Valid Percent
Very poor	4	1.0
Poor	16	4.0
Neither poor nor good	61	15.3
Good	130	32.5
Very good	141	35.3
Don't know	48	12.0
Total	400	100.0

Q7. Providing you with energy conservation programs

	Frequency	Valid Percent
Very poor	30	7.5
Poor	52	13.0
Neither poor nor good	90	22.5
Good	110	27.5
Very good	66	16.5
Don't know	52	13.0
Total	400	100.0

Q8. Providing quality customer service when you contact Greater Sudbury Hydro

	Frequency	Valid Percent
Very poor	12	3.0
Poor	22	5.5
Neither poor nor good	61	15.3
Good	112	28.0
Very good	142	35.5
Don't know	51	12.8
Total	400	100.0

Q9. Do you have any comments that you would like to share with Greater Sudbury Hydro?

	Frequency	Valid Percent
No / nothing / don't know	245	61.3
Price / cost (too high, lower)	57	14.3
Dislike Smart Meters	16	4.0
Doing a good job / keep up the good work	15	3.8
Bill is confusing / hard to understand	10	2.5
Poor customer service	9	2.3
Dislike time of use	8	2.0
Like Smart Meters	6	1.5
Should inform us about outages	6	1.5
Find new power sources / renewable energy	5	1.3
More conservation programs	4	1.0
Fewer outages / quicker response	4	1.0
Communicate better with customers	3	.8
Maintain staffing / no layoffs	2	.5
What is financial status / debt load	2	.5
Problems / errors with bill	2	.5
Improve maintenance	2	.5
Extend hours of operation	1	.3
Upgrade the turbine(s)	1	.3
Access bill online	1	.3
Do not threaten to cut off	1	.3
Total	400	100.0

We are near the end of our survey. The following three short questions are of a personal nature and involve collecting demographic data. This information is statistically important for this survey and please be assured that all individual responses are kept in strict confidence.

D1. Do you rent or own?

	Frequency	Valid Percent
Rent	79	19.8
Own	321	80.3
Total	400	100.0

D2. Which of the following age groups do you fall into?

	Frequency	Valid Percent
20-24 years	9	2.3
25-29 years	20	5.0
30-34 years	34	8.5
35-39 years	40	10.0
40-44 years	33	8.3
45-49 years	53	13.3
50-54 years	48	12.0
55-64 years	61	15.3
65 years and over	92	23.0
Don't know / Refused	10	2.5
Total	400	100.0

D3. What is the highest level of education that you have completed?

	Frequency	Valid Percent
High school graduate or lower	82	20.5
Some/graduated college	150	37.5
Some/graduated university	152	38.0
Don't know / Refused	16	4.0
Total	400	100.0

D4. Which of the following best describes your total annual household income before taxes?

	Frequency	Valid Percent
Less than $25,000	45	11.3
Between $25,000 and $49,999	88	22.0
Between $50,000 and $99,999	112	28.0
More than $100,000	75	18.8
Don't know / Refused	80	20.0
Total	400	100.0

D5. Gender

	Frequency	Valid Percent
Male	192	48.0
Female	208	52.0
Total	400	100.0

CROSSTABULATIONS

	Q1. First I am going to ask your opinion on the issue of balancing the price you pay for maintenance and renewal of your local electricity infrastructure with the security of your electricity service delivery or "keeping the lights on".					
	Lowest rates - regular outages	Low rates - occasional outages	Neutral - a balance between rates and outages	High rates - only a few outages	Highest rates - no outages	Don't know
Rent	5.1%	7.6%	48.1%	13.9%	16.5%	8.9%
Own	8.4%	9.0%	60.7%	10.9%	5.9%	5.0%

		Q1. First I am going to ask your opinion on the issue of balancing the price you pay for maintenance and renewal of your local electricity infrastructure with the security of your electricity service delivery or "keeping the lights on".					
		Lowest rates - regular outages	Low rates - occasional outages	Neutral - a balance between rates and outages	High rates - only a few outages	Highest rates - no outages	Don't know
AGE	20-29		31.0%	34.5%	13.8%	10.3%	10.3%
	30-39	10.8%	12.2%	55.4%	10.8%	6.8%	4.1%
	40-49	8.1%	5.8%	59.3%	16.3%	5.8%	4.7%
	50-64	10.1%	7.3%	65.1%	6.4%	9.2%	1.8%
	65 & older	4.3%	4.3%	62.0%	12.0%	7.6%	9.8%

		Q1. First I am going to ask your opinion on the issue of balancing the price you pay for maintenance and renewal of your local electricity infrastructure with the security of your electricity service delivery or "keeping the lights on".					
		Lowest rates - regular outages	Low rates - occasional outages	Neutral - a balance between rates and outages	High rates - only a few outages	Highest rates - no outages	Don't know
EDUCATION	High school graduate or lower	6.1%	11.0%	56.1%	4.9%	9.8%	12.2%
	Some/graduated college	7.3%	12.7%	60.7%	12.0%	3.3%	4.0%
	Some/graduated university	9.2%	4.6%	58.6%	13.8%	11.2%	2.6%

		Q1. First I am going to ask your opinion on the issue of balancing the price you pay for maintenance and renewal of your local electricity infrastructure with the security of your electricity service delivery or "keeping the lights on".					
		Lowest rates - regular outages	Low rates - occasional outages	Neutral - a balance between rates and outages	High rates - only a few outages	Highest rates - no outages	Don't know
INCOME	Less than $25,000	8.9%	11.1%	51.1%	11.1%	8.9%	8.9%
	Between $25,000 and $49,999	4.5%	8.0%	65.9%	4.5%	6.8%	10.2%
	Between $50,000 and $99,999	7.1%	10.7%	58.0%	13.4%	8.9%	1.8%
	More than $100,000	12.0%	9.3%	53.3%	17.3%	5.3%	2.7%

	Q1. First I am going to ask your opinion on the issue of balancing the price you pay for maintenance and renewal of your local electricity infrastructure with the security of your electricity service delivery or "keeping the lights on".					
	Lowest rates - regular outages	Low rates - occasional outages	Neutral - a balance between rates and outages	High rates - only a few outages	Highest rates - no outages	Don't know
Male	5.2%	8.3%	57.8%	16.7%	5.2%	6.8%
Female	10.1%	9.1%	58.7%	6.7%	10.6%	4.8%

	Q2. That conservation programs are available to you					
	Not at all important	Not important	Neither important nor unimportant	Important	Very important	Don't know
Rent	1.3%	1.3%	10.1%	27.8%	59.5%	
Own	3.7%	5.6%	16.5%	24.6%	48.6%	.9%

		Q2. That conservation programs are available to you					
		Not at all important	Not important	Neither important nor unimportant	Important	Very important	Don't know
AGE	20-29			27.6%	24.1%	44.8%	3.4%
	30-39	1.4%	6.8%	13.5%	23.0%	55.4%	
	40-49		4.7%	17.4%	31.4%	46.5%	
	50-64	4.6%	7.3%	13.8%	28.4%	45.9%	
	65 & older	7.6%	2.2%	13.0%	16.3%	58.7%	2.2%

		Q2. That conservation programs are available to you					
		Not at all important	Not important	Neither important nor unimportant	Important	Very important	Don't know
EDUCATION	High school graduate or lower	7.3%	1.2%	13.4%	23.2%	52.4%	2.4%
	Some/graduated college	1.3%	5.3%	18.7%	21.3%	52.7%	.7%
	Some/graduated university	3.3%	6.6%	13.8%	27.0%	49.3%	

		Q2. That conservation programs are available to you					
		Not at all important	Not important	Neither important nor unimportant	Important	Very important	Don't know
INCOME	Less than $25,000			8.9%	22.2%	66.7%	2.2%
	Between $25,000 and $49,999	3.4%	8.0%	11.4%	23.9%	52.3%	1.1%
	Between $50,000 and $99,999	4.5%	7.1%	24.1%	18.8%	44.6%	.9%
	More than $100,000	4.0%	5.3%	13.3%	36.0%	41.3%	

	Q2. That conservation programs are available to you					
	Not at all important	Not important	Neither important nor unimportant	Important	Very important	Don't know
Male	3.1%	2.1%	20.8%	27.1%	45.8%	1.0%
Female	3.4%	7.2%	10.1%	23.6%	55.3%	.5%

	Q3. That your local utility provides these programs to assist you in conservation					
	Not at all important	Not important	Neither important nor unimportant	Important	Very important	Don't know
Rent	3.8%	3.8%	6.3%	30.4%	53.2%	2.5%
Own	4.4%	5.6%	17.4%	24.9%	46.1%	1.6%

		Q3. That your local utility provides these programs to assist you in conservation					
		Not at all important	Not important	Neither important nor unimportant	Important	Very important	Don't know
AGE	20-29		3.4%	20.7%	34.5%	41.4%	
	30-39	8.1%	5.4%	16.2%	23.0%	45.9%	1.4%
	40-49		2.3%	15.1%	30.2%	52.3%	
	50-64	5.5%	7.3%	17.4%	25.7%	43.1%	.9%
	65 & older	5.4%	4.3%	10.9%	22.8%	51.1%	5.4%

		Q3. That your local utility provides these programs to assist you in conservation					
		Not at all important	Not important	Neither important nor unimportant	Important	Very important	Don't know
EDUCATION	High school graduate or lower	4.9%	3.7%	11.0%	32.9%	42.7%	4.9%
	Some/graduated college	3.3%	3.3%	20.0%	24.0%	48.0%	1.3%
	Some/graduated university	5.3%	7.2%	13.8%	25.7%	47.4%	.7%

		Q3. That your local utility provides these programs to assist you in conservation					
		Not at all important	Not important	Neither important nor unimportant	Important	Very important	Don't know
INCOME	Less than $25,000	2.2%		17.8%	20.0%	51.1%	8.9%
	Between $25,000 and $49,999	3.4%	5.7%	17.0%	25.0%	46.6%	2.3%
	Between $50,000 and $99,999	3.6%	6.3%	11.6%	33.9%	44.6%	
	More than $100,000	6.7%	4.0%	18.7%	28.0%	42.7%	

	Q3. That your local utility provides these programs to assist you in conservation					
	Not at all important	Not important	Neither important nor unimportant	Important	Very important	Don't know
Male	5.2%	1.0%	19.3%	29.2%	42.7%	2.6%
Female	3.4%	9.1%	11.5%	23.1%	51.9%	1.0%

	Q4. Overall, how important is quality customer service to you when you contact Greater Sudbury Hydro? Please use the same scale from one not at all important to five very important.					
	Not at all important	Not important	Neither important nor unimportant	Important	Very important	Don't know
Rent			7.6%	13.9%	78.5%	
Own	1.6%	.3%	2.5%	16.5%	77.9%	1.2%

		Q4. Overall, how important is quality customer service to you when you contact Greater Sudbury Hydro? Please use the same scale from one not at all important to five very important.					
		Not at all important	Not important	Neither important nor unimportant	Important	Very important	Don't know
AGE	20-29		3.4%	10.3%	20.7%	65.5%	
	30-39				24.3%	73.0%	2.7%
	40-49	2.3%		2.3%	7.0%	86.0%	2.3%
	50-64	2.8%		1.8%	12.8%	82.6%	
	65 & older			7.6%	19.6%	72.8%	

		Q4. Overall, how important is quality customer service to you when you contact Greater Sudbury Hydro? Please use the same scale from one not at all important to five very important.					
		Not at all important	Not important	Neither important nor unimportant	Important	Very important	Don't know
EDUCATION	High school graduate or lower	2.4%		6.1%	19.5%	70.7%	1.2%
	Some/graduated college	.7%		2.7%	16.7%	78.7%	1.3%
	Some/graduated university	1.3%	.7%	3.3%	13.2%	80.9%	.7%

		Q4. Overall, how important is quality customer service to you when you contact Greater Sudbury Hydro? Please use the same scale from one not at all important to five very important.					
		Not at all important	Not important	Neither important nor unimportant	Important	Very important	Don't know
INCOME	Less than $25,000			8.9%	17.8%	73.3%	
	Between $25,000 and $49,999		1.1%	5.7%	14.8%	78.4%	
	Between $50,000 and $99,999	.9%		2.7%	8.0%	86.6%	1.8%
	More than $100,000	5.3%			20.0%	72.0%	2.7%

	Q4. Overall, how important is quality customer service to you when you contact Greater Sudbury Hydro? Please use the same scale from one not at all important to five very important.					
	Not at all important	Not important	Neither important nor unimporta nt	Important	Very important	Don't know
Male	1.6%	.5%	3.6%	18.2%	74.0%	2.1%
Female	1.0%		3.4%	13.9%	81.7%	

	Q5. Does Greater Sudbury Hydro spend appropriately in Capital Renewal and maintenance programs?			
	Spends too little	Spends adequately	Spends too much	Don't know
Rent	6.3%	34.2%	5.1%	54.4%
Own	4.7%	26.2%	15.3%	53.9%

		Q5. Does Greater Sudbury Hydro spend appropriately in Capital Renewal and maintenance programs?			
		Spends too little	Spends adequately	Spends too much	Don't know
AGE	20-29		27.6%	3.4%	69.0%
	30-39	5.4%	29.7%	18.9%	45.9%
	40-49	5.8%	29.1%	14.0%	51.2%
	50-64	5.5%	21.1%	10.1%	63.3%
	65 & older	4.3%	33.7%	16.3%	45.7%

		Q5. Does Greater Sudbury Hydro spend appropriately in Capital Renewal and maintenance programs?			
		Spends too little	Spends adequately	Spends too much	Don't know
EDUCATION	High school graduate or lower	2.4%	28.0%	22.0%	47.6%
	Some/graduated college	4.7%	29.3%	10.0%	56.0%
	Some/graduated university	6.6%	26.3%	13.2%	53.9%

		Q5. Does Greater Sudbury Hydro spend appropriately in Capital Renewal and maintenance programs?			
		Spends too little	Spends adequately	Spends too much	Don't know
INCOME	Less than $25,000	6.7%	26.7%	20.0%	46.7%
	Between $25,000 and $49,999	9.1%	31.8%	10.2%	48.9%
	Between $50,000 and $99,999	1.8%	22.3%	16.1%	59.8%
	More than $100,000	6.7%	29.3%	10.7%	53.3%

		Q5. Does Greater Sudbury Hydro spend appropriately in Capital Renewal and maintenance programs?			
		Spends too little	Spends adequately	Spends too much	Don't know
D5. Gender	Male	5.7%	28.6%	18.2%	47.4%
	Female	4.3%	26.9%	8.7%	60.1%

	Q6. Their power outage response times (ie - how quickly the lights are turned back on)					
	Very poor	Poor	Neither poor nor good	Good	Very good	Don't know
Rent		2.5%	15.2%	29.1%	38.0%	15.2%
Own	1.2%	4.4%	15.3%	33.3%	34.6%	11.2%

		Q6. Their power outage response times (ie - how quickly the lights are turned back on)					
		Very poor	Poor	Neither poor nor good	Good	Very good	Don't know
AGE	20-29		3.4%	20.7%	24.1%	34.5%	17.2%
	30-39	1.4%	6.8%	18.9%	36.5%	24.3%	12.2%
	40-49	1.2%	4.7%	14.0%	38.4%	38.4%	3.5%
	50-64		3.7%	18.3%	29.4%	37.6%	11.0%
	65 & older	2.2%	1.1%	8.7%	31.5%	40.2%	16.3%

		Q6. Their power outage response times (ie - how quickly the lights are turned back on)					
		Very poor	Poor	Neither poor nor good	Good	Very good	Don't know
EDUCATION	High school graduate or lower	3.7%		15.9%	28.0%	42.7%	9.8%
	Some/graduated college		4.0%	15.3%	40.7%	34.0%	6.0%
	Some/graduated university	.7%	5.9%	15.8%	27.0%	34.9%	15.8%

		Q6. Their power outage response times (ie - how quickly the lights are turned back on)					
		Very poor	Poor	Neither poor nor good	Good	Very good	Don't know
INCOME	Less than $25,000	4.4%	4.4%	22.2%	24.4%	31.1%	13.3%
	Between $25,000 and $49,999			10.2%	42.0%	33.0%	14.8%
	Between $50,000 and $99,999		3.6%	16.1%	34.8%	42.0%	3.6%
	More than $100,000		8.0%	14.7%	30.7%	34.7%	12.0%

	Q6. Their power outage response times (ie - how quickly the lights are turned back on)					
	Very poor	Poor	Neither poor nor good	Good	Very good	Don't know
Male	1.0%	4.2%	13.5%	32.3%	37.5%	11.5%
Female	1.0%	3.8%	16.8%	32.7%	33.2%	12.5%

	Q7. Providing you with energy conservation programs					
	Very poor	Poor	Neither poor nor good	Good	Very good	Don't know
Rent		7.6%	19.0%	36.7%	25.3%	11.4%
Own	9.3%	14.3%	23.4%	25.2%	14.3%	13.4%

		Q7. Providing you with energy conservation programs					
		Very poor	Poor	Neither poor nor good	Good	Very good	Don't know
AGE	**20-29**		24.1%	41.4%	17.2%		17.2%
	30-39	8.1%	9.5%	35.1%	31.1%	8.1%	8.1%
	40-49	5.8%	19.8%	23.3%	27.9%	16.3%	7.0%
	50-64	10.1%	11.0%	22.9%	22.0%	19.3%	14.7%
	65 & older	8.7%	8.7%	5.4%	35.9%	22.8%	18.5%

		Q7. Providing you with energy conservation programs					
		Very poor	Poor	Neither poor nor good	Good	Very good	Don't know
EDUCATION	**High school graduate or lower**	9.8%	1.2%	11.0%	37.8%	22.0%	18.3%
	Some/graduated college	4.7%	16.0%	25.3%	27.3%	12.7%	14.0%
	Some/graduated university	8.6%	17.1%	26.3%	23.7%	15.1%	9.2%

		Q7. Providing you with energy conservation programs					
		Very poor	Poor	Neither poor nor good	Good	Very good	Don't know
INCOME	**Less than $25,000**	6.7%	4.4%	24.4%	28.9%	22.2%	13.3%
	Between $25,000 and $49,999	2.3%	6.8%	28.4%	30.7%	19.3%	12.5%
	Between $50,000 and $99,999	9.8%	16.1%	22.3%	33.9%	11.6%	6.3%
	More than $100,000	13.3%	17.3%	22.7%	25.3%	10.7%	10.7%

	Q7. Providing you with energy conservation programs					
	Very poor	Poor	Neither poor nor good	Good	Very good	Don't know
Male	9.4%	11.5%	24.0%	29.7%	13.0%	12.5%
Female	5.8%	14.4%	21.2%	25.5%	19.7%	13.5%

	8. Providing quality customer service when you contact Greater Sudbur Hydro					
	Very poor	Poor	Neither poor nor good	Good	Very good	Don't know
Rent			12.7%	29.1%	50.6%	7.6%
Own	3.7%	6.9%	15.9%	27.7%	31.8%	14.0%

		8. Providing quality customer service when you contact Greater Sudbur Hydro					
		Very poor	Poor	Neither poor nor good	Good	Very good	Don't know
AGE	**20-29**		3.4%	13.8%	37.9%	34.5%	10.3%
	30-39	8.1%	1.4%	16.2%	39.2%	25.7%	9.5%
	40-49	1.2%	14.0%	23.3%	22.1%	32.6%	7.0%
	50-64		4.6%	14.7%	22.9%	43.1%	14.7%
	65 & older	4.3%	3.3%	7.6%	29.3%	38.0%	17.4%

		8. Providing quality customer service when you contact Greater Sudbur Hydro					
		Very poor	Poor	Neither poor nor good	Good	Very good	Don't know
EDUCATION	**High school graduate or lowe**	3.7%	6.1%	6.1%	29.3%	40.2%	14.6%
	Some/graduated college	3.3%	4.7%	18.7%	28.7%	34.0%	10.7%
	Some/graduated university	2.0%	6.6%	17.1%	27.6%	33.6%	13.2%

		8. Providing quality customer service when you contact Greater Sudbur Hydro					
		Very poor	Poor	Neither poor nor good	Good	Very good	Don't know
INCOME	**Less than $25,000**		2.2%	13.3%	42.2%	37.8%	4.4%
	Between $25,000 and $49,999			15.9%	31.8%	38.6%	13.6%
	Between $50,000 and $99,999	.9%	8.0%	20.5%	23.2%	33.9%	13.4%
	More than $100,000	6.7%	12.0%	12.0%	22.7%	32.0%	14.7%

	8. Providing quality customer service when you contact Greater Sudbur Hydro					
	Very poor	Poor	Neither poor nor good	Good	Very good	Don't know
Male	3.1%	5.7%	17.2%	27.6%	33.9%	12.5%
Female	2.9%	5.3%	13.5%	28.4%	37.0%	13.0%

ACCOUNTING STANDARD FOR FINANCIAL REPORTING

Greater Sudbury's 2013 COS Application is prepared on a CGAAP basis. Greater Sudbury intends to take advantage of the deferral announced by the Accounting Standards Board (AcSB) on September 18, 2012. That decision of the AcSB pushes the mandatory adoption of IFRS by rate regulated entities to January 1, 2014.

Greater Sudbury's historic financial statements are also presented on a CGAAP basis.

Greater Sudbury has adopted new Capitalization Policies that model the IAS 16 Standards. These new policies affect the way that Greater Sudbury treats overheads for capital. Additionally Greater Sudbury has reviewed its Typical Useful Life for purposes of amortizing capital assets. The Typical Useful Life study is attached at Exhibit 4, Tab 7, Schedule 1, Attachment 2.

BUDGET DIRECTIVES AND ASSUMPTIONS

There are four major components of Greater Sudbury's budget process: (1) revenue forecasts; (2) operating and maintenance expense forecast; (3) payroll labour expense forecast; and (4) capital forecast.

Greater Sudbury completed its operating and capital budgets for the 2013 fiscal year in the summer of 2012. Preparation of the budget considered input from all levels of the organization, however, it is ultimately left to the Executive Team to recommend to Greater Sudbury's Board of Directors which priorities should be carried forward for the year ahead. The Board of Directors reviewed and approved the budgets on November 8, 2012.

The economic assumptions used by Greater Sudbury in filing this Application can be found in the Load Forecast at Exhibit 3, Tab 1 as well as the considerations outlined in the asset management planning process described in Exhibit 2, Tab 4, Schedule 3.

Revenue Forecast

The revenue budget includes three components; energy revenue (passthrough), distribution revenue and other revenue.

The energy revenue for 2013 was forecast using the weather normalization load forecast as developed by Elenchus Research Associates ("ERA") 2012-2103 *Weather Normalized Load Forecast for Greater Sudbury Hydro Inc,* and is discussed in Exhibit 3, Tab 1, Schedule 2. A weighted average commodity price of $0.07932 per kWh has been assumed for the forecast based on the OEB Regulated Price Plan Report dated October 17, 2012.

Distribution Revenue was forecast using the same weather normalized volumes multiplied by proposed rates in order to project distribution revenue for the 2013 Test year.

Other revenue was reviewed on an item-by-item basis. In each case, we reviewed the trend over the past IRM period and barring any sound rationale to do otherwise, the trend was applied to this Application.

Payroll Labour Forecast

Labour plans are typically drawn up on the basis of the hours required to accommodate the work required to be done. During consideration of labour costs, Management considers escalators beyond the Organization's control (i.e. increases to OMERS contributions and increases due to the collective bargaining process). For 2012, 2013 and 2014, Greater Sudbury employees agreed to hold the contract wage increase to 2%. A more detailed discussion of these costs is addressed in Exhibit 4, Tab 4, Schedule 1 "Staffing and Compensation Levels".

Operating and Maintenance Expense Forecast

Greater Sudbury has focused more effort on maintenance and operations budgets in 2012 and 2013 and anticipates heightened activity throughout the next IRM period. The reason for the increase is to clear a backlog of maintenance issues that have been identified during regular inspection of the distribution system. Correcting the items on the list became a higher priority to avoid non-conformance with the Electrical Safety Authority's (ESA) Construction Verification Program. In its 2010 Audit of Greater Sudbury, the ESA observed that Greater Sudbury was not completing repairs and maintenance to sub-stations in a timely manner. "Audit Observations" that are not acted on will become a "Non-Compliance" in subsequent audits.

Capital Budget

Capital Budgets are guided by the capital planning process. This process considers the need for renewal of the distribution system as guided by our Capital Asset Management Plan written by Greater Sudbury engineers. The plan was based on an Asset Condition Assessment completed by Kinectrics (Exhibit 2, Tab 4, Schedule 3). The capital planning process also considers the need to accommodate load growth in specific areas, if any, and external factors affecting our capital assets.

The renewal component of our capital plan is developed from the Capital Asset Management Plan as well as other operational information such as failures and outages and regular plant inspections

The primary responsibility for the capital planning process falls to the Engineering Department. Senior engineering staff consider all available information in the development of a detailed plan and consider ranking of capital needs for presentation to Greater Sudbury's Board of Directors.

Engineering and operations staff meet weekly to review the track that the capital program is taking. Any significant adjustments required are presented to the Board of Directors for approval.

Capital spending is expected to remain constant over the next IRM period.

CHANGES IN METHODOLOGY

While Greater Sudbury intends to take advantage of the IFRS deferral granted by the Accounting Standards Board, as of January 1, 2013, Greater Sudbury has adopted Capitalization Policies that reflect the requirements of IFR Standards. Specifically;

- Greater Sudbury has adopted the extended useful lives and componentization practices provided in the "Asset Depreciation Study Prepared for the Ontario Energy Board" written by Kinectrics Inc, dated July 8, 2010 in determining amortization expense in this Application.
- Greater Sudbury has changed how overheads are calculated to reflect the stricter requirements of IFRS that require a tighter relationship between an expense and acquisition of a capital asset. Certain supervision and administrative costs that previously were allocated to capital projects are now accounted for under the appropriate expense accounts.

This change is discussed in more detail at Exhibit 2, Tab 2, Schedule 1.

REVENUE SUFFICIENCY / DEFICIENCY

Greater Sudbury's net revenue deficiency calculated in this Application is $800,544. When grossed up for PILS the deficiency rises to $844,288. The deficiency is calculated by comparing the 2013 Test Year revenue requirement of $23,890,387 against the result of the 2012 Bridge Year approved rates applied against the 2013 forecast Test Year load forecast and customer count of $22,710,472.

Detailed revenue deficiency calculations and tables are found at Exhibit 6, Tab 2.

APPROVED REVENUE REQUIREMENT

Greater Sudbury's last rebasing application (EB-2008-0230) was for rates effective July 1, 2009. Table 1 below indicates the last Board Approved Revenue Requirements along with the 2013 Test Year Revenue Requirement.

Table 1 – Last Board Approved and 2013 Test Year Revenue Requirement

	2013 Projection	**2009 Approved**
OM&A Expenses	15,564,617	11,669,545
3850-Amortization Expense	3,876,864	5,102,602
Total Distribution Expenses	19,441,482	16,772,147
Regulated Return On Capital	5,461,647	5,530,124
PILs (with gross-up)	201,660	2,139,278
Service Revenue Requirement	**25,104,788**	**24,441,549**
Less: Revenue Offsets	1,550,028	1,647,880
Base Revenue Requirement	**23,554,760**	**22,793,669**

Revenue Requirement Workform

Version 3.00

Utility Name	Greater Sudbury Hydro Inc.
Service Territory	
Assigned EB Number	EB-2012-0126
Name and Title	Nancy Whissell, VP Corporate Services
Phone Number	1-705-675-0509
Email Address	nancyw@shec.com

Revenue Requirement Workform

Notes:

(1)	Pale green cells represent inputs
(2)	Pale green boxes at the bottom of each page are for additional notes
(3)	Pale yellow cells represent drop-down lists
(4)	***Please note that this model uses MACROS. Before starting, please ensure that macros have been enabled.***
(5)	***Completed versions of the Revenue Requirement Work Form are required to be filed in working Microsoft Excel***

Revenue Requirement Workform

Data Input (1)

		Initial Application	(2)		(6)	Per Board Decision	
1	**Rate Base**						
	Gross Fixed Assets (average)	$187,800,824		$ 187,800,824		$187,800,824	
	Accumulated Depreciation (average)	($114,083,450)	(5)	($114,083,450)		($114,083,450)	
	Allowance for Working Capital:						
	Controllable Expenses	$15,564,617		$ 15,564,617		$15,564,617	
	Cost of Power	$94,914,882		$ 94,914,882		$94,914,882	
	Working Capital Rate (%)	13.00%	(9)	13.00%	(9)	13.00%	(9)
2	**Utility Income**						
	Operating Revenues:						
	Distribution Revenue at Current Rates	$22,710,472					
	Distribution Revenue at Proposed Rates	$23,554,760					
	Other Revenue:						
	Specific Service Charges	$843,150					
	Late Payment Charges	$200,000					
	Other Distribution Revenue	$261,878					
	Other Income and Deductions	$245,000					
	Total Revenue Offsets	$1,550,028	(7)				
	Operating Expenses:						
	OM+A Expenses	$15,564,617		$ 15,564,617		$15,564,617	
	Depreciation/Amortization	$3,876,864	(10)	$ 3,876,864		$3,876,864	
	Property taxes						
	Other expenses						
3	**Taxes/PILs**						
	Taxable Income:						
	Adjustments required to arrive at taxable income	($2,485,166)	(3)				
	Utility Income Taxes and Rates:						
	Income taxes (not grossed up)	$157,915					
	Income taxes (grossed up)	$201,660					
	Federal tax (%)	15.00%					
	Provincial tax (%)	6.69%					
	Income Tax Credits						
4	**Capitalization/Cost of Capital**						
	Capital Structure:						
	Long-term debt Capitalization Ratio (%)	56.0%					
	Short-term debt Capitalization Ratio (%)	4.0%	(8)		(8)		(8)
	Common Equity Capitalization Ratio (%)	40.0%					
	Prefered Shares Capitalization Ratio (%)						
		100.0%					
	Cost of Capital						
	Long-term debt Cost Rate (%)	4.41%					
	Short-term debt Cost Rate (%)	2.08%					
	Common Equity Cost Rate (%)	9.12%					
	Prefered Shares Cost Rate (%)						
	Adjustment to Return on Rate Base associated with Deferred PP&E balance as a result of transition from CGAAP to MIFRS ($)		(11)		(11)		(11)

Notes:

General Data inputs are required on Sheets 3. Data from Sheet 3 will automatically complete calculations on sheets 4 through 9 (Rate Base through Revenue Requirement). Sheets 4 through 9 do not require any inputs except for notes that the Applicant may wish to enter to support the results. Pale green cells are available on sheets 4 through 9 to enter both footnotes beside key cells and the related text for the notes at the bottom of each sheet.

(1) All inputs are in dollars ($) except where inputs are individually identified as percentages (%)

(2) Data in column E is for Application as originally filed. For updated revenue requirement as a result of interrogatory responses, technical or settlement conferences, etc., use colimn M and Adjustments in column I

(3) Net of addbacks and deductions to arrive at taxable income.

(4) Average of Gross Fixed Assets at beginning and end of the Test Year

(5) Average of Accumulated Depreciation at the beginning and end of the Test Year. Enter as a negative amount.

(6) Select option from drop-down list by clicking on cell M10. This column allows for the application update reflecting the end of discovery or Argument-in-Chief. Also, the outcome of any Settlement Process can be reflected.

(7) Input total revenue offsets for deriving the base revenue requirement from the service revenue requirement

(8) 4.0% unless an Applicant has proposed or been approved for another amount.

(9) Starting with 2013, default Working Capital Allowance factor is 13% (of Cost of Power plus controllable expenses). Alternatively, WCA factor based on lead-lag study or approved WCA factor for another distributor, with supporting rationale.

(10) Depreciation Expense should include the adjustment resulting from the amortization of the deferred PP&E balance as shown on Appendix 2-EA or Appendix 2-EB of the Chapter 2 Appendices to the Filing Requirements.

(11) Adjustment should include the adjustment to the return on rate base associated with deferred PP&E balance as shown on Appendix 2-EA or Appendix 2-EB of the Chapter 2 Appendices to the Filing Requirements.

Revenue Requirement Workform

Rate Base and Working Capital

Rate Base

Line No.	Particulars		Initial Application				Per Board Decision
1	Gross Fixed Assets (average)	(3)	$187,800,824	$ -	$187,800,824	$ -	$187,800,824
2	Accumulated Depreciation (average)	(3)	($114,083,450)	$ -	($114,083,450)	$ -	($114,083,450)
3	Net Fixed Assets (average)	(3)	$73,717,375	$ -	$73,717,375	$ -	$73,717,375
4	Allowance for Working Capital	(1)	$14,362,335	$ -	$14,362,335	$ -	$14,362,335
5	**Total Rate Base**		$88,079,710	$ -	$88,079,710	$ -	$88,079,710

Allowance for Working Capital - Derivation

(1)

Line No.	Particulars		Initial Application				Per Board Decision
6	Controllable Expenses		$15,564,617	$ -	$15,564,617	$ -	$15,564,617
7	Cost of Power		$94,914,882	$ -	$94,914,882	$ -	$94,914,882
8	Working Capital Base		$110,479,500	$ -	$110,479,500	$ -	$110,479,500
9	Working Capital Rate %	(2)	13.00%	0.00%	13.00%	0.00%	13.00%
10	Working Capital Allowance		$14,362,335	$ -	$14,362,335	$ -	$14,362,335

Notes

(2) Some Applicants may have a unique rate as a result of a lead-lag study. Default rate for 2013 cost of service applications is 13%.

(3) Average of opening and closing balances for the year.

Revenue Requirement Workform

Utility Income

Line No.	Particulars		Initial Application				Per Board Decision
	Operating Revenues:						
1	Distribution Revenue (at Proposed Rates)		$23,554,760	($23,554,760)	$ -	$ -	$ -
2	Other Revenue	(1)	$1,550,028	($1,550,028)	$ -	$ -	$ -
3	Total Operating Revenues		$25,104,788	($25,104,788)	$ -	$ -	$ -
	Operating Expenses:						
4	OM+A Expenses		$15,564,617	$ -	$15,564,617	$ -	$15,564,617
5	Depreciation/Amortization		$3,876,864	$ -	$3,876,864	$ -	$3,876,864
6	Property taxes		$ -	$ -		$ -	
7	Capital taxes		$ -	$ -	$ -	$ -	$ -
8	Other expense		$ -	$ -		$ -	
9	Subtotal (lines 4 to 8)		$19,441,482	$ -	$19,441,482	$ -	$19,441,482
10	Deemed Interest Expense		$2,248,499	($2,248,499)	$ -	$ -	$ -
11	Total Expenses (lines 9 to 10)		$21,689,981	($2,248,499)	$19,441,482	$ -	$19,441,482
12	Adjustment to Return on Rate Base associated with Deferred PP&E balance as a result of transition from CGAAP to MIFRS		$ -	$ -	$ -	$ -	$ -
13	**Utility income before income taxes**		$3,414,808	($22,856,290)	($19,441,482)	$ -	($19,441,482)
14	Income taxes (grossed-up)		$201,660	$ -	$201,660	$ -	$201,660
15	**Utility net income**		$3,213,148	($22,856,290)	($19,643,141)	$ -	($19,643,141)

Notes

Other Revenues / Revenue Offsets

Notes		Initial Application				Per Board Decision
(1)	Specific Service Charges	$843,150		$ -		$ -
	Late Payment Charges	$200,000		$ -		$ -
	Other Distribution Revenue	$261,878		$ -		$ -
	Other Income and Deductions	$245,000		$ -		$ -
	Total Revenue Offsets	$1,550,028	$ -	$ -	$ -	$ -

Revenue Requirement Workform

Taxes/PILs

Line No.	Particulars	Application		Per Board Decision
	Determination of Taxable Income			
1	Utility net income before taxes	$3,213,148	$ -	$ -
2	Adjustments required to arrive at taxable utility income	($2,485,166)	$ -	($2,485,166)
3	Taxable income	$727,982	$ -	($2,485,166)
	Calculation of Utility income Taxes			
4	Income taxes	$157,915	$157,915	$157,915
6	Total taxes	$157,915	$157,915	$157,915
7	Gross-up of Income Taxes	$43,744	$43,744	$43,744
8	Grossed-up Income Taxes	$201,660	$201,660	$201,660
9	PILs / tax Allowance (Grossed-up Income taxes + Capital taxes)	$201,660	$201,660	$201,660
10	Other tax Credits	$ -	$ -	$ -
	Tax Rates			
11	Federal tax (%)	15.00%	15.00%	15.00%
12	Provincial tax (%)	6.69%	6.69%	6.69%
13	Total tax rate (%)	21.69%	21.69%	21.69%

Notes

Capitalization/Cost of Capital

Line No.	Particulars	Capitalization Ratio (%)	Capitalization Ratio ($)	Cost Rate (%)	Return ($)
		Initial Application			
	Debt				
1	Long-term Debt	56.00%	$49,324,637	4.41%	$2,175,217
2	Short-term Debt	4.00%	$3,523,188	2.08%	$73,282
3	**Total Debt**	60.00%	$52,847,826	4.25%	$2,248,499
	Equity				
4	Common Equity	40.00%	$35,231,884	9.12%	$3,213,148
5	Preferred Shares	0.00%	$ -	0.00%	$ -
6	**Total Equity**	40.00%	$35,231,884	9.12%	$3,213,148
7	**Total**	100.00%	$88,079,710	6.20%	$5,461,647
	Debt				
1	Long-term Debt	0.00%	$ -	0.00%	$ -
2	Short-term Debt	0.00%	$ -	0.00%	$ -
3	**Total Debt**	0.00%	$ -	0.00%	$ -
	Equity				
4	Common Equity	0.00%	$ -	0.00%	$ -
5	Preferred Shares	0.00%	$ -	0.00%	$ -
6	**Total Equity**	0.00%	$ -	0.00%	$ -
7	**Total**	0.00%	$88,079,710	0.00%	$ -
		Per Board Decision			
	Debt				
8	Long-term Debt	0.00%	$ -	4.41%	$ -
9	Short-term Debt	0.00%	$ -	2.08%	$ -
10	**Total Debt**	0.00%	$ -	0.00%	$ -
	Equity				
11	Common Equity	0.00%	$ -	9.12%	$ -
12	Preferred Shares	0.00%	$ -	0.00%	$ -
13	**Total Equity**	0.00%	$ -	0.00%	$ -
14	**Total**	0.00%	$88,079,710	0.00%	$ -

Notes

(1) Data in column E is for Application as originally filed. For updated revenue requirement as a result of interrogatory responses, technical or settlement conferences, etc., use colimn M and Adjustments in column I

Revenue Requirement Workform

Revenue Deficiency/Sufficiency

Line No.	Particulars	Initial Application: At Current Approved Rates	Initial Application: At Proposed Rates	At Current Approved Rates	At Proposed Rates	Per Board Decision: At Current Approved Rates	Per Board Decision: At Proposed Rates
1	Revenue Deficiency from Below		$844,288		($3,957,411)		$19,441,482
2	Distribution Revenue	$22,710,472	$22,710,473	$22,710,472	$27,512,171	$ -	($19,441,482)
3	Other Operating Revenue Offsets - net	$1,550,028	$1,550,028	$ -	$ -	$ -	$ -
4	**Total Revenue**	$24,260,500	$25,104,788	$22,710,472	$23,554,760	$ -	$ -
5	Operating Expenses	$19,441,482	$19,441,482	$19,441,482	$19,441,482	$19,441,482	$19,441,482
6	Deemed Interest Expense	$2,248,499	$2,248,499	$ -	$ -	$ -	$ -
7	Adjustment to Return on Rate Base associated with Deferred PP&E balance as a result of transition from CGAAP to MIFRS	$ - **(2)**	$ -	$ - **(2)**	$ -	$ - **(2)**	$ -
8	**Total Cost and Expenses**	$21,689,981	$21,689,981	$19,441,482	$19,441,482	$19,441,482	$19,441,482
9	**Utility Income Before Income Taxes**	$2,570,520	$3,414,808	$3,268,991	$4,113,279	($19,441,482)	($19,441,482)
10	Tax Adjustments to Accounting Income per 2013 PILs model	($2,485,166)	($2,485,166)	($2,485,166)	($2,485,166)	$ -	$ -
11	**Taxable Income**	$85,354	$929,642	$783,825	$1,628,113	($19,441,482)	($19,441,482)
12	Income Tax Rate	21.69%	21.69%	21.69%	21.69%	21.69%	21.69%
13	**Income Tax on Taxable Income**	$18,515	$201,660	$170,029	$353,173	($4,217,283)	($4,217,283)
14	**Income Tax Credits**	$ -	$ -	$ -	$ -	$ -	$ -
15	**Utility Net Income**	$2,552,005	$3,213,148	$3,098,962	($19,643,141)	($15,224,199)	($19,643,141)
16	**Utility Rate Base**	$88,079,710	$88,079,710	$88,079,710	$88,079,710	$88,079,710	$88,079,710
17	Deemed Equity Portion of Rate Base	$35,231,884	$35,231,884	$ -	$ -	$ -	$ -
18	Income/(Equity Portion of Rate Base)	7.24%	9.12%	0.00%	0.00%	0.00%	0.00%
19	Target Return - Equity on Rate Base	9.12%	9.12%	0.00%	0.00%	0.00%	0.00%
20	Deficiency/Sufficiency in Return on Equity	-1.88%	0.00%	0.00%	0.00%	0.00%	0.00%
21	Indicated Rate of Return	5.45%	6.20%	3.52%	0.00%	-17.28%	0.00%
22	Requested Rate of Return on Rate Base	6.20%	6.20%	0.00%	0.00%	0.00%	0.00%
23	Deficiency/Sufficiency in Rate of Return	-0.75%	0.00%	3.52%	0.00%	-17.28%	0.00%
24	Target Return on Equity	$3,213,148	$3,213,148	$ -	$ -	$ -	$ -
25	Revenue Deficiency/(Sufficiency)	$661,143	$1	($3,098,962)	$ -	$15,224,199	$ -
26	**Gross Revenue Deficiency/(Sufficiency)**	$844,288 **(1)**		($3,957,411) **(1)**		$19,441,482 **(1)**	

Notes:
(1) Revenue Deficiency/Sufficiency divided by (1 - Tax Rate)
(2) Treated as an adjustment pre-tax to avoid an impact on taxes/PILs and hence on revenue sufficiency deficiency

Revenue Requirement

Line No.	Particulars	Application				Per Board Decision	
1	OM&A Expenses	$15,564,617		$15,564,617		$15,564,617	
2	Amortization/Depreciation	$3,876,864		$3,876,864		$3,876,864	
3	Property Taxes	$ -					
5	Income Taxes (Grossed up)	$201,660		$201,660		$201,660	
6	Other Expenses	$ -					
7	Return						
	Deemed Interest Expense	$2,248,499		$ -		$ -	
	Return on Deemed Equity	$3,213,148		$ -		$ -	
	Adjustment to Return on Rate Base associated with Deferred PP&E balance as a result of transition from CGAAP to MIFRS	$ -		$ -		$ -	
8	**Service Revenue Requirement (before Revenues)**	$25,104,788		$19,643,141		$19,643,141	
9	Revenue Offsets	$1,550,028		$ -		$ -	
10	**Base Revenue Requirement (excluding Tranformer Owership Allowance credit adjustment)**	$23,554,760		$19,643,141		$19,643,141	
11	Distribution revenue	$23,554,760		$ -		$ -	
12	Other revenue	$1,550,028		$ -		$ -	
13	**Total revenue**	$25,104,788		$ -		$ -	
14	**Difference (Total Revenue Less Distribution Revenue Requirement before Revenues)**	$1	(1)	($19,643,141)	(1)	($19,643,141)	(1)

Notes

(1) Line 11 - Line 8

AFFILIATE TRANSACTIONS

Greater Sudbury Utilities is the holding company that owns 100% of the shares of Greater Sudbury Hydro Inc., Greater Sudbury Hydro Plus Inc., Greater Sudbury Telecommunications Inc O/A Agilis Networks (Agilis)., 1627596 Ontario Inc. and ConverGen Inc. For purposes of the Affiliates Relationship Code, Greater Sudbury is considered an affiliate of the City of Greater Sudbury. Greater Sudbury is able to take full advantage of the economies of scope that flow from GSU's investments in other business in that the sharing of many services across multiple affiliates maximizes the use of those resources.

Services Purchased by Greater Sudbury from Greater Sudbury Hydro Plus - The majority of affiliate transactions between Greater Sudbury and its affiliates occurs with Greater Sudbury Hydro Plus Inc (GSHPI). GSHPI is a services company that provides what the Affiliate Relationship Code defines as shared corporate services. GSHPI provides these services to all affiliates on the basis of the transfer pricing methodology derived from the BDR Report discussed in Exhibit 1, Tab 1, Schedule 11. The actual report is found at Exhibit 1, Tab 1, Schedule 11, Attachment 1.

Services Purchased by GSHPI from Greater Sudbury - GSHPI purchases skilled labour and equipment hours from Greater Sudbury for purposes of fulfilling its contract with the City of Greater Sudbury for the maintenance and installation of street lighting systems.

Services Purchased by Greater Sudbury from Agilis - Greater Sudbury purchases telecommunications services from its affiliate Agilis at less than market rates. These transactions are discussed in greater detail in the BDR report mentioned above.

1627596 Ont. Inc (NumCo) does not conduct any direct business transactions with Greater Sudbury.

ConverGen and Greater Sudbury. Greater Sudbury had previously guaranteed a loan from the Toronto Dominion Bank (TD) for ConverGen. The loan was to purchase and install a Landfill Gas Generation System at the City's main landfill site on the Kingsway in Sudbury. TD representatives have confirmed that they will release Greater Sudbury from this obligation.

Greater Sudbury rents two parking spaces from ConverGen related to the commercial property that ConverGen owns immediately adjacent to Greater Sudbury's property. The spaces were required to allow Greater Sudbury to provide accessible parking in proximity to its Customer Service area. The rental rate for both spaces is based on staff's survey of the local market for parking in the area.

City of Greater Sudbury (CGS) - The CGS has purchased billing services from Greater Sudbury for its water/wastewater operations. As noted in Exhibit 1, Tab 1, Schedule 1, the Board in Greater Sudbury's last Cost of Service decision (EB-2008-0230) required that a transfer pricing study be conducted. The intent of the study is to allocate costs to various activities on the basis of causation. The result of the study is a significant increase to the amounts that Greater Sudbury would be required to recover from the CGS. This, combined with a move from bi-monthly billing to monthly billing, has driven the cost for billing services to the point where the CGS is indicating that it will alternate arrangements for its billing needs. This Application has been prepared on the assumption that the CGS will not contribute to shared corporate costs. The effect of this loss of business on Greater Sudbury is discussed in greater detail in Exhibit 4, Tab 1, Schedule 1.

CORPORATE SERVICES AGREEMENT

Between

GREATER SUDBURY HYDRO PLUS INC/HYDRO PLUS DU GRAND SUDBURY INC.
("Servicesco")

and

GREATER SUDBURY HYDRO INC./HYDRO DU GRAND SUDBURY INC.
("Wiresco")

DATED AS OF JANUARY 1, 2012

RECITALS

1. Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc. ("Servicesco") is a corporation established under the laws of the Province of Ontario and is in the business of providing Corporate Services to corporations and other entities operating electrical, water, telecommunications or sewage facilities;

2. Greater Sudbury Hydro Inc. / Hydro du Grand Sudbury Inc. ("Wiresco") is a corporation established under the laws of Ontario and is in the business of distributing electricity throughout certain parts of the City of Greater Sudbury and West Nipissing.

3. Servicesco and Wiresco have agreed to enter into this Corporate Services Agreement dated as of January 1, 2012 (the "Agreement"), pursuant to which Servicesco will provide Corporate Services to Wiresco and Wiresco will provide certain services to Servicesco as described in Schedule A, on and subject to the terms and conditions set forth herein;

NOW THEREFORE, THIS CORPORATE SERVICES AGREEMENT WITNESSES THAT, in consideration of the covenants and agreements herein contained, the Parties hereto agree as follows:

ARTICLE I
INTERPRETATION

1.1 Definitions. Whenever used in this Agreement, unless the context otherwise requires, the capitalized words and terms used herein shall have the following meanings:

"Affiliate Relationships Code" means the OEB's *Affiliate Relationships Code for Electricity Distributions and Transmitters*, dated April 1, 1999, and revised February 1, 2001, and any supplements or amendment thereto:

"Agreement" means this Corporate Services Agreement, including all schedules and all documents, instruments and agreements supplemental hereto or in amendment or confirmation hereof;

"Applicable Laws" means all laws or ordinances and all judgments, decrees, injunctions, writs and orders of any court, arbitrator or Governmental Authority, and all statutes, rules, regulations orders, interpretations, directives, licenses and permits of any governmental body, instrumentality, agency or other regulatory authority applicable to this Agreeement and/or the services provided pursuant to the Agreement.;

"Arbitration Act" means the *Arbitration Act, 1991,* S.O. 1991, Chap. 17;

"Base Fees" shall have the meaning ascribed in Section 4.1;

"Business Day" means a day other than Saturday, Sunday or a legal holiday in Sudbury, Ontario;

"Confidential Information" means information that Wiresco has obtained relating to a specific consumer, retailer or generator in the process of providing current or prospective electrical distribution or transmission services;
"Event of Default" means any of the events described in Section 6.1;

"Corporate Services Expenses" means with respect to any period, without duplication, all costs and expenses incurred by Servicesco in connection with the provision of the CorporateServices and calculated in accordance with the transfer pricing methodology attached to this agreement as Schedule A;

"Fair Market Value" means the price reached in an open and unrestricted market between informed and prudent parties, acting at arms length and under no compulsion to act;

"Force Majeure" means a strike, lockout, riot, insurrection, war, fire, tempest, flood, act of god, lack of materials or supply of service which results notwithstanding the diligent efforts of Servicesco and Wiresco;

"Governmental Authority" means any court or governmental department, commission, board, bureau, agency, or instrumentality of Canada. or of any province, territory, county, municipality, city, town or other political jurisdiction and whether now or in the future constituted or existing that has jurisdiction over some aspect of the services provided under this Agreement or over either of Servicesco or Wiresco;

"HST" means the harmonized sales tax levied under Part IX of the *Excise Tax Act* R.S.C., 1985, c. E-15;

"Insolvent" means, with respect to any Person, being insolvent, bankrupt, making a proposal under the *Bankruptcy and Insolvency Act* R.S.C., 1985 c. B-3 or having a trustee or receiver or manager appointed in respect of its assets;

"OEB" means the Ontario Energy Board;

"OEB Act" means the *Ontario Energy Board Act, 1998 S.O. 1998, C 15, Sched B;*

"Party" means Servicesco or Wiresco, or both, as applicable;

"Person" means any natural person, corporation, division of a corporation, partnership, trust, joint venture, association, company, estate, unincorporated organization, public utilities commission, or Governmental Authority;

"Required Consents" means all permits, by-laws, licences, waivers, exemptions, consents, certificates, authorizations, approvals, rights, rights of way and entitlements and the like which are required from any Governmental Authority or any other Person in respect of, or which are in any way material to, the performance of the Services by Servicesco on Wiresco's behalf;

"Services" and "Corporate Services" means the services that Wiresco requires to be performed by Servciesco and the services that Servicsco requires to be performed by Wiresco as listed in Schedule A

"Servicesco" means Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc.;

"Taxes" means any and all governmental fees (including license, documentation and registration fees), taxes (including income, gross receipt, sales, rental, use, turnover, value added, property (tangible and intangible), excise and stamp taxes), licenses, levies, imposts, duties, recording charges or fees, charges, assessments, reassessments or withholdings of any nature whatsoever, including commodity taxes, together with any and all assessments, penalties, fines, additions and interest thereon;

"Term" shall mean the period from the date hereof to December 31, 2016 or such earlier date as this Agreement may be terminated in accordance with the provisions herein; and

"Wiresco" means Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc.

1.2 **Termination of Prior Agreement**
Effective as of 11:59 pm EST on December 31, 2011 the Prior Agreement is terminated. Effective as of 12:00 am EST on January 1, 2012 this Agreement shall be in full force.

1.3 **Interpretation.** Throughout this Agreement;

(a) any word importing the singular number shall include the plural and vice versa;

(b) any word importing gender shall include all genders;

(c) all references to sections and schedules are to sections and schedules to and forming part of this Agreement; and

(d) all dollar amounts are in lawful money of Canada,

1.4 **Headings**. The headings in this Agreement are for convenience only and shall not in any way limit or be deemed to construe or interpret the terms and provisions of this Agreement.

1.5 **Schedules**. The following Schedules annexed hereto and incorporated by reference are deemed to be an integral part of this Agreement as if they had been set forth herein:

Schedule "A"- Transfer Pricing Methodology

1.6 **Applicable Law.** This Agreement and all documents, instruments and agreements related thereto shall be construed and enforced in accordance with the laws of the Province of Ontario.

1.7 **Successors and Assigns.** This agreement shall ensure to the benefit of and shall be binding on Servicesco and Wiresco, and their respective successors and assigns.

1.8 **Severability.** Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall not invalidate the remaining provisions hereof and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. In respect of any provision so determined to be unenforceable or invalid, the Parties agree to negotiate in good faith to replace the unenforceable or invalid provision with a new provision that is enforceable and valid in order to give effect to the intent of the original provision to the extent permitted by law and in accordance with the intent of this Agreement.

1.9 **Time of the Essence.** Time shall be of the essence of this Agreement.

1.10 **No Partnership.** It is understood and agreed that nothing contained in this Agreement nor any acts of the Parties shall be deemed to constitute the Services and Wiresco as partners of each other.

ARTICLE II
PROVISION OF SERVICES BY SERVICESCO

2.1 **Appointment of Servicesco.** Servicesco will provide Services to Wiresco in accordance with the terms of this Agreement, throughout the Term.

2.2 **Duties and Responsibilities of Servicesco.** Subject to any Required Consents and to Section 2.4 hereof, Servicesco shall have the duty and responsibility during the Term to provide Services to Wiresco, including without limitation providing the necessary staff to provide the Services to Wiresco. Without limiting the generality of the foregoing, Servicesco shall have the following duties and responsibilities:

(a) to prepare an annual plan and budget for the performance of the Services by Servicesco and to submit such Plan to Wiresco for its at least 30 days prior to the beginning of each fiscal year;

(b) to prepare and deliver to Wiresco on the 15th day of the month, a report detailing all Services which have been provided by Servicesco in the previous month including detailed and summary costing information calculated in accordance with Schedule B as acceptable to Wiresco;

(c) to provide any further report to Wiresco with respect to the Services, as may be requested from time to time by Wiresco;

(d) to provide the services of trained and accredited (where applicable) Servicesco personnel to provide the Services to Wiresco and otherwise meet Servicesco's obligations under this Agreement;

(e) to assist Wiresco in obtaining and maintaining and fulfilling all necessary permits, consents and permissions, or other regulatory requirements related to the Services, including any licensing requirements pursuant to the OEB Act;

(f) to use its reasonable efforts to secure and maintain from vendors, suppliers and subcontractors the best indemnities, warranties and guarantees as may be commercially available regarding all supplies, equipment and services purchased in relation to the Services, all of which shall be assigned to Wiresco, and assist Wiresco in preserving and enforcing such indemnities, warranties or guarantees;

(g) to promptly notify Wiresco of:

(i) any default hereunder;

(ii) any condition or occurrence which is likely to result in a material difference in the costs agreed to by Wiresco in the annual plan;

(iii) any occurrence, accident, safety violation, lawsuit claim by any Person which might reasonably be expected to result in an investigation or penalty under Applicable Laws or any material violation of any Applicable Laws; or

(iv) any other event which might reasonably be expected to have a material adverse effect on the Services; or

2.3 **Powers of Servicesco.** Subject to the overall direction and requirements of Wiresco and subject to any Required Consents and to Section 2.4, Servicesco shall have the authority to administer, perform and carry out the terms of all necessary agreements and commitments, the performance of which is necessary or advisable in respect of the Services provided to Wiresco. Wiresco shall notify all other parties and shall execute all directions and other instruments as may be necessary to document Servicesco's authority under this Agreement to provide Services on behalf of Wiresco.

2.4 **Limit of Servicesco Expenditures.** In the conduct of its duties hereunder, Servicesco shall not, without first obtaining the written approval of Wiresco, undertake an expenditure which would result in a variance to the budget, as set out in the annual plan.

2.5 **Apportionment of Risks.**

(a) Servicesco shall have no liability as a result of this Agreement to make or arrange for payments on account of Wiresco expenses, or any other expenses relating to this Agreement, out of its own funds; and

(b) Servicesco will remain liable for any negligence, omission or failure in the performance of its obligations under this Agreement.

2.6 **Services Provided by Wiresco**

Wiresco shall provide services to Servicesco on the terms outlined in Schedule A. Servicesco in its sole discretion shall determine the amount of services required from Wiresco and agrees to be bound by the pricing methodology in Schedule A for all services procured.

ARTICLE III
TERM

3.1 **Term of Agreement.** This Agreement shall become effective as of the date hereof and shall continue in full force and effect throughout the Term unless sooner terminated in accordance with the provisions of this Agreement. This Agreement shall be automatically renewed for successive periods of five (5) years unless either Party provides the other with written notice to the contrary at least one hundred and eighty (180) days prior to the end of the then incumbent term.

ARTICLE IV
FEES AND PAYMENT OF EXPENSES

4.1 **Services Fee.** In consideration of the Services provided by Servicesco pursuant to this Agreement, Wiresco shall pay to Servicesco, in advance, a monthly Services fee, payable on the last day of the month in which the Services are performed. This fee shall consist of:

(i) a base fee (the "Base Fee") of $3,500 per month, exclusive of GST. The Base Fee may be reset annually by the Parties, in conjunction with the preparation of the Annual Plan; and

(ii) an amount equal to the amount of the Expenses projected to be disbursed by

Servicesco during each month, as reflected in each year's Annual Plan. Such amount shall be adjusted within 30 days of the end of each month based on the actual amount of the Expenses incurred by Servicesco during that month.

4.2 **Calculation of Services Expenses.** Wiresco hereby acknowledges and agrees that:

(a) Servicesco may provide Services to third parties and to itself which are similar to the Services which Servicesco provides to Wiresco hereunder;

(b) Servicesco shall be entitled, from time to time, to reasonably allocate its cost in respect of the Services it provides to Wiresco, among Wiresco, Servicesco and all other third parties to which Servicesco provide services; and

(c) The allocation of Servicesco's cost in respect of the Services as set out in Schedule "A" is reasonable and may be revised by Servicesco from time to time on written notice to Wiresco.

ARTICLE V
COVENANTS

5.1 **Covenants of Servicesco.** Servicesco covenants and agrees that in the performance of its obligations pursuant to this Agreement it shall:

(a) perform all services at all times in accordance with due care and diligence, and in compliance with Applicable Laws;

(b) comply with all instructions of Wiresco in relation to the performance of its Services under this Agreement.

5.2 **Covenants of Wiresco.** Wiresco covenants and agrees that it shall, throughout the Term of this Agreement:

(a) comply in every material respect with all Applicable Laws;

(b) at all times pay all Taxes, government fees, and assessments of whatever nature or kind with respect to Wiresco's property and/or operations including any interest and penalties thereon when and as the same become due and payable, except when and so long as the validity of any of the same is in good faith being contested by Wiresco;

(c) execute all directions and other instruments as may be necessary or requested from time to time by Servicesco to document Servicesco's authority under this Agreement; and

(d) provide prompt notice to Servicesco of any material facts or information of which it is aware in relation to and which may affect the Services, including, without limitation, any pending or threatened claims by or against Wiresco before any court or administrative tribunal.

5.3 **Affiliate Relationships Code.** Each of the Parties acknowledge and agree that this Agreement is to be construed as a "Services Agreement" pursuant to the Affiliate Relationships Code, and as such is subject to the following:

(a) the fees paid to the Servicesco under this Agreement shall be calculated in accordance with Schedule A Transfer Pricing Methodology based on the Transfer Pricing Study completed for Wiresco by BDR North America Inc dated September 22, 2012 and as updated from time to time to reflect changes in Servicesco operating environment;

(b) each of Wiresco and Servicesco shall maintain separate financial records and books of accounts;

(c) Wiresco shall provide the OEB with information regarding its transactions with Servicesco, in a form and manner and at such times as may be requested by the OEB, including without limitation:

(i) the business address, list of officers and directors, and description of Servicesco's business activities; and

(ii) a copy of this Agreement.

5.4 **Confidentiality Arrangements.** Pursuant to the Affiliate Relationships Code, the Parties hereby agree to establish and maintain the following confidentiality arrangements:

(a) Servicesco shall install and maintain appropriate computer data management and data access protocols to ensure that all Wiresco Confidential Information is protected from access by any affiliate that is an "energy service provider" as defined in the Affiliate Relationships Code;

(b) Operations staff shall not be directly involved in the collection of, and shall not have access to, Confidential Information;

(c) Servicesco shall not release Confidential Information to any party without first obtaining the written consent of the consumer, retailer or generator in question, except where Confidential Information is required to be released by Servicesco:

(i) for billing or market operation purposes;

(ii) for law enforcement purposes;

(iii) for the purpose of complying with a legal requirement; or

(iv) for the processing of past due accounts of the consumer which have been passed to a debt collection agency.

ARTICLE VI
DEFAULT AND TERMINATION

6.1 Event of Default.

Servicesco shall be in default under this Agreement upon the happening or occurrence of any of the following events, each of which shall be deemed to be "Event of Default" for the purposes of this Agreement:

(a) if Servicesco breaches or fails to observe or perform any of Servicesco's obligations, covenants, or responsibilities under this Agreement, and, within thirty (30) days after notice from Wiresco specifying the nature of such breach or failure, Servicesco fails to cure such breach of failure or to take steps to remedy such breach or failure to the satisfaction of Wiresco;

(b) if Servicesco:

(i) becomes Insolvent;

(ii) is subject to any proceeding, voluntary or involuntary under the provisions of the *Bankruptcy and Insolvency Act* (Canada), the *Companies Creditors Arrangement Act* (Canada), or any other Act for the benefit of creditors;

(iii) winds up either voluntarily or under an order of a Court of competent jurisdiction;

(iv) makes a general assignment for the benefit of its creditors; or

(v) otherwise takes any corporate action that acknowledges its Insolvency; or

(c) if there is gross negligence, willful default or fraud by Servicesco in the performance of any of its obligations, covenants, or responsibilities under this Agreement

6.2 Termination upon Event of Default. Upon the occurrence of an Event of Default, Wiresco in its absolute discretion may elect to terminate this Agreement, upon providing notice to Servicesco and paying any outstanding Base Fee and Corporate Servcies Expenses therein.

6.3 **Termination.** Subject to Section 8.1 either Party may terminate this Agreement, without cause and at any time, by providing at least one hundred and eighty (180) days' prior written notice of termination to the other Party.

6.4 **Restriction on Termination during Force Majeure.** During the occurrence of an event of Force Majeure, the obligations of the Party affected by such event of Force Majeure, to the extent that such obligations cannot be performed as a result of such event of Force Majeure. shall be suspended, and such Party shall not be considered to be in default hereunder, for the period of such occurrence, except that the occurrence of an event of Force Majeure affecting Wiresco (but not affecting the performance of Servicesco's obligations hereunder) shall not relieve it of its obligation to make payments to Servicesco hereunder. The non-performing Party shall give the other Party prompt written notice of the particulars of the event of Force Majeure and its expected duration, and shall continue to furnish regular reports with respect thereto on a timely basis during the continuance of the event of Force Majeure and shall use its best efforts to remedy its inability to perform. The suspension of performance is to be of not greater scope and of no longer duration than is required by the Force Majeure condition. No obligations of either Party that arose before the Force Majeure causing the suspension of performance are excused as a result of the Force Majeure.

6.5 **Post-Termination Arrangements.** In the event of termination of this Agreement, for any reason:

(a) Servicesco shall deliver to Wiresco all books, records, accounts, systems and manuals which it has developed and maintained relating to the Services pursuant to this Agreement;

(b) Servicesco and Wiresco shall take all steps as may be reasonably required to complete any final accounting between them and to provide, if applicable, for the orderly transfer of any matter contemplated by this Agreement; and

(c) title to all materials, equipment, supplies, parts and other items purchased or obtained by Servicesco in relation to the Services shall pass to and vest in Wiresco upon payment or reimbursement of costs by Wiresco.

ARTICLE VII
SUCCESSION AND DELEGATION

7.1 **No Assignment.** This Agreement may not be assigned by either of the Parties hereto.

7.2 **Delegation of Servicesco's Obligations.** Servicesco shall not delegate any of its obligations under this Agreement to a third party without the prior written consent of Wiresco, which consent may not be unreasonably withheld provided that such third party is a reputable and experienced person capable of fulfilling such obligation and further provided that Servicesco shall have provided Wiresco with at least ten (10) days' prior written notice, failing which such consent may be unreasonably withheld. Servicesco shall at all times remain liable and responsible for all obligations under this Agreement notwithstanding delegation of any obligations hereunder to a third party.

ARTICLE VIII
DISPUTE RESOLUTION

8.1 Arbitration.

(a) Any dispute, controversy or claim arising out of or in connection with, or relation to, this Agreement, or the performance, breach, termination or validity hereof, shall be finally settled by arbitration. Either Party may initiate arbitration within a reasonable time after any such dispute, controversy or claim has arisen, by delivering a written demand for arbitration upon the other Party. The arbitration shall be conducted In accordance with the Arbitration Act. The arbitration shall take place in Sudbury, Ontario, and shall be conducted in English;

(b) The arbitration shall be conducted by a single arbitrator having no financial or personal interest in the business affairs of either of the Parties. The arbitrator shall be appointed jointly by agreement of the Parties, failing which an arbitrator shall be appointed by application to the Superior Court of Ontario, in Sudbury;

(c) Absent agreement or an award in the arbitration to the contrary, the arbitration fees and expenses shall be paid by the Parties jointly; and

(d) The arbitral award shall be in writing, stating the reasons for the award and be final and binding on the Parties with no rights of appeal. The award may include an award of costs, including reasonable legal fees and disbursements and fees and expenses of the arbitrator. Judgement upon the award may be entered by any court having jurisdiction thereof or having jurisdiction over the Parties or their assets.

8.2 Confidentiality of Arbitration. The arbitration shall be kept confidential and the existence of the proceeding and any element of it (including but not limited to any pleadings, briefs or other documents submitted and exchanged, and testimony or other oral submission and any awards) shall not be disclosed beyond the arbitrator, the Parties, their counsel and any person necessary to the conduct of the proceeding, except as may be lawfully required in judicial proceedings relating to the arbitration or otherwise.

ARTICLE IX
GENERAL MATTERS

9.1 Notice. Any demand, notice or communication to be made or given hereunder shall be in writing and may be made or given by personal delivery or by transmittal by telecopy, rapifax or other electronic means of communication addressed to the respective Party as follows:

To Wiresco:

Greater Sudbury Hydro Inc.
500 Regent Street
P.O. Box 250
Sudbury, Ontario
P3E 4P1
Attention: Vice President Distribution Electrical Systems
Fax No.: (705) 671-1413

To Servicesco:

Greater Sudbury Hydro Plus Inc.
500 Regent Street
P.O. Box 250
Sudbury, Ontario
P3E 4P1

Attention: President and C.E.O.
Fax No.: (705) 675-0528

or to such other address, telecopy number or rapifax number as a Party may from time to time notify the other In accordance with this Section 9.1. Any demand, notice or communication made or given by personal delivery shall be conclusively deemed to have been given on. the day of actual delivery thereof, or, if made or given by electronic means of communication, on the first Business Day following the transmittal thereof.

9.2 **Further Assurances.** Each of Wiresco and Servicesco shall from time to time execute and deliver all such further documents and instruments and do all acts and things as the other Party may reasonably require to effectively carry out or better evidence or perfect the full intent and meaning of this Agreement.

9.3 **Whole Agreement.** This Agreement together with the Schedules attached hereto constitute the whole and entire agreement between the Parties with respect to the subject matter hereof.

9.4 **Amendments and Waivers.** No modification of or amendment to this Agreement shall be valid or binding unless set forth in writing and duly executed by both of the Parties hereto and no waiver of any breach of any term or provision of this Agreement shall be effective or binding unless made in writing and signed by the Party purporting to give the same and, unless otherwise provided, shall be limited to the specific breach waived.

9.5 **Effective Date.** This Agreement is to take effect as and from January 1, 2012 not withstanding the date of execution of this Agreement.

IN WITNESS WHEREOF this Agreement has been executed by the Parties hereto as of 1st of January, 2012.

GREATER SUDBURY HYDRO PLUS INC. / HYDRO PLUS DU GRAND SUDBURY INC.

Per: ______________________________
Name:
Title: **Director**

c/s

Per: ______________________________
Name: **Nancy Whissell**
Title: **Vice President**

GREATER SUDBURY HYDRO INC./ HYDRO DU GRAND SUDBURY INC.

Per: ______________________________
Name:
Title: **Director**

c/s

Per: ______________________________
Name: **Frank Kallonen**
Title: **President and CEO**

Schedule "A" - Transfer Pricing Methodology

Summary of Services Provided by Servicesco to Wiresco		
Nature of Service	**Allocation Method Used**	**BDR Comment or Recommendation**
Executive	Time Records	Reasonable and accordance with accepted principles of cost allocation.
Board of Directors	100% cost of the Wiresco Board	Reasonable and accordance with accepted principles of cost allocation.
Insurance	Direct assignment	Best treatment of identifiable costs
Risk management (employee safety)	50% assigned directly to Wiresco, other 50% by number of employees	Recommend analysis of programs to determine correct balance for direct assignment.
Procurement, inventory and stores services	Value of issued inventory	Reasonable and accordance with accepted principles of cost allocation.
Human Resources	Directly assigned where possible, number of employees for other costs	Reasonable and accordance with accepted principles of cost allocation.
Information technology and telephone services	Telephone systems, PCs and ERP, by unweighted number of users; telephone sets by weighted number of users reflecting complexity of the units; systems for customer information and billing by factors related to that function; costs directly assigned where specifically identified with an affiliate or function.	Reasonable and accordance with accepted principles of cost allocation.
Payroll	Time tracking for activities identifiable specifically to Wiresco; number of employees for other costs	Reasonable and accordance with accepted principles of cost allocation.
Accounts payable	Time tracking for activities identifiable with Wiresco; number of invoices for other costs	Reasonable and accordance with accepted principles of cost allocation.
Regulatory	No current activities identifiable with affiliates; therefore 100% assigned to Wiresco	Reasonable and accordance with accepted principles of cost allocation.
Accounting,	A time estimate for forecast; time	Reasonable and accordance with

Summary of Services Provided by Servicesco to Wiresco		
Nature of Service	**Allocation Method Used**	**BDR Comment or Recommendation**
treasury, accounts receivable, financial reporting and audits	records for actual Direct cost for audit	accepted principles of cost allocation.
Customer billing and related services (Where other services billed, costs allocated to electricity as per allocation method)	Direct assignment where costs can be specifically identified as attributable to electricity; other costs by number of bills, number of telephone calls, time tracking, calculated portion of service, or as appropriate for each type of cost	Reasonable and accordance with accepted principles of cost allocation.
Annual fee for cost recovery	For redistribution of costs which were allocated by other methodologies to Servicesco. In proportion to the allocation of other costs.	Reasonable and accordance with accepted principles of cost allocation.
Payment processing	Number of bills	Reasonable and accordance with accepted principles of cost allocation.
Quality management	Costs of Servicesco directly assigned to Wiresco, as other affiliates pay for their own programs directly	Reasonable and accordance with accepted principles of cost allocation.

Summary of Services Provided by Wiresco to Servicesco		
Nature of Service	**Allocation Method Used**	**BDR Comment or Recommendation**
Vehicles	Apply an hourly charge-out rate computed to recover all costs when applied to forecast vehicle usage hours. Time tracked through the work order system.	Reasonable and accordance with accepted principles of cost allocation.
500 Regent Building	Market rate applied to square footage utilized to recover capital costs; allocation by square footage to recover operating costs; costs for utilization by the Plus Company reallocated to affiliates in accordance with the cost of the functional area	Reasonable and accordance with accepted principles of cost allocation.

Summary of Services Provided by Wiresco to Servicesco		
Nature of Service	**Allocation Method Used**	**BDR Comment or Recommendation**
	occupying the space.	
Staff and Vehicles for Street Lighting Services	Time of staff as recorded in the work order system.	Reasonable and accordance with accepted principles of cost allocation.

Exhibit 1: Administrative Documents

Tab 3 (of 4): Financial Information

HISTORICAL FINANCIAL STATEMENTS

Attached are the audited financial statement each with the previous year's comparative results for 2011, 2010 and 2009.

Greater Sudbury does not have any annual reports, rating agency reports or any other public reports to file.

GREATER SUDBURY HYDRO INC./
HYDRO DU GRAND SUDBURY INC.

Financial Statements

Year Ended December 31, 2011

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April 30, 2012

Independent Auditor's Report

To the Shareholder of
Greater Sudbury Hydro Inc./ Hydro Du Grand Sudbury Inc.

We have audited the accompanying financial statements of Greater Sudbury Hydro Inc./ Hydro Du Grand Sudbury Inc., which comprise the balance sheet as at December 31, 2011 and the statements of operations and deficit and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP, Chartered Accountants
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215, www.pwc.com/ca

pwc

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Greater Sudbury Hydro Inc./ Hydro Du Grand Sudbury Inc. as at December 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Other matters

The financial statement of Greater Sudbury Hydro Inc./ Hydro Du Grand Sudbury Inc. for the year ended December 31, 2010, with the exception of items noted in note 17, were audited by another auditor who expressed an unmodified opinion on those financial statements on April 26, 2011.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants, Licensed Public Accountants

GREATER SUDBURY HYDRO INC./HYDRO DU GRAND SUDBURY INC.
Balance Sheet

Year ended December 31 *(in Canadian dollars)*	2011	2010
Assets		
Current		
Cash and cash equivalents (note 3)	$ 7,262,780	$ 2,700,894
Accounts receivable (note 4 and 5)	2,499,627	1,108,221
Prepaid expenses	55,000	-
Advances to related companies (note 5)	1,874,207	-
Unbilled revenue - energy sales	14,040,593	19,149,246
Unbilled revenue - distribution	3,526,857	5,473,006
	29,259,064	28,431,367
Capital assets (note 6 and 17)	67,092,572	66,208,093
Payment in lieu of future taxes (note 7)	9,617,899	7,975,566
Regulatory assets (note 8)	5,291,311	5,360,633
Other assets	-	232,146
Investment in 1700211 Ontario Inc.	400,000	400,000
	$ 111,660,846	$ 108,607,805

Approved on behalf of the Board

Director Frances Caldarelli

Director Guy Gelle

GREATER SUDBURY HYDRO INC./HYDRO DU GRAND SUDBURY INC.
Balance Sheet

Year ended December 31 *(in Canadian dollars)*	2011	2010
Liabilities and shareholder's equity		
Current		
Accounts payable and accrued liabilities	$ 2,274,838	$ 1,499,439
Payable for energy purchases	10,434,707	12,691,064
Promissory note payable (note 9)	48,645,457	48,645,457
Payment in lieu of taxes	236,921	560,504
Advances from related companies (note 5)	-	1,234,727
Current portion of long-term obligations (note 10)	991,374	753,179
	62,583,297	65,384,370
Regulatory liabilities (note 8)	14,623,563	11,406,964
Long-term obligations (note 10)	21,404,663	17,953,004
	98,611,523	94,744,338
Shareholder's equity		
Share capital (note 13)	20,848,052	20,848,052
Deficit	(7,798,729)	(6,984,585)
	13,049,323	13,863,467
	$ 111,660,846	$ 108,607,805

See accompanying notes to financial statements

GREATER SUDBURY HYDRO INC./HYDRO DU GRAND SUDBURY INC.
Statement of Operations and Deficit

Year ended December 31 *(in Canadian dollars)*	2011	2010
Revenue		
Energy sales	$ 85,008,941	$ 79,191,698
Distribution	22,284,451	21,987,007
Other operating revenue	1,780,959	1,806,700
	109,074,351	102,985,405
Expenses		
Cost of energy	85,008,941	79,191,698
Amortization	5,150,055	4,959,843
Distribution - operations	3,983,212	3,613,610
Interest on promissory note payable	3,531,660	3,531,660
General administration	2,906,557	2,652,126
Billing and collecting	3,117,052	2,593,382
Distribution - maintenance	1,691,516	1,857,381
Interest on long-term obligations	1,015,005	914,168
Loss (gain) on employee future benefit obligation	1,280,544	(2,780,264)
Loss on swaps	215,730	-
Loss on disposal of assets	203,030	230,197
	108,103,303	96,763,801
Earnings before payment in lieu of taxes	971,049	6,221,604
Payment in lieu of taxes (note 7)		
Current	1,785,193	1,491,956
Net earnings (loss)	(814,144)	4,729,648
Deficit, beginning of year	(6,984,585)	(11,714,233)
Deficit, end of year	$ (7,798,729)	$ (6,984,585)

See accompanying notes to financial statements

GREATER SUDBURY HYDRO INC./HYDRO DU GRAND SUDBURY INC.
Cash Flow Statement

Year ended December 31 *(in Canadian dollars)*	2011	2010
Cash flows from operating activities		
Net earnings (loss)	$ (814,143)	$ 4,729,648
Adjustments for:		
Amortization	5,150,055	4,959,843
Loss (gain) on employee future benefit obligation	1,280,544	(2,780,264)
Loss on disposal of capital assets	203,030	230,197
Loss on swap contract	215,729	-
Other amortization	502,409	501,979
	6,537,624	7,641,403
Change in non-cash working capital items		
Accounts receivable	(1,391,406)	2,240,856
Prepaid expenses	(55,000)	-
Advances to/from related companies	(3,108,934)	(491,405)
Unbilled revenue - distribution	1,946,149	(1,786,002)
Unbilled revenue - energy sales	5,108,654	(6,912,184)
Accounts payable and accrued liabilities	775,398	(388,301)
Payable for energy purchases	(2,256,357)	532,063
Payment in lieu of taxes	(323,583)	-
	7,232,545	836,430
Cash flows from investing activities		
Purchase of capital assets (note 17)	(7,602,148)	(8,170,548)
Proceeds on disposal of capital assets	29,116	57,904
Contributions in aid of construction	1,065,203	1,261,434
	(6,507,829)	(6,851,210)
Cash flows from financing activities		
Issuance of term loan	2,000,000	-
Repayment of term loan	(85,971)	-
Increase in long-term obligations	279,553	1,119,214
Regulatory assets/liabilities	1,643,588	(3,037,836)
	3,837,170	(1,918,622)
Increase (decrease) in cash and cash equivalents	4,561,886	(7,933,402)
Cash and cash equivalents, beginning of year	2,700,894	10,634,296
Cash and cash equivalents, end of year	$ 7,262,780	$ 2,700,894
Other information		
Interest paid	$ (3,633,246)	$ (3,531,660)
Payment in lieu of taxes received (paid)	(1,785,196)	555,242

See accompanying notes to financial statements

1. Nature of operations

Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc. (the "Corporation") was incorporated under the Business Corporations Act (Ontario) on October 1, 2000. The incorporation was required in accordance with the Electricity Act, 1998 (Ontario) (the "EA"). The Corporation's principal business activity involves the distribution of electricity in the City of Greater Sudbury and the Municipality of West Nipissing.

The Corporation and other electricity distributors purchase their electricity from the wholesale market administered by the Independent Electricity System Operator (IESO) and recover the costs of electricity and certain other costs at a later date in accordance with procedures mandated by the Ontario Energy Board ("OEB").

The OEB has regulatory oversight of electricity matters in the Province of Ontario. The Ontario Energy Board Act, 1998 sets out the OEB's authority to issue a distribution licence which must be obtained by owners or operators of a distribution system in Ontario. The OEB prescribes licence requirements and conditions including, among other things, specified accounting records, regulatory accounting principles and the filing process requirements for rate-setting purposes.

The OEB's authority and responsibilities include the power to approve and fix rates for the transmission and distribution of electricity and the responsibility for ensuring that electricity distribution companies fulfill their obligations to connect and service customers.

Regulatory developments in Ontario's electricity industry may affect distribution rates and the permitted recovery or settlement or the timing of recovery or settlement of certain regulatory assets and liabilities.

2. Significant accounting policies

(a) Basis of accounting

The financial statements of the Corporation are prepared in accordance with Part V - Pre-changeover Accounting Standards of The Canadian Institute of Chartered Accountants (CICA) Handbook (Canadian GAAP or Part V) and policies set forth in the Accounting Procedures Manual issued by the OEB under the authority of the Ontario Energy Board Act, 1998. Amounts are stated in Canadian dollars unless otherwise noted.

The preparation of the financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as the disclosure of contingent assets and liabilities in the financial statements. Significant estimates and assumptions used in the preparation of the financial statements include, but are not limited to: unbilled distribution revenue, unbilled energy revenue, employee future benefit obligation; regulatory assets and liabilities; amounts transferred to the variance account for the water billing study; allowance for doubtful accounts; estimated useful lives of capital assets; fair value of derivatives; payments in lieu of income taxes; and fair value of asset retirement obligations. Actual results could differ from those estimates.

(b) **Effects of rate regulation**

The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers. The OEB has the general power to include or exclude costs, revenues, losses or gains in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have been applied in a non rate regulated company. Such change in timing involves the application of rate regulated accounting, giving rise to the recognition of regulatory assets and liabilities. Regulatory assets represent future revenues associated with certain costs, incurred in the current period or in prior periods, that are expected to be recovered from customers in future periods through the rate setting and approval process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that are expected to be refunded to customers as a result of the rate setting and approval process.

(c) **Cash and cash equivalents**

Cash and restricted cash consists of cash on hand and in banks. Cash equivilents are short-term investmetns with initial maturities of less than 90 days.

(d) **Accounts receivable**

Accounts receivable are recorded net of an allowance for doubtful accounts.

(e) **Capital Inventory**

Inventory is valued at the lower of cost and net realizable value. Cost is determined using the average cost method.

(f) **Capital assets**

Capital assets are recorded at cost less government grants received and contributions in aid of construction and developer contributions and include an allocation of engineering and other overhead. Amortization is provided annually, on a straight line basis, over the useful life of the asset. The useful lives of the assets are as follows:

Buildings	15-50 years
Distribution systems	25-30 years
Automotive	4-8 years
Office and other equipment	5-10 years
Fibre optics	5-25 years
System supervisory equipment	15 years
Computer equipment	5 years

Construction in process, and capital inventory includes assets not currently in use and therefore not yet subject to amortization.

2. Significant accounting policies (continued)

(g) Contributions in aid of construction

In certain cases, non-refundable contributions are received in aid of construction or acquisition of capital assets. Contributions received are classified as contra-assets and are charged to operations at the same rate as the capital assets to which they relate.

(h) Developer contributions

In certain cases, refundable contributions are received in aid of construction or acquisition of capital assets. Contributions received are classified as contra-assets and are charged to operations at the same rate as the capital assets to which they relate. Contributions refunded reduce the corresponding contra-asset account of the capital assets to which they relate.

(i) Payment in lieu of taxes

Pursuant to the EA, the Corporation is required to compute taxes under the Income Tax Act (Canada) ("ITA") and the Ontario Corporations Tax Act ("OCTA") and remit such amounts computed there under to the Ontario Electricity Financial Corporation ("OEFC"). These amounts, referred to as payments in lieu of taxes ("PILS") under the EA, are applied to reduce certain debt obligations of the former Ontario Hydro now owing by the OEFC.

Payment in lieu of future income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amount of assets and liabilities and their tax bases. Payment in lieu of future tax assets are recognized for the benefit of any deductions or losses available to be carried forward to future periods for tax purposes that are likely to be realized. These amounts are measured using enacted or substantively enacted tax rates and are re-measured annually for changes in these rates. Any payment in lieu of future income tax assets are reassessed each year to determine if a valuation allowance is required. Any effect of the re-measurement or reassessment is recognized in the period of the change.

As prescribed by regulatory rate order, payment in lieu of taxes are recovered through customer rates based on the taxes payable method. Therefore, rates do not include the recovery of payment in lieu of future taxes related to temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes.

A separate regulatory asset or liability is recognized for the amount of payment in lieu of future taxes which are expected to be included in future rates and recovered from or refunded to customers in future periods through the rate setting and approval process.

2. Significant accounting policies (continued)

(j) Employee future benefit obligation

The corporation provides post-employment benefits (OPEB), including group health care and life insurance benefits for eligible retirees, their spouses and qualified dependants.

The cost of OPEB earned by employees are determined using actuarial methods, which incorporates management's best estimate of future salary levels, other cost escalations, retirement ages of employees and expected health-care and insurance costs. Adjustments arising from plan amendments, actuarial gains and losses, and changes to assumptions are recognized in the year they are determined.

The Corporation recovers OPEB expense based on the amounts paid. This is in accordance with the methodology accepted by the Regulators for the rate-making purposes. As a result, rates typically only include the recovery of required contributions.

(k) Asset retirement obligations

Accounting standards require the Corporation to determine the fair value of the future expenditures required to settle legal obligations to remove capital assets. If reasonably estimable, a liability is recognized equal to the present value of the estimated future removal expenditures. An equivalent amount is capitalized as an inherent cost of the associated capital asset.

It is not possible to make a reasonable estimate of the asset retirement obligation due to the indeterminate timing of asset retirements. If, at some future date, it becomes possible to estimate the fair value cost of removing assets that the Corporation is legally required to remove, an asset retirement obligation will be recognized at that time.

(l) Revenue recognition

Distribution and energy related revenues attributable to the supply and distribution of electricity are based on OEB-approved rates and are recognized as electricity is delivered to customers. The Corporation estimates the revenue for the period based on wholesale energy purchases because customer meters are not all read at the end of the year. Unbilled revenue is estimated and included in unbilled revenue - distribution and unbilled revenue - energy sales at the end of the year.

Other revenues, which include revenues from electricity distribution related services are recognized as the services are rendered.

(m) Unbilled revenues

Revenue is recorded in the accounts to various dates on the basis of bi-monthly meter readings. At the end of an accounting cycle, there is energy used by customers for which meter readings are not available. This unbilled revenue is estimated and recorded in the accounts at the end of each fiscal year. The related cost of energy is recorded on the basis of energy used.

3. Cash and cash equivalents

The Corporation and its related companies, Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc., Greater Sudbury Telecommunications Inc./Telecommunications du Grand Sudbury Inc., 1627596 Ontario Inc. and 1700211 Ontario Inc., have a banking arrangement with the Toronto Dominion Bank. Under the banking arrangement, at the end of each banking day, the balance in each entity's account is exactly offset by a contra balance in a related offset account. The offset account shall then be offset by withdrawing a similar amount from or depositing a similar amount to the concentration account. As a result, the amount owed to or from the related company is included in advances to/from related companies (note 5).

The Corporation and its related companies have arranged for an operating line of credit up to $5,000,000 for operating purposes at the corporate bank prime rate of interest. In addition, the Corporation has letters of credit available in the amount of $10,000,000 at the corporate bank prime rate of interest, and a Multiple Draw Term Loan available in the amount of $6,200,000 at a fixed rate. These credit facilities are secured by an unlimited guarantee by the Corporation, Greater Sudbury Utilities Inc./Services Publics Du Grand Sudbury Inc., Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc., Greater Sudbury Telecommunications Inc./Telecommunications du Grand Sudbury Inc., 1627596 Ontario Inc., 1700211 Ontario Inc., and a postponement and assignment of claim relating to the promissory note payable to Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc. At December 31, 2011 the balance outstanding on the operating line and the term loan credit facilities was $1,914,029 (2010 - nil).

4. Accounts receivable

	2011	2010
Electricity receivables	$ 2,851,098	$ (733,252)
Other receivables	848,529	2,566,473
	3,699,627	1,833,221
Allowance for doubtful accounts		
Opening balance	(725,000)	(2,065,000)
Increase in provision	(486,684)	(105,535)
Accounts receivable written off	11,684	1,445,535
Closing Balance	(1,200,000)	(725,000)
	$ 2,499,627	$ 1,108,221

The Corporation implemented a new billing system in November 2010. As a result, the comparative figures for 2010 reflect a delay in electricity billings which resulted in a larger unbilled amount for electricity and a lower electricity receivable at year-end. Since the corporation collects electricity payments on a pre-authorized basis this resulted in a credit balance in the electricity receivable at December 31, 2010. A regular billing schedule resumed in 2011.

5. **Related party transactions**

(a) The Corporation subcontracts its billing and collecting of revenue, building and maintenance of capital assets, payment of purchases and all related government remittances, engineering, information services, accounting, payroll processing, financial reporting and treasury services to Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc. The Corporation entered into a Service Level Agreement with Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc. for a monthly base cost of $3,500.

(b) The Corporation provides electrical energy to the City of Greater Sudbury "City" at the same regulated rates and terms as other similar customers based on the amount of electricity consumed.

Included in accounts payable and accrued liabilities is $1,116,870 (2010 - $532,384) relating to amounts collected by the Corporation on behalf of the City for water billing. Correspondingly, included in accounts receivable is $46,197 (2010 - $48,328) relating to amounts collected by the City relating to electricity and water bill payments. During the year, the Corporation paid $176,887 (2010 - $179,750) to the City on account of municipal taxes.

The Corporation subcontracts all work related to operating and capital costs to Greater Sudbury Hydro Plus Inc. In 2011 operating and maintenance costs of $10,786,284 and $8,426,314 of capital work were procured through this affiliate. Transactions were in the normal course of operations. Included in the other income was $99,326 received by 1627596 Ontario Inc on behalf of Greater Sudbury Telecommunications Inc for net pole rental costs and electricity costs. In addition Greater Sudbury Telecommunication Inc paid $88,395 and 1627596 Ontario Inc paid $73,388 in intercompany interest.

		2011		2010
Advances to related company:				
Greater Sudbury Telecommunications Inc./ Telecommunications du Grand Sudbury Inc.	$	2,700,649	$	-
(c) Advances from related companies:				
Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc.		(37,733)		(840,134)
1700211 Ontario Inc.		(365,290)		(376,848)
Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc.		(423,419)		(17,745)
Total advances to/from related companies	$	1,874,207	$	(1,234,727)

The advances from related companies are unsecured, interest bearing at the corporate bank prime rate and have no fixed terms of repayment. During the year the Corporation earned interest revenue from related companies of $161,782 (2010 - nil) on these balances and paid interest to related companies of nil (2010 - nil).

The Corporation and Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc. and 1700211 Ontario Inc. are wholly owned subsidiaries of Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc. The corporation is related to the City of Greater Sudbury "City" by virtue of the fact that the City is 100% owner of the Corporation's sole shareholder.

6. **Capital assets**

	Cost	Accumulated Amortization	2011 Net Book Value	2010 Net Book Value
Land	$ 857,298	$ -	$ 857,298	$ 857,298
Buildings	9,957,472	4,386,910	5,570,561	5,638,243
Distribution systems	149,928,710	95,132,064	54,796,646	54,241,631
Automotive	5,163,078	3,531,955	1,631,123	1,487,652
Office and other equipment	2,018,796	1,539,347	479,449	486,060
Fibre optics	2,107,832	1,149,695	958,137	1,028,572
System supervisory equipment	1,572,708	1,219,258	353,450	392,938
Computer equipment	2,798,022	1,910,793	887,228	824,732
Construction in process	430,860	-	430,860	228,309
Capital Inventory	1,127,820	-	1,127,820	1,022,658
	$ 175,962,595	$ 108,870,023	$ 67,092,572	$ 66,208,093

Contributions in aid of construction received during the year totalled $1,065,203 (2010 - $1,261,434). Total contributions in aid of construction received at December 31, 2011 were $14,578,301 (2010 - $13,513,098) with related accumulated amortization of $3,405,664 (2010 - $2,843,536) resulting in a net contra-asset of $11,172,637 (2010 - $10,669,562) which has been offset against the assets to which they relate.

At December 31, 2011, the net book value of stranded meters related to the deployment of smart meters amounted to $1,406,296 (2010 - $1,348,136) and is included in distribution systems. In the absence of rate regulation, capital assets would have been $1,403,296 (2010 - $1,348,136) lower at December 31, 2011.

7. **Payment in lieu of future taxes**

a) The components of the payment in lieu of future tax balance is as follows:

	2011	2010
Difference between tax basis of capital assets and carrying value	$ 2,711,175	$ 2,681,059
Difference between carrying value of net regulatory liabilities and tax basis	1,601,612	934,448
Difference between tax basis of employee future benefit obligation and carrying value	2,846,702	2,354,199
Difference between the carrying value of the swap interest liability and tax basis	53,932	-
Regulatory adjustment	2,404,478	2,005,860
	$ 9,617,899	$ 7,975,566

b) The provision for payments in lieu of taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 28.25% (2010 - 31.00%) to the earnings for the year as follows:

	2011	2010
Earnings before payment in lieu of taxes	$ 971,049	$ 6,221,604
Anticipated payment in lieu of tax provision	274,319	1,928,187
Payment in lieu of future tax regulatory liability	1,243,718	(366,104)
Effect of change in tax rates	166,272	(72,672)
Other	100,884	2,545
Provision for payment in lieu of taxes	$ 1,785,193	$ 1,491,956

8. **Regulatory assets and liabilities**

(a) Regulatory assets:

	2011	2010
Pre-market opening energy variances	$ 210	$ 210
IFRS deferral (vii)	82,866	43,827
Late payment penalties settlement (vi)	71,721	149,791
Special purpose charge variance (viii)	10,596	147,796
Deferred transition costs (i)	2,528	2,503
Smart grid (iv)	78,171	38,569
Smart meters (v)	5,045,219	4,977,937
	$ 5,291,311	$ 5,360,633

(b) Regulatory liabilities:

	2011	2010
Retail settlement variances (ii)	$ 3,601,864	$ 2,455,857
Demand side management costs (iii)	1,403,800	975,541
Payment in lieu of future taxes	9,617,899	7,975,566
	$ 14,623,563	$ 11,406,964

8. **Regulatory assets and liabilities (continued)**

The regulatory assets and liabilities arise as a result of the rate setting process by the OEB. The OEB authorizes the recovery of regulatory assets or repayment of regulatory liabilities through the distribution rate application.

(i) The OEB established a process for the recording of costs incurred by the Corporation to be market ready, including related carrying costs, as deferred transition costs to be recovered in the future through the regulatory rate setting process. In the absence of rate regulation, Canadian GAAP would require that the costs be recognized as an expense or capital asset, as applicable, when incurred and the related recovery of these costs in income when received or receivable.

(ii) Retail settlement variances represent the difference between the amount paid by the Corporation to the Independent Electricity System Operator ("IESO") for the cost of energy and the amount billed by the Corporation to its customers as energy sales, and related carrying costs, which are recorded on the balance sheet as retail settlement variances until their final disposition is decided by the OEB. The Corporation recognizes retail settlement variances as an asset or liability based on the expectation these amounts will be approved by the OEB for future collection from, or refund to, customers through the rate setting and approval process. The retail settlement variance liability represents the deficiency of amounts billed by the IESO for the cost of energy compared to the amounts charged to customers as energy sales. In the absence of rate regulation, Canadian GAAP would require that the total cost of energy be charged to operations when incurred and the total amount of energy sales be credited to operations when earned.

(iii) The Minister of Energy has granted approval to all distributors to apply to the OEB for an increase in their distribution rates, conditional on a commitment by the company to spend an equivalent amount on conservation and demand management initiatives. In 2008, the OEB approved additional conservation and demand management initiatives to be collected and spent over a three year period. In the absence of rate regulation, Canadian GAAP would require the Corporation to recognize such revenues and costs in the operating results in the year they were earned or incurred.

(iv) The Ontario Government has established objectives for the implementation of a smart grid in Ontario. For the year ended December 31, 2011, the Corporation has incurred $38,602 (2010 - $38,569) of costs relating to smart grid. In absence of rate regulation, generally accepted accounting principles would require the Corporation to recognize the costs incurred be recognized as an expense or capital asset, as applicable, when incurred.

In connection with smart grid activities, the Corporation has incurred operating expenses amounting to $28,750 (2010 - $38,569) and capital expenditures of $10,852 (2010 - nil)

(v) The Ontario Government has established targets for the installation of smart meters for all Ontario customers by December 31, 2010. Smart meter regulatory assets represent the excess of costs incurred by the Corporation on smart meter activities compared to the amounts billed by the Corporation. In the absence of rate regulation, Canadian GAAP would require the Corporation to recognize the amounts billed to customers as revenue in the year and the costs incurred be recognized as an expense or capital asset, as applicable, when incurred.

In connection with smart meter activities, the Corporation has incurred operating expenses amounting to $350,351 (2010 - $496,418), capital expenditures of $767,424 (2010 - $6,014,205) and has collected $1,099,644 (2010 - $1,532,686) from its customers.

(vi) The late payment penalties settlement account relates to the settlement costs accrual associated with the late payment charges class action (note 12(b)) . Most of the municipal electric utilities involved in the settlement, including the Corporation, have requested an order from the OEB allowing for future recovery from customers of all costs related to the settlement. The Corporation received approval for a rate rider in its 2011 rate filing. The Corporation, has accrued a liability and a corresponding regulatory asset in the amount of $71,721 (2010 - 149,791) as at December 31, 2011. In the absence of rate regulation, revenues for the year ended December 31, 2011, would have been $78,070 higher.

(vii) For the year ended December 31, 2011, the Corporation has incurred $39,039 (2010 - $43,827) of costs relating to the IFRS conversion project. These costs have been recorded to regulatory assets as the Corporation expects to obtain recovery of these costs in the future. In the absence of rate regulation, for the year ended December 31, 2011, operating expenses would have been $39,039 higher. The Corporation is seeking recovery of the IFRS costs as part of its 2013 electricity distribution rate application.

(viii) On April 9, 2010, the OEB informed electricity distributors of a Special Purpose Charge ("SPC") assessment under Section 26.1 of the Ontario Energy Board Act, 1998, for the Ministry of Energy and Infrastructure conservation and renewable energy program costs. The OEB assessed the corporation the amount of $378,888 for its apportioned share of the total provincial amount of the SPC of $53,695,000 in accordance with the rules set out in Ontario Regulation 66/10 (the "SPC Regulation"). In accordance with Section 9 of the SPC Regulation, the Corporation is allowed to recover this balance. The recovery is expected to be achieved over a one-year period, which began on May 1, 2010. In the absence of rate regulation, for the year ended December 31, 2011, revenues would have been $137,200 higher (2010 - net expenses would have been $147,796 higher).

For certain of the regulatory assets and liabilities identified above, the expected recovery or settlement period, or likelihood of recovery or settlement is affected by risks and uncertainties relating to the ultimate authority of the OEB in determining the item's treatment for rate-setting purpose. The corporation continually assesses the likelihood of recovery of each of its regulatory assets and refund of each of its regulatory liabilities and continues to believe that the OEB will factor its regulatory assets and liabilities into the setting of future rates. If at some future date the company determines that it is no longer probable that the OEB will include a regulatory asset or liability in future rates, the appropriate carrying amount will be charged to operations in the period the determination is made.

9. Promissory note payable

The promissory note payable to Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc. is unsecured and bears interest at a rate of 7.26% per annum and has been subordinated to the Toronto Dominion Bank as security on the Corporation's operating credit facilities.

The note is repayable in full upon six months written notice of the holder of the note. As at April 30 , 2012, the holder has informed the Corporation that it will not demand repayment of the note within one year.

During the year interest totalling $3,531,660 (2010 - $3,531,660) was charged by Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc. on the promissory note payable.

10. **Long-term obligations**

	2011	2010
Employee future benefit obligation - payable to Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc.(note 11)	$ 18,177,572	$ 16,207,556
Multiple draw term loan (a)	1,914,029	-
Swap contract interest (a) & (b)	215,729	-
Customer deposits	1,345,818	1,793,525
Developer contributions	742,889	705,102
	22,396,037	18,706,183
Less current portion	(991,374)	(753,179)
	$ 21,404,663	$ 17,953,004

The Corporation assigned the employee future benefit obligation to Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc. who will recover the costs through the Service Level Agreement described in note 5(a).

(a) The term loand has a fixed/floating interest swap, 15 years, payable monthly, secured by a general security agreement representing a first charge on all the borrower's assets and undertakings; and an unlimited guarantee of advances executed by the borrower.

(b) On January 14, 2011, the Corporation was advanced monies under a reducing term, floating rate facility at a face amount of $2,000,000 to finance the purchase of the smart meters. Concurrent with the entry into the loan facility, to mitigate the Corporation's exposure to interest rate risk, the Corporation entered into an International Swaps and Derivatives Association, 2002 Master Agreement. The interest rate swap is used for non-speculative purposes to convert floating rate debt into fixed rate debt bearing interest at 3.47%. the debt facility has a termination date of January 19, 2026.

Principle repayments in each of the next five years are as follows:

2012	$ 98,195
2013	102,910
2014	107,844
2015	113,028
2016	118,090
2017 and beyond	1,373,962
	$ 1,914,029

11. Employee future benefit obligation

The Corporation pays certain health, dental and life insurance benefits on behalf of its retired employees. The Company recognizes these post-retirement costs in the period in which the employees rendered their services. The employee future benefit obligation at December 31, 2011 and the expense for the year then ended was determined based on an actuarial valuation dated March 14, 2011 using the projected benefit method, prorated on service and a discount rate of 5.0%.

Information about the Corporation's employee future benefit obligation is as follows:

	2011	2010
Employee future benefit obligation, beginning of year	$ 16,207,556	$ 18,212,495
Service cost	330,757	280,222
Interest	880,107	854,307
Actuarial gain (loss)	1,280,544	(2,780,265)
Transfer to related companies	(87,941)	-
Benefits paid	(433,451)	(359,203)
Employee future benefit obligation, end of year	$ 18,177,572	$ 16,207,556
Unamortized net actuarial loss	$ 1,461,200	$ 1,280,544

The unamortized actuarial loss is related to the discount rate decreasing by 0.5% to 4.5% (2010 - 5.0%) as of the updated actuarial valuation prepared as at January 1 subsequent to the year end.

The main actuarial assumptions underlying the valuations are as follows:

a) General and medical inflation:

The health care costs trend is estimated to decrease from 10.0% to 5.0% over six years. Other medical and dental expenses are assumed to remain consistent at a 5.0% increase per year.

b) Discount rate:

The obligation at December 31, 2011, being the present value of future liabilities and the expense for the period then ended, were determined using a discount rate of 5.0%.

12. Pension agreements

The Corporation makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer pension plan, on behalf of approximately 100 members of its staff including part time contributing members. The plan is a defined benefit pension plan which specifies the amount of the retirement benefit to be received by the

Contributions of $686,265 (2010 - $539,878) were paid during the year.

13. **Share capital**

		2011		2010
Authorized				
Unlimited common shares				
Issued				
1,001 common shares	$	20,848,052	$	20,848,052

14. **Contingent liabilities**

(a) The Corporation has issued a $9,048,386 letter of guarantee to the Independent Electricity System Operator ("IESO"). This was a requirement of the IESO for market opening on May 1, 2002. At December 31, 2011, no amounts have been drawn on this letter of guarantee.

(b) By Order dated July 22, 2010, the Ontario Superior Court of Justice consolidated and approved the settlement of the class action lawsuit against all MEU's that commenced in 1998. The July 22, 2010 court order formalized a settlement pursuant to which the defendant MEU's will pay the amount of $17,000,000 plus cost and taxes in settlement of all claims. The amount allocated for payment by each MEU is its proportionate share of the settlement amount based on its percentage of distribution service revenue over the period for which it has exposure for repayment of late payment penalties exceeding the interest rate limit in the Criminal Code. The Corporation's share of the settlement amount is expected to be $149,791, payable on June 30, 2011. Under the settlement, all the MEU's involved in the settlement, including the Corporation, have requested an order from the OEB allowing for future recovery from customers of all costs related to the settlement. In 2011 the Corporation collected $78,070 with the adjusted balance being $71,721. In the absence of rate regulation, $78,070 would have been recognized as revenue.

(c) In 2011 the OEB concluded its hearings and reviews of PiLs variances for the period October 1, 2001 to April 30, 2006. All LDCs were directed to file for disposition of the variances with their 2012 rate filings. At the issuance of these statements, based on the Decision and Order for 2012 rates, from the Ontario Energy Board, the Corporation has recorded the liability it feels will be approved as a rate rider. A liability of $134,182 and an offsetting adjustment to distribution revenues and interest on the regulatory balance has been recorded.

(d) The company, along with 1627596 Ontario Inc., is contingently liable for a line of credit to a maximum of $1,750,000 with the Sudbury Credit Union by way of a corporate guarantee. The line of credit is secured by a general security agreement (GSA) representing a first charge on all of the assets and undertakings of the company and 1627596 Ontario Inc. At December 31, 2011, the balance owing on the Sudbury Credit Union line of credit that is reflected in the financial statements of 1627596 Ontario Inc. was nil. This line of credit was cancelled in February 2012.

14. **Contingent liabilities (continued)**

(e) The company, along with 1700211 Ontario Inc. is contingently liable for a loan with the TD bank by way of a corporate guarantee. The debt facility is secured by a general security agreement (GSA) representing the first charge on all of the assets and undertakings of 1700211 Ontario Inc.

The agreement contains covenants requiring a total debt to total capitalization ratio of less than 50% and an interest coverage ratio of not less than 1.2:1 be maintained by the company and its affiliates: 1700211 Ontario Inc., Greater Sudbury Hydro Plus Inc., Greater Sudbury Telecommunications Inc., 1627596 Ontario Inc. and Greater Sudbury Utilities Inc. At year-end these covenants were met.

At year-end, the TD Loan that is reflected in the financial statements of 1700211 Ontario Inc. totalled $2,433,000.

15. **Financial instruments**

a) ***Credit risk***

The Corporation is exposed to credit risk with respect to its cash and cash equivalents, derivative instruments, accounts receivable and unbilled revenue receivable.

The Corporation has deposited the cash and cash equivalents with large reputable financial institutions, from which management believes the risk of loss to be remote.

The Corporation has accounts receivable and unbilled revenue receivable from a large number of private individual and business customers in many industries located within the service territory. The Corporation monitors and limits its exposure to customers defaulting on their obligations. The Corporation provides for an allowance for uncollectible accounts to absorb estimated credit losses. At December 31, 2011, there were no significant concentrations of credit risk with respect to these financial assets. (note 4)

The Corporation's credit risk associated with the accounts receivable is primarily related to electricity bill payments from customers. The corporation has approximately 47,000 customers, the majority of which are residential. The Corporation collects security deposits from customers in accordance with direction provided by the OEB. As at December 31, 2011, the Corporation held security deposits in the amount of $1,342,002 (2010 - $1,789,439)

The carrying amount of accounts receivable is reduced through an allowance for doubtful accounts and the amount of the related impairment loss is recognized in the Statement of Operations. Subsequent recoveries of receivables previously provisioned are credited to the Statement of Operations.

15. **Financial instruments (continued)**

b) ***Interest rate risk***

The Corporation is exposed to interest rate risk with respect to its operating line of credit facilities and promissory note payable.

The Corporation's operating line of credit facilities are sensitive to interest rate movements as they consist of variable prime rate based loans and advances.

The Corporation's promissory note payable is not sensitive to interest rate movements as it bears interest at a fixed rate.

c) ***Fair value of financial instruments***

At inception, all financial instruments which meet the definition of a financial asset or financial liability are to be recorded at fair value, unless fair value cannot be reliably determined. All financial instruments are classified into one of five categories namely, held-to-maturity investments, loans and receivables, held-for-trading, other liabilities or available-for-sale. Gains and losses related to the measurement of financial instruments are reported in the statement of operations. Subsequent measurement of each financial instrument will depend on the balance sheet classification elected by the Corporation. The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between willing parties.

The following summarizes the accounting classification the Corporation has elected to apply to each of its significant categories of financial instruments:

Cash and cash equivilents	Held for trading
Accounts receivable	Loans and receivables
Unbilled revenue	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Payable for energy	Other financial liabilities
Promissory Note Payable	Other financial liabilities
Swap contracts	Held for trading
Advances from related parties	Other financial liabilities
Long term Obligations	Other financial liabilities

Cash and cash equivilents and swap contracts ar e classified as held for trading and are initially recorded at fair value. These instruments are subsequent recorded at fair value with changes in fair value being recorded through net income.

Accounts receivable and unbilled revenue is classified as "loans and receivables" and are measured at amortized cost, which, upon initial recognition, is considered equivalent to fair value. The carrying amounts approximate fair value because of the short maturity of these instruments.

Accounts payable and accrued liabilities and payable for energy are classified as "other financial liabilities" and are initially measured at their fair value. The carrying amounts approximate fair value because of the short maturity of these instruments.

15. **Financial instruments (continued)**

Long term obligations and promissory note payable are classified as "other financial liabilities" and are initially measured at their fair value. Subsequent measurements are based on discounted cash flow analysis and approximate their carrying values as management believes that the fixed interest rates are representative of current market rates.

The fair value of the Corporation's advances from related parties and promissory note payable cannot be reliably determined because there is no active market for these instruments and expected future cash flows cannot be reliably predicted.

d) ***Fair value measurements***

The Corporation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A fair value hierarchy exists that prioritizes observable and unobservable inputs used to measure fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Corporation's assumptions with respect to how market participants would price an asset or liability. The fair value hierarchy includes three levels of inputs that may be used to measure fair value:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities. An active market for the asset or liabilities is a market in which transactions for the asset or liabilities occur with sufficient frequency and volume to provide pricing information on an ongoing basis. The Corporation as classified cash and cash equivilents as level 1;

Level 2 - Observable inputs other than level 1 prices , such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Corporation as classified swap contracts as level 2; and

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. The Corporaion has no instruments classified as level 3.

e) ***Liquidity Risk***

Liquidity risk is the risk the Corporation may encounter difficulties in meeting obligations associated with financial liabilities and commitments. The Corporation has a credit agreement in place related to the long term debt. This credit agreement contains a number of standard financial and other covenants. A failure by the Corporation to comply with the obligations in this credit agreement could result in a default, which, if not rectified or waived, could permit acceleration of the relevant indebtedness.

There can be no assurance the Corporation could:

- generate sufficient cash flow from operations to pay outstanding indebtedness, or to fund any other liquidity needs; or
- refinance this credit agreement or obtain additional financing on commercially reasonable terms, if at all. The Corporation's credit facility is, and future borrowings may be, at variable rates of interest, which exposes the Corporation to the risk of increased interest rates.

The Corporation maintains a capital structure, including access to a revolving credit facility of $5,000,000, which helps to mange the risk of default under these credit agreements.

16. Capital disclosures

The Corporation's objective with respect to its capital structure is to maintain effective access to capital on an ongoing basis at reasonable rates while achieving appropriate rates of financial return for its shareholder.

The Corporation considers its capital structure to consist of shareholder's equity and a promissory note held by the Corporation's shareholder which has been subordinated to the Toronto Dominion Bank as security on the Corporation's operating credit facilities.

	2011	2010
Promissory note payable	$ 48,645,457	$ 48,645,457
Common shares	20,848,052	20,848,052
Deficit	(7,798,729)	(6,984,585)
Subtotal	13,049,323	13,863,467
Total capital	$ 61,694,780	$ 52,508,924

17. Comparative figures

During the year, the Corporation elected reclassifying certain prior year balances to comply with the current year presentation. The following is a summary of the impact of the reclassifications on the balances as reported in the prior year.

	As previously reported	Reclassification	Adjusted balance
Inventory	1,022,658	(1,022,658)	-
Capital assets	65,185,435	1,022,658	66,208,093

The reclassifications also resulted in the following adjustments to the prior year balances within the statement of cash flows:

	As previously reported	Reclassification	Adjusted balance
Changes in non-cash operating working capital			
Inventory	188,601	(188,601)	-
Cash flows from investing activities			
Purchase of capital assets	(8,359,149)	188,601	(8,170,548)

Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc. is a Corporation regulated by the Ontario Energy Board. The regulator has prescribed a phased in capital structure of 60% debt and 40% equity. For rate setting purposes the Corporation has complied with these requirements.

GREATER SUDBURY HYDRO INC./
HYDRO DU GRAND SUDBURY INC.

Financial Statements

Year Ended December 31, 2010

FREELANDT CALDWELL REILLY LLP
CHARTERED ACCOUNTANTS

Bernie R. Freelandt, FCA
Edwin P. Reilly, CA
Sam P. Lolas, CA
Kirby W. Houle, CA

INDEPENDENT AUDITORS' REPORT

To the Shareholder of
GREATER SUDBURY HYDRO INC./HYDRO DU GRAND SUDBURY INC.

Report on the Financial Statements
We have audited the accompanying financial statements of the **GREATER SUDBURY HYDRO INC./HYDRO DU GRAND SUDBURY INC.,** which comprise the balance sheet as at **December 31, 2010**, and the statements of operations and deficit and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2010, and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

FREELANDT CALDWELL REILLY LLP

Freelandt Caldwell Reilly LLP

Chartered Accountants
Licensed Public Accountants

Sudbury, Ontario
April 26, 2011

GREATER SUDBURY HYDRO INC./HYDRO DU GRAND SUDBURY INC.
Balance Sheet
December 31, 2010 with comparative figures for 2009

	2010	2009 (as restated) (note 17)
Assets		
Current		
Cash and investments (note 3)	$ 2,700,894	$ 10,634,296
Accounts receivable (note 4)	1,108,221	3,349,077
Inventory	1,022,658	1,211,259
Payment in lieu of taxes	-	1,543,669
Unbilled revenue - distribution	5,473,006	3,687,004
Unbilled revenue - energy sales	19,149,246	12,237,062
	29,454,025	32,662,367
Capital assets (note 6)	65,185,435	63,837,643
Payment in lieu of future taxes (note 7)	7,975,566	8,468,972
Regulatory assets (note 8)	5,360,633	110,970
Other assets	232,146	232,146
Investment in 1700211 Ontario Inc.	400,000	400,000
	$ 108,607,805	$ 105,712,098

Approved on behalf of the Board

Director Frances Caldarelli

Director ________________

See accompanying notes to financial statements

GREATER SUDBURY HYDRO INC./HYDRO DU GRAND SUDBURY INC.
Balance Sheet
December 31, 2010 with comparative figures for 2009

	2010	2009 (as restated) (note 17)
Liabilities and shareholder's equity		
Current		
Accounts payable and accrued liabilities	$ 1,499,439	$ 1,887,740
Payable for energy purchases	12,691,064	12,159,001
Promissory note payable (note 9)	48,645,457	48,645,457
Payment in lieu of taxes	560,504	-
Advances from related companies (note 5)	1,234,727	1,726,132
Current portion of long-term obligations	753,179	753,179
	65,384,370	65,171,509
Regulatory liabilities (note 8)	11,406,964	11,792,716
Long-term obligations (note 10)	17,953,004	19,614,054
	94,744,338	96,578,279
Shareholder's equity		
Share capital (note 11)	20,848,052	20,848,052
Deficit	(6,984,585)	(11,714,233)
	13,863,467	9,133,819
Contingent liabilities (note 12)		
	$ 108,607,805	$ 105,712,098

See accompanying notes to financial statements

GREATER SUDBURY HYDRO INC./HYDRO DU GRAND SUDBURY INC.
Statement of Operations and Deficit
For the year ended December 31, 2010 with comparative figures for 2009

	2010	2009 (as restated) (note 17)
Revenue		
Energy sales	$ 79,191,698	$ 77,140,065
Distribution	21,987,007	21,567,284
	101,178,705	98,707,349
Cost of energy	79,191,698	77,140,065
Gross profit	21,987,007	21,567,284
Expenses		
Amortization	4,959,843	4,634,610
Distribution - operations	3,613,610	3,827,389
Interest on promissory note payable	3,531,660	3,531,660
General administration	2,652,126	3,669,706
Billing and collecting	2,593,382	2,629,034
Distribution - maintenance	1,857,381	1,677,666
Interest on long-term obligations	914,168	942,024
	20,122,170	20,912,089
Earnings before undernoted items and payment in lieu of taxes	1,864,837	655,195
Other income (expenses)		
Gain on employee future benefit obligation	2,780,264	-
Other operating revenue	1,806,700	1,240,122
Loss on disposal of capital assets	(230,197)	(1,334,963)
	4,356,767	(94,841)
Earnings before payment in lieu of taxes	6,221,604	560,354
Payment in lieu of taxes (note 7)		
Current	1,491,956	652,158
Net earnings (loss)	4,729,648	(91,804)
Deficit, beginning of year, before prior period adjustment	(11,714,233)	(5,546,880)
Prior period adjustment (note 17)	-	(6,075,549)
Deficit, end of year	$ (6,984,585)	$ (11,714,233)

See accompanying notes to financial statements

GREATER SUDBURY HYDRO INC./HYDRO DU GRAND SUDBURY INC.
Cash Flow Statement
For the year ended December 31, 2010 with comparative figures for 2009

	2010	2009 (as restated) (note 17)
Cash flows from operating activities		
Net earnings (loss)	$ 4,729,648	$ (91,804)
Adjustments for:		
Amortization	4,959,843	4,634,610
Gain on employee future benefit obligation	(2,780,264)	-
Loss on disposal of capital assets	230,197	1,334,963
Other amortization	501,979	434,356
	7,641,403	6,312,125
Change in non-cash working capital items		
Accounts receivable	2,240,856	90,323
Prepaid expenses	-	400
Inventory	188,601	128,675
Advances to/from related companies	(491,405)	3,625,800
Unbilled revenue - distribution	(1,786,002)	(632,294)
Unbilled revenue - energy sales	(6,912,184)	174,791
Accounts payable and accrued liabilities	(388,301)	(149,748)
Payable for energy purchases	532,063	2,067,154
Payment in lieu of taxes	2,104,173	(1,548,504)
	3,129,204	10,068,722
Cash flows from investing activities		
Purchase of capital assets	(8,359,149)	(9,401,182)
Proceeds on disposal of capital assets	57,904	2,370
Contributions in aid of construction	1,261,434	788,212
	(7,039,811)	(8,610,600)
Cash flows from financing activities		
Regulatory assets/liabilities	(5,142,009)	31,702
Long-term obligations	1,119,214	1,150,522
	(4,022,795)	1,182,224
Increase (decrease) in cash and investments	(7,933,402)	2,640,346
Cash and investments, beginning of year	10,634,296	7,993,950
Cash and investments, end of year	$ 2,700,894	$ 10,634,296
Other information		
Interest paid	$ (3,531,660)	$ (3,531,660)
Payment in lieu of taxes received (paid)	$ 555,242	$ (2,044,455)

See accompanying notes to financial statements

1. Nature of operations

Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc. was incorporated under the Business Corporations Act (Ontario) on October 1, 2000. The incorporation was required in accordance with the Electricity Act, 1998 (Ontario) (the "EA"). The Corporation's principal business activity involves the distribution of electricity in the City of Greater Sudbury and the Municipality of West Nipissing.

The Corporation and other electricity distributors purchase their electricity from the wholesale market administered by the Independent Electricity System Operator (IESO) and recover the costs of electricity and certain other costs at a later date in accordance with procedures mandated by the Ontario Energy Board ("OEB").

The OEB has regulatory oversight of electricity matters in the Province of Ontario. The Ontario Energy Board Act, 1998 sets out the OEB's authority to issue a distribution licence which must be obtained by owners or operators of a distribution system in Ontario. The OEB prescribes licence requirements and conditions including, among other things, specified accounting records, regulatory accounting principles and the filing process requirements for rate-setting purposes.

The OEB's authority and responsibilities include the power to approve and fix rates for the transmission and distribution of electricity and the responsibility for ensuring that electricity distribution companies fulfill their obligations to connect and service customers.

Regulatory developments in Ontario's electricity industry may affect distribution rates and the permitted recovery or settlement or the timing of recovery or settlement of certain regulatory assets and liabilities.

2. Significant accounting policies

(a) Basis of accounting

These financial statements are the representation of the Corporation's management and are prepared in accordance with Canadian generally accepted accounting principles (GAAP) as set forth in the Canadian Institute of Chartered Accountants Handbook, including policies set forth in the Accounting Procedure Manual issued by the OEB under the authority of the Ontario Energy Board Act, 1998.

(b) Effects of rate regulation

The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers. The OEB has the general power to include or exclude costs, revenues, losses or gains in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have been applied in a non rate regulated company. Such change in timing involves the application of rate regulated accounting, giving rise to the recognition of regulatory assets and liabilities. Regulatory assets represent future revenues associated with certain costs, incurred in the current period or in prior periods, that are expected to be recovered from customers in future periods through the rate setting and approval process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that are expected to be refunded to customers as a result of the rate setting and approval process.

(c) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates relate to the estimation of unbilled distribution revenue, unbilled revenue for energy sales, employee future benefit obligation, regulatory assets and liabilities, inventory obsolescence, amounts transferred to the variance account for the water billing study, allowances for uncollectible accounts at the balance sheet date, estimated useful life of capital assets and fair value determinations.

2. **Significant accounting policies (continued)**

(d) **Cash and investments**

Cash and investments consists of cash on hand and in banks and readily convertible investments. Readily convertible investments are carried at the lower rate of cost or market.

(e) **Accounts receivable**

Accounts receivable are recorded net of an allowance for doubtful accounts.

(f) **Inventory**

Inventory is valued at the lower of cost and net realizable value. Cost is determined using the average cost method.

(g) **Unbilled revenues**

Revenue is recorded in the accounts to various dates on the basis of bi-monthly meter readings. At the end of an accounting cycle, there is energy used by customers for which meter readings are not available. This unbilled revenue is estimated and recorded in the accounts at the end of each fiscal year. The related cost of energy is recorded on the basis of energy used.

(h) **Capital assets**

Capital assets are recorded at cost less government grants received and contributions in aid of construction and developer contributions and include an allocation of engineering and other overhead. Amortization is provided annually, on a straight line basis, in accordance with the following rates:

Buildings	15-50 years
Distribution systems	25 years
Automotive	4-8 years
Office and other equipment	5-10 years
Fibre optics	5-25 years
System supervisory equipment	15 years
Computer equipment	5 years

Construction in process includes assets not currently in use and therefore no yet subject to amortization.

(i) **Payment in lieu of taxes**

Pursuant to the EA, the Corporation is required to compute taxes under the Income Tax Act (Canada) ("ITA") and the Ontario Corporations Tax Act ("OCTA") and remit such amounts computed there under to the Ontario Electricity Financial Corporation ("OEFC"). These amounts, referred to as payments in lieu of taxes ("PILS") under the EA, are applied to reduce certain debt obligations of the former Ontario Hydro now owing by the OEFC.

Payment in lieu of future income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amount of assets and liabilities and their tax bases. Payment in lieu of future tax assets are recognized for the benefit of any deductions or losses available to be carried forward to future periods for tax purposes that are likely to be realized. These amounts are measured using enacted or substantively enacted tax rates and are re-measured annually for changes in these rates. Any payment in lieu of future income tax assets are reassessed each year to determine if a valuation allowance is required. Any effect of the re-measurement or reassessment is recognized in the period of the change.

As prescribed by regulatory rate order, payment in lieu of taxes are recovered through customer rates based on the taxes payable method. Therefore, rates do not include the recovery of payment in lieu of future taxes related to temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes.

A separate regulatory asset or liability is recognized for the amount of payment in lieu of future taxes which are expected to be included in future rates and recovered from or refunded to customers in future periods through the rate setting and approval process.

2. **Significant accounting policies (continued)**

(j) **Contributions in aid of construction**

In certain cases, non-refundable contributions are received in aid of construction or acquisition of capital assets. Contributions received are classified as contra-assets and are charged to operations at the same rate as the capital assets to which they relate.

(k) **Developer contributions**

In certain cases, refundable contributions are received in aid of construction or acquisition of capital assets. Contributions received are classified as contra-assets and are charged to operations at the same rate as the capital assets to which they relate. Contributions refunded reduce the corresponding contra-asset account of the capital assets to which they relate.

(l) **Employee future benefit obligation**

Actuarial gains or losses on employee future benefit obligations arise when the expected amount of the Accrued Post-retirement Benefit Obligation (APBO) differs from the amount recorded in the accounts. These gains or losses are recognized in the year that they are determined.

(m) **Asset retirement obligations**

Accounting standards require the Corporation to determine the fair value of the future expenditures required to settle legal obligations to remove capital assets. If reasonably estimable, a liability is recognized equal to the present value of the estimated future removal expenditures. An equivalent amount is capitalized as an inherent cost of the associated capital asset.

Some of the Corporation's distribution system assets may have asset retirement obligations. As the Corporation expects to use the majority of its installed assets for an indefinite period, no removal date can be determined and consequently a reasonable estimate of the fair value of any related asset retirement obligations cannot be made at this time. If, at some future date, it becomes possible to estimate the fair value cost of removing assets that the Corporation is legally required to remove, an asset retirement obligation will be recognized at that time.

2. **Significant accounting policies (continued)**

(n) **Revenue recognition**

Distribution and energy related revenues attributable to the supply and distribution of electricity are based on OEB-approved rates and are recognized as electricity is delivered to customers. The Corporation estimates the revenue for the period based on wholesale energy purchases because customer meters are not all read at the end of the year. Unbilled revenue is estimated and included in unbilled revenue - distribution and unbilled revenue - energy sales at the end of the year.

Other revenues, which include revenues from electricity distribution related services are recognized as the services are rendered.

(o) **Financial instruments**

At inception, all financial instruments which meet the definition of a financial asset or financial liability are to be recorded at their fair value, unless fair value cannot be reliably determined. Depending on the nature of the financial instrument, revenues, expenses, gains and losses thereon would be reported in either net income or other comprehensive income. Subsequent measurement of each financial instrument will depend on the balance sheet classification selected by the Corporation. The Corporation has selected the following balance sheet classifications with respect to its financial assets and financial liabilities:

- Cash is a financial asset classified as "held for trading" and is measured at fair value";
- Cash equivalents, comprising short-term investments, are financial assets classified as "held to maturity investments" and are measured at amortized cost, which, upon initial recognition, is considered equivalent to fair value;
- Investment in 1700211 Ontario Inc. is a financial asset classified as available for sale and is measured at cost as there is no active market for these financial instruments;
- Accounts receivable and unbilled revenue are financial assets classified as "loans and receivables" and are measured at amortized cost, which, upon initial recognition, is considered equivalent to fair value; subsequent measurements are recorded at amortized cost using the effective interest rate method; and,
- Accounts payable and accrued liabilities, payable for energy purchases, promissory note payable and advances from related companies are financial liabilities classified as "other financial liabilities" and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

(p) **International financial reporting standards**

On February 13, 2008, the Canadian Accounting Standards Board (AcSB) confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS) in place of Canadian generally accepted accounting principles for reporting purposes for fiscal years beginning on or after January 1, 2011.

On September 10, 2010, the AcSB granted an optional one year deferral for IFRS adoption for entities subject to rate regulation. This decision came in light of the uncertainty created by the International Accounting Standards Board in regard to the rate-regulated project which is assessing the potential recognition of regulatory assets and regulatory liabilities under IFRS. Accordingly, the Corporation will continue to prepare its financial statements in accordance with Canadian generally accepted accounting standards in Part V of the CICA Handbook for 2011.

3. Cash and investments

The Corporation and its related companies, Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc., Greater Sudbury Telecommunications Inc./Telecommunications du Grand Sudbury Inc., 1627596 Ontario Inc. and 1700211 Ontario Inc., have a banking arrangement with the Toronto Dominion Bank. Under the banking arrangement, at the end of each banking day, the balance in each entity's account is exactly offset by a contra balance in a related offset account. The offset account shall then be offset by withdrawing a similar amount from or depositing a similar amount to the concentration account. As a result, the amount owed to or from the related company is included in advances to/from related companies (note 5).

The Corporation and its related companies have arranged for an operating line of credit up to $5,000,000 for operating purposes at the corporate bank prime rate of interest. In addition, the Corporation has Letters of credit available in the amount of $10,000,000 at the corporate bank prime rate of interest, and a Multiple Draw Term Loan available in the amount of $6,200,000 at a fixed rate. These credit facilities are secured by an unlimited guarantee by the Corporation, Greater Sudbury Utilities Inc./Services Publics Du Grand Sudbury Inc., Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc., Greater Sudbury Telecommunications Inc./Telecommunications du Grand Sudbury Inc., 1627596 Ontario Inc., 1700211 Ontario Inc., and a postponement and assignment of claim relating to the promissory note payable to Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc. At December 31, 2010 the balance outstanding on the operating line and the term loan credit facilities was nil (2009 - nil).

4. Accounts receivable

	2010	2009
Electricity receivables	$ (733,252)	$ 4,467,009
Other receivables	2,566,473	947,068
	1,833,221	5,414,077
Allowance for doubtful accounts	(725,000)	(2,065,000)
	$ 1,108,221	$ 3,349,077

The Corporation implemented a new billing system in November 2010. As a result there was a delay in electricity billings which resulted in a larger unbilled amount for electricity and a lower electricity receivable at year-end. Since the corporation collects electricity payments on a pre-authorized basis this resulted in a credit balance in the electricity receivable at year-end.

5. Related party transactions

(a) The Corporation subcontracts its billing and collecting of revenue, building and maintenance of capital assets, payment of purchases and all related government remittances, engineering, information services, accounting, payroll processing, financial reporting and treasury services to Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc. The Corporation entered into a Service Level Agreement with Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc. for a monthly base cost of $3,500.

(b) The Corporation provides electrical energy to the City of Greater Sudbury "City" at the same price protected rates and terms as other similar customers based on the amount of electricity consumed.

Included in accounts payable and accrued liabilities is $532,384 (2009 - $731,827) relating to amounts collected by the Corporation on behalf of the City for water billing. Correspondingly, included in accounts receivable is $48,328 (2009 - $51,666) relating to amounts collected by the City relating to electricity and water bill payments.

During the year, the Corporation paid $179,750 (2009 - $197,209) to the City on account of municipal taxes.

Transactions with related companies and the City are in the normal course of operations and are recorded at the exchange amount, which is the amount agreed to by the related parties. It is management's opinion that the exchange amount represents fair market value for these services.

5. **Related party transactions (continued)**

(c) Advances from related companies:

	2010	2009
Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc.	$ 840,134	$ 1,426,407
1700211 Ontario Inc.	376,848	207,728
Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc.	17,745	91,997
	$ 1,234,727	$ 1,726,132

The advances from related companies are unsecured, interest bearing at the corporate bank prime rate and have no fixed terms of repayment. During the year the Corporation earned interest revenue from related companies of NIL (2009 - NIL) on these balances and paid interest to related companies of NIL (2009 - NIL).

The Corporation and Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc. and 1700211 Ontario Inc. are wholly owned subsidiaries of Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc. The corporation is related to the City of Greater Sudbury "City" by virtue of the fact that the City is 100% owner of the Corporation's sole shareholder.

6. **Capital assets**

	Cost	Accumulated Amortization	2010 Net	2009 Net
Land	$ 857,298	$ -	$ 857,298	$ 890,958
Buildings	9,798,120	4,159,877	5,638,243	5,679,922
Distribution systems	144,817,329	90,575,698	54,241,631	53,317,132
Automotive	5,041,489	3,553,837	1,487,652	1,370,080
Office and other equipment	1,933,185	1,447,125	486,060	501,738
Fibre optics	2,107,832	1,079,260	1,028,572	1,099,008
System supervisory equipment	1,555,443	1,162,505	392,938	439,917
Computer equipment	2,505,350	1,680,618	824,732	308,681
Construction in process	228,309	-	228,309	230,207
	$ 168,844,355	$ 103,658,920	$ 65,185,435	$ 63,837,643

Contributions in aid of construction received during the year totalled $1,261,434 (2009 - $788,212). Total contributions in aid of construction received at December 31, 2010 were $13,513,098 (2009- $12,251,664) with related accumulated amortization of $2,843,536 (2009 - $2,328,540) resulting in a net contra-asset of $10,669,562 (2009 - $9,923,124) which has been offset against the assets to which they relate.

At December 31, 2010, the net book value of stranded meters related to the deployment of smart meters amounted to $1,348,136 and is included in distribution systems. In the absence of rate regulation, capital assets would have been $1,348,136 lower at December 31, 2010.

7. **Payment in lieu of taxes**

a) The components of the payment in lieu of future tax balance is as follows:

	2010	2009
Difference between tax basis of capital assets and carrying value	$ 2,681,059	$ 2,747,312
Difference between carrying value of net regulatory liabilities and tax basis	934,448	733,063
Difference between tax basis of employee future benefit obligation and carrying value	2,354,199	2,855,434
Regulatory adjustment	2,005,860	2,133,163
	$ 7,975,566	$ 8,468,972

b) The provision for payments in lieu of taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 31.00% (2009 - 33.00%) to the earnings for the year as follows:

	2010	2009
Earnings before payment in lieu of taxes	$ 6,221,604	$ 560,354
Anticipated payment in lieu of tax provision	1,928,187	184,917
Payment in lieu of future tax regulatory liability	(366,104)	260,260
Effect of change in tax rates	(72,672)	206,044
Other	2,545	937
Provision for payment in lieu of taxes	$ 1,491,956	$ 652,158

8. **Regulatory assets and liabilities**

(a) Regulatory assets:

	2010	2009
Pre-market opening energy variances	$ 210	$ 211
IFRS deferral (vi)	43,827	-
Late payment penalties settlement (v)	149,791	-
Special purpose charge variance (vii)	147,796	-
Deferred transition costs (i)	2,503	-
Smart Grid	38,569	20,969
Smart meters (iv)	4,977,937	89,790
	$ 5,360,633	$ 110,970

(b) Regulatory liabilities:

	2010	2009
Retail settlement variances (ii)	$ 2,455,857	$ 2,973,315
Deferred transition costs (i)	-	17,837
Demand side management costs (iii)	975,541	332,592
Payment in lieu of future taxes	7,975,566	8,468,972
	$ 11,406,964	$ 11,792,716

8. **Regulatory assets and liabilities (continued)**

The regulatory assets and liabilities arise as a result of the rate setting process by the OEB. The OEB authorizes the recovery of regulatory assets or repayment of regulatory liabilities through the distribution rate application.

(i) The OEB established a process for the recording of costs incurred by the Corporation to be market ready, including related carrying costs, as deferred transition costs to be recovered in the future through the regulatory rate setting process. In the absence of rate regulation, generally accepted accounting principles would require that the costs be recognized as an expense or capital asset, as applicable, when incurred and the related recovery of these costs in income when received or receivable.

(ii) Retail settlement variances represent the difference between the amount paid by the Corporation to the Independent Electricity System Operator ("IESO") for the cost of energy and the amount billed by the Corporation to its customers as energy sales, and related carrying costs, which are recorded on the balance sheet as retail settlement variances until their final disposition is decided by the OEB. The Corporation recognizes retail settlement variances as an asset or liability based on the expectation these amounts will be approved by the OEB for future collection from, or refund to, customers through the rate setting and approval process. The retail settlement variance liability represents the deficiency of amounts billed by the IESO for the cost of energy compared to the amounts charged to customers as energy sales. In the absence of rate regulation, generally accepted accounting principles would require that the total cost of energy be charged to operations when incurred and the total amount of energy sales be credited to operations when earned.

(iii) The Minister of Energy has granted approval to all distributors to apply to the OEB for an increase in their distribution rates, conditional on a commitment by the company to spend an equivalent amount on conservation and demand management initiatives. In 2008, the OEB approved additional conservation and demand management initiatives to be collected and spent over a three year period. In the absence of rate regulation, generally accepted account principles would require the Corporation to recognize such revenues and costs in the operating results in the year they were earned or incurred.

(iv) The Ontario Government has established targets for the installation of smart meters for all Ontario customers by December 31, 2010. Smart meter regulatory liabilities represent the excess of amounts billed by the Corporation to customers compared to costs incurred by the Corporation on smart meter activities. In the absence of rate regulation, generally accepted accounting principles would require the Corporation to recognize the amounts billed to customers as revenue in the year and the costs incurred be recognized as an expense or capital asset, as applicable, when incurred.

In connection with smart meter activities, the Corporation has incurred operating expenses amounting to $496,418 (2009 - $235,129), capital expenditures of $6,014,205 (2009 - $373,188) and has collected $1,532,686 (2009 - $518,527) from its customers.

(v) The late payment penalties settlement account relates to the settlement costs accrual associated with the late payment charges class action (note 12(b) and note 18). All of the MEUs involved in the settlement, including the Corporation, have requested an order from the OEB allowing for future recovery from customers of all costs related to the settlement. The Corporation, has accrued a liability and a corresponding regulatory asset in the amount of $149,791, as at December 31, 2010. In the absence of rate regulation, operating expenses for the year ended December 31, 2010, would have been $149,791 higher.

(vi) For the year ended December 31, 2010, the Corporation has incurred $43,827 of costs relating to the IFRS conversion project. These costs have been recorded to regulatory assets as the Corporation expects to obtain recovery of these costs in the future. In the absence of rate regulation, for the year ended December 31, 2010, operating expenses would have been $43,827 higher. The Corporation is seeking recovery of the IFRS costs as part of its 2011 electricity distribution rate application.

(vii) On April 9, 2010, the OEB informed electricity distributors of a Special Purpose Charge ("SPC") assessment under Section 26.1 of the Ontario Energy Board Act, 1998, for the Ministry of Energy and Infrastructure conservation and renewable energy program costs. The OEB assessed the corporation the amount of $378,888 for its apportioned share of the total provincial amount of the SPC of $53,695,000 in accordance with the rules set out in Ontario Regulation 66/10 (the "SPC Regulation"). In accordance with Section 9 of the SPC Regulation, the Corporation is allowed to recover this balance. The recovery is expected to be achieved over a one-year period, which began on May 1, 2010. In the absence of rate regulation, for the year ended December 31, 2010, operating expenses would have been $378,888 higher.

8. Regulatory assets and liabilities (continued)

For certain of the regulatory assets and liabilities identified above, the expected recovery or settlement period, or likelihood of recovery or settlement is affected by risks and uncertainties relating to the ultimate authority of the OEB in determining the item's treatment for rate-setting purpose. The corporation continually assesses the likelihood of recovery of each of its regulatory assets and refund of each of its regulatory liabilities and continues to believe that the OEB will factor its regulatory assets and liabilities into the setting of future rates. If at some future date the company determines that it is no longer probable that the OEB will include a regulatory asset or liability in future rates, the appropriate carrying amount will be charged to operations in the period the determination is made.

9. Promissory note payable

The promissory note payable to Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc. is unsecured and bears interest at a rate of 7.26% per annum and has been subordinated to the Toronto Dominion Bank as security on the Corporation's operating credit facilities.

The note is repayable in full upon six months written notice of the holder of the note. As at April 26, 2011, the holder has not issued a demand to repay the note.

During the year interest totalling $3,531,660 (2009 - $3,531,660) was charged by Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc. on the promissory note payable.

10. Long-term obligations

	2010	2009
Employee future benefit obligation - payable to Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc.	$ 16,207,556	$ 18,212,495
Customer deposits	1,793,525	1,751,559
Developer contributions	705,102	403,179
	18,706,183	20,367,233
Less current portion	(753,179)	(753,179)
	$ 17,953,004	$ 19,614,054

The Corporation assigned the employee future benefit obligation to Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc. who will recover the costs through the Service Level Agreement described in note 5(a).

11. Share capital

	2010	2009
Authorized		
Unlimited common shares		
Issued		
1,001 common shares	$ 20,848,052	$ 20,848,052

12. **Contingent liabilities**

(a) The Corporation has issued a $9,048,386 letter of guarantee to the Independent Electricity System Operator ("IESO"). This was a requirement of the IESO for market opening on May 1, 2002. At December 31, 2010, no amounts have been drawn on this letter of guarantee.

(b) By Order dated July 22, 2010, the Ontario Superior Court of Justice consolidated and approved the settlement of the class action lawsuit against all MEU's that commenced in 1998. The July 22, 2010 court order formalized a settlement pursuant to which the defendant MEU's will pay the amount of $17,000,000 plus cost and taxes in settlement of all claims. The amount allocated for payment by each MEU is its proportionate share of the settlement amount based on its percentage of distribution service revenue over the period for which it has exposure for repayment of late payment penalties exceeding the interest rate limit in the Criminal Code. The Corporation's share of the settlement amount is expected to be $149,791, payable on June 30, 2011. Under the settlement, all the MEU's involved in the settlement, including the Corporation, have requested an order from the OEB allowing for future recovery from customers of all costs related to the settlement. The Corporation has accrued a liability and a corresponding regulatory asset in the amount of $149,791 (note 8 (a) and note 18).

(c) In 2009, the OEB commenced its review of the PILs variances accumulated in regulatory variance accounts for the period from October 1, 2001 to April 30, 2006 for all Municipal Electrical Utilities. The current proceeding is expected to provide direction regarding the interpretation of the rules issued by the OEB. The outcome of this proceeding could have a material impact on the financial position of the Corporation.

(d) The company, along with 1627596 Ontario Inc., is contingently liable for a line of credit to a maximum of $1,750,000 with the Sudbury Credit Union by way of a corporate guarantee. The line of credit is secured by a general security agreement (GSA) representing a first charge on all of the assets and undertakings of the company and 1627596 Ontario Inc. At December 31, 2010, the balance owing on the Sudbury Credit Union line of credit that is reflected in the financial statements of 1627596 Ontario Inc. was nil.

(e) The company, along with 1700211 Ontario Inc. is contingently liable for a loan with the TD bank by way of a corporate guarantee. The debt facility is secured by a general security agreement (GSA) representing the first charge on all of the assets and undertakings of 1700211 Ontario Inc.

The agreement contains covenants requiring a total debt to total capitalization ratio of less than 50% and an interest coverage ratio of not less than 1.2:1 be maintained by the company and its affiliates: 1700211 Ontario Inc., Greater Sudbury Hydro Plus Inc., Greater Sudbury Telecommunications Inc., 1627596 Ontario Inc. and Greater Sudbury Utilities Inc. At year-end these covenants were met.

At year-end, the TD Loan that is reflected in the financial statements of 1700211 Ontario Inc. totalled $2,526,000

13. **Financial instruments**

a) ***Credit risk***

The Corporation is exposed to credit risk with respect to its cash and investments, accounts receivable and unbilled revenue receivable.

The Corporation has deposited the cash and investments with large reputable financial institutions, from which management believes the risk of loss to be remote.

The Corporation has accounts receivable and unbilled revenue receivable from a large number of private individual and business customers in many industries located within the service territory. The Corporation monitors and limits its exposure to customers defaulting on their obligations. The Corporation provides for an allowance for uncollectible accounts to absorb estimated credit losses. At December 31, 2010, there were no significant concentrations of credit risk with respect to these financial assets.

13. **Financial instruments (continued)**

b) ***Interest rate risk***

The Corporation is exposed to interest rate risk with respect to its operating line of credit facilities and promissory note payable.

The Corporation's operating line of credit facilities are sensitive to interest rate movements as they consist of variable prime rate based loans and advances.

The Corporation's promissory note payable is not sensitive to interest rate movements as it bears interest at a fixed rate.

c) ***Fair value of financial instruments***

The carrying value of cash and investments, accounts receivable, unbilled revenue receivable, and accounts payable and accrued liabilities approximates their fair value due to the immediate or short-term maturity of these financial instruments.

The fair value of the Corporation's investment in 1700211 Ontario Inc. cannot be reliably determined because there is no active market for these instruments and expected future cash flows cannot be reliably predicted.

At December 31, 2010, the fair value of the promissory note payable and the long-term obligations are not considered to be materially different from their carrying value.

14. **Pension agreements**

The Corporation makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer pension plan, on behalf of two members of its staff . The plan is a defined benefit pension plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

Contributions of $17,309 (2009 - $10,551) were paid during the year.

15. **Comparative figures**

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2010 financial statements. These changes do not affect prior year earnings.

16. **Capital disclosures**

The Corporation's objective with respect to its capital structure is to maintain effective access to capital on an ongoing basis at reasonable rates while achieving appropriate rates of financial return for its shareholder.

The Corporation considers its capital structure to consist of shareholder's equity and a promissory note held by the Corporation's shareholder which has been subordinated to the Toronto Dominion Bank as security on the Corporation's operating credit facilities.

	2010	2009
Promissory note payable	$ 48,645,457	$ 48,645,457
Common shares	20,848,052	20,848,052
Deficit	(6,984,585)	(11,714,233)
Subtotal	13,863,467	9,133,819
Total capital	$ 62,508,924	$ 57,779,276

Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc. is a Corporation regulated by the Ontario Energy Board. The regulator has prescribed a phased in capital structure of 60% debt and 40% equity. For rate setting purposes the Corporation has complied with these requirements.

17. **Prior period adjustment**

During the year, the corporation adopted amended Canadian Institute of Chartered Accountants Handbook Section 1100 - "Generally Accepted Accounting Principles", Handbook Section 3465 - "Income Taxes" and Accounting Guideline 19 - "Disclosures by Entities Subject to Rate Regulation". These amended sections and guidelines establish new standards and remove a temporary exemption in Handbook Section 1100 pertaining to the application for that section to the recognition and measurement of assets and liabilities arising from rate regulation. The new standards require the recognition of future income tax liabilities and assets in accordance with Handbook Section 3465, as well as a separate regulatory asset or liability balance for the amount of future income taxes expected to be included in future rates and recovered from or paid to customers, and retain existing requirements to disclose the effects of rate regulation.

Handbook Section 3465, as amended, requires the recognition of future income tax assets and liabilities and related regulatory liabilities and assets for the amount of future income taxes expected to be refunded to, or recovered from, customers in future electricity rates, applied on a retrospective basis with prior period restatement. The implementation of these standards results in a decrease in the net earnings of $260,260 for the year ended December 31, 2009. As well, the comparative figures have been retroactively restated to reflect a rate regulated liability and a payment in lieu of future tax asset which was not previously recorded. As a result, the deficit as at December 31, 2009 has been increased by $6,075,549, regulatory liabilities have increased by $8,468,972 and payment in lieu of future taxes have increased by $2,133,163.

18. **Subsequent events**

On February 22, 2011, the OEB issued its final decision allowing for the Corporation to recover the settlement amount of $149,791 from customers over the period commencing May 1, 2011 and ending April 30, 2013.

GREATER SUDBURY HYDRO INC./ HYDRO DU GRAND SUDBURY INC.

Financial Statements

Year Ended December 31, 2009

FREELANDT CALDWELL REILLY LLP
CHARTERED ACCOUNTANTS

Bernie R. Freelandt, FCA
Edwin P. Reilly, CA
Sam P. Lolas, CA
Kirby W. Houle, CA

To: The Shareholder of
GREATER SUDBURY HYDRO INC./
HYDRO DU GRAND SUDBURY INC.

We have audited the balance sheet of **GREATER SUDBURY HYDRO INC./HYDRO DU GRAND SUDBURY INC.** as at **December 31, 2009** and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2009, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Freelandt Caldwell Reilly LLP

FREELANDT CALDWELL REILLY LLP

Chartered Accountants

Licensed Public Accountants

Sudbury, Canada

March 29, 2010

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GREATER SUDBURY HYDRO INC./HYDRO DU GRAND SUDBURY INC.
Balance Sheet
December 31, 2009 with comparative figures for 2008

	2009	2008
Assets		
Current		
Cash and investments (note 3)	$ 10,634,296	$ 7,993,950
Accounts receivable (note 4)	3,349,077	3,439,400
Inventory	1,211,259	1,339,934
Prepaid expenses	-	400
Payment in lieu of taxes	1,543,669	-
Advances to related companies (note 5)	-	1,911,077
Unbilled revenue - distribution	3,687,004	3,054,710
Unbilled revenue - energy sales	12,237,062	12,411,853
	32,662,367	30,151,324
Capital assets (note 6)	64,210,832	62,004,161
Payment in lieu of future taxes (note 7)	6,335,809	6,075,549
Regulatory assets (note 8)	21,180	62,394
Other assets	232,146	232,146
Investment in 1700211 Ontario Inc.	400,000	400,000
	$ 103,862,334	$ 98,925,574

Approved on behalf of the Board

Director ____________

Director Doug Craig

See accompanying notes to financial statements

GREATER SUDBURY HYDRO INC./HYDRO DU GRAND SUDBURY INC.
Balance Sheet
December 31, 2009 with comparative figures for 2008

	2009	2008
Liabilities and shareholder's equity		
Current		
Accounts payable and accrued liabilities	$ 1,887,740	$ 2,037,488
Payable for energy purchases	12,159,001	10,091,847
Promissory note payable (note 9)	48,645,457	48,645,457
Payment in lieu of taxes	-	4,835
Advances from related companies (note 5)	1,726,132	11,409
Current portion of long-term obligations	753,179	350,000
	65,171,509	61,141,036
Regulatory liabilities (note 8)	3,607,143	3,616,655
Long-term obligations (note 10)	19,614,054	18,866,711
	88,392,706	83,624,402
Shareholder's equity		
Share capital (note 11)	20,848,052	20,848,052
Deficit	(5,378,424)	(5,546,880)
	15,469,628	15,301,172
Contingent liabilities (note 12)		
	$ 103,862,334	$ 98,925,574

See accompanying notes to financial statements

GREATER SUDBURY HYDRO INC./HYDRO DU GRAND SUDBURY INC.
Statement of Operations and Deficit
For the year ended December 31, 2009 with comparative figures for 2008

	2009	2008
Revenue		
Energy sales	$ 77,140,065	$ 71,781,064
Distribution	21,567,284	21,183,692
	98,707,349	92,964,756
Cost of energy	77,140,065	71,781,064
Gross profit	21,567,284	21,183,692
Expenses		
Amortization	4,634,610	4,514,642
Distribution - operations	3,827,389	3,655,811
General administration	3,669,706	2,819,191
Interest on promissory note payable	3,531,660	3,531,660
Billing and collecting	2,629,034	2,315,831
Distribution - maintenance	1,677,666	2,091,845
Interest on long-term obligations	942,024	939,043
	20,912,089	19,868,023
Earnings before undernoted items and payment in lieu of taxes	655,195	1,315,669
Other income (expenses)		
Other operating revenue	1,240,122	1,747,422
Gain (loss) on disposal of capital assets	(1,334,963)	13,703
	(94,841)	1,761,125
Earnings before payment in lieu of taxes	560,354	3,076,794
Payment in lieu of taxes (note 7)		
Current	652,158	2,251,653
Future	(260,260)	307,737
	391,898	2,559,390
Net earnings	168,456	517,404
Deficit, beginning of year	(5,546,880)	(3,888,384)
Dividends	-	(2,175,900)
Deficit, end of year	$ (5,378,424)	$ (5,546,880)

See accompanying notes to financial statements

GREATER SUDBURY HYDRO INC./HYDRO DU GRAND SUDBURY INC.
Cash Flow Statement
For the year ended December 31, 2009 with comparative figures for 2008

	2009	2008
Cash flows from operating activities		
Net earnings	$ 168,456	$ 517,404
Adjustments for:		
Amortization	4,634,610	4,514,642
Payment in lieu of future taxes	(260,260)	307,737
Loss (gain) on disposal of capital assets	1,334,963	(13,703)
Other amortization	434,356	417,211
	6,312,125	5,743,291
Change in non-cash working capital items		
Accounts receivable	90,323	(1,749,130)
Prepaid expenses	400	999
Inventory	128,675	38,887
Advances to/from related companies	3,625,800	374,390
Unbilled revenue - distribution	(632,294)	29,940
Unbilled revenue - energy sales	174,791	(878,005)
Accounts payable and accrued liabilities	(149,748)	294,203
Payable for energy purchases	2,067,154	2,149,605
Payment in lieu of taxes	(1,548,504)	(258,691)
	10,068,722	5,745,489
Cash flows from investing activities		
Purchase of capital assets	(9,401,182)	(8,094,589)
Proceeds on disposal of capital assets	2,370	13,703
Redemption of preferred shares	-	(2,824,100)
Dividends	-	(2,175,900)
Regulatory assets/liabilities	31,702	1,815,560
Contributions in aid of construction	788,212	1,867,297
	(8,578,898)	(9,398,029)
Cash flows from financing activities		
Long-term obligations	1,150,522	576,074
Increase (decrease) in cash and investments	2,640,346	(3,076,466)
Cash and investments, beginning of year	7,993,950	11,070,416
Cash and investments, end of year	$ 10,634,296	$ 7,993,950
Other information		
Interest paid	$ (3,531,660)	$ (3,531,660)
Payment in lieu of taxes paid	$ 2,044,455	$ (2,953,092)

See accompanying notes to financial statements

1. Nature of operations

Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc. was incorporated under the Business Corporations Act (Ontario) on October 1, 2000. The incorporation was required in accordance with the Electricity Act, 1998 (Ontario) (the "EA"). The Corporation's principal business activity involves the distribution of electricity in the City of Greater Sudbury and the Municipality of West Nipissing.

2. Significant accounting policies

(a) Basis of accounting

These financial statements are the representation of the Corporation's management and are prepared in accordance with Canadian generally accepted accounting principles (GAAP) as set forth in the Canadian Institute of Chartered Accountants Handbook, including policies set forth in the Accounting Procedure Manual issued by the Ontario Energy Board ("OEB") under the authority of the Ontario Energy Board Act, 1998.

(b) Effects of rate regulation

The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fullfill obligations to connect and service customers. The OEB has the general power to include or exclude costs, revenues, losses or gains in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have been applied in a non rate regulated company. Such change in timing involves the application of rate regulated accounting, giving rise to the recognition of regulatory assets and liabilities. Regulatory assets represent future revenues associated with certain costs, incurred in the current period or in prior periods, that are expected to be recovered from customers in future periods through the rate setting and approval process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that are expected to be refunded to customers as a result of the rate setting and approval process.

(c) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates relate to the estimation of unbilled distribution revenue, unbilled revenue for energy sales, employee future benefit obligation, regulatory assets and liabilities, inventory obsolescence and allowances for uncollectible accounts at the balance sheet date, estimated useful life of capital assets and fair value determinations.

2. **Significant accounting policies (continued)**

(d) **Cash and investments**

Cash and investments consists of cash on hand and in banks and readily convertible investments. Readily convertible investments are carried at the lower rate of cost or market.

(e) **Accounts receivable**

Accounts receivable are recorded net of an allowance for doubtful accounts.

(f) **Inventory**

Inventory is valued at the lower of cost and net realizable value. Cost is determined using the average cost method.

(g) **Unbilled revenues**

Revenue is recorded in the accounts to various dates on the basis of bi-monthly meter readings. At the end of an accounting cycle, there is energy used by customers for which meter readings are not available. This unbilled revenue is estimated and recorded in the accounts at the end of each fiscal year. The related cost of energy is recorded on the basis of energy used.

(h) **Capital assets**

Capital assets are recorded at cost less government grants received and contributions in aid of construction and developer contributions and include an allocation of engineering and other overhead. Amortization is provided annually, on a straight line basis, in accordance with the following rates:

Buildings	15-50 years
Distribution systems	25 years
Automotive	4-8 years
Office and other equipment	5-10 years
Fibre optics	5-25 years
System supervisory equipment	15 years
Computer equipment	5 years

Effective, January 1, 2009, amortization in the year of acqusition is recorded using the half year rule. In prior years a full year of amortization was taken in the year of acquisition. The effect of the change in estimate is a reduction in amortization of $241,187 during the current year.

(i) **Payment in lieu of taxes**

Pursuant to the EA, the Corporation is required to compute taxes under the Income Tax Act (Canada) ("ITA") and the Ontario Corporations Tax Act ("OCTA") and remit such amounts thereunder to the Ontario Electricity Financial Corporation ("OEFC"). These amounts, referred to as payments in lieu of taxes ("PILS") under the EA, are applied to reduce certain debt obligations of the former Ontario Hydro now owing by the OEFC.

As prescribed by regulatory rate order, payment in lieu of taxes are recovered through customer rates based on the taxes payable method. Therefore, rates do not include the recovery of payment in lieu of future taxes related to temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes.

2. **Significant accounting policies (continued)**

(i) **Payment in lieu of taxes (continued)**

Payment in lieu of future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of assets and liabilities and their tax bases. Payment in lieu of future tax assets are recognized for the benefit of any deductions or losses available to be carried forward to future periods for tax purposes that are likely to be realized. These amounts are measured using enacted or substantively enacted tax rates and are remeasured annually for changes in these rates. Any payment in lieu of future tax assets are reassessed each year to determine if a valuation allowance is required. Any effect of the re-measurement or reassessment is recognized in the period of the change.

(j) **Contributions in aid of construction**

In certain cases, non-refundable contributions are received in aid of construction or acquisition of capital assets. Contributions received are classified as contra-assets and are charged to operations at the same rate as the capital assets to which they relate.

(k) **Developer contributions**

In certain cases, refundable contributions are received in aid of construction or acquisition of capital assets. Contributions received are classified as contra-assets and are charged to operations at the same rate as the capital assets to which they relate. Contributions refunded reduce the corresponding contra-asset account of the capital assets to which they relate.

(l) **Employee future benefits**

Actuarial gains or losses on employee future benefits arise when the expected amount of the Accrued Post-retirement Benefit Obligation (APBO) differs from the amount recorded in the accounts. These gains or losses are recognized in the year that they are determined.

(m) **Asset retirement obligations**

Accounting standards require the Corporation to determine the fair value of the future expenditures required to settle legal obligations to remove capital assets. If reasonably estimable, a liability is recognized equal to the present value of the estimated future removal expenditures. An equivalent amount is capitalized as an inherent cost of the associated capital asset.

Some of the Corporation's distribution system assets may have asset retirement obligations. As the Corporation expects to use the majority of its installed assets for an indefinite period, no removal date can be determined and consequently a reasonable estimate of the fair value of any related asset retirement obligations cannot be made at this time. If, at some future date, it becomes possible to estimate the fair value cost of removing assets that the Corporation is legally required to remove, an asset retirement obligation will be recognized at that time.

2. **Significant accounting policies (continued)**

(n) **Revenue recognition**

Distribution and energy related revenues attributable to the supply and distribution of electricity are based on OEB-approved rates and are recognized as electricity is delivered to customers. The Corporation estimates the revenue for the period based on wholesale energy purchases because customer meters are not all read at the end of the year. Unbilled revenue is estimated and included in unbilled revenue - distribution and unbilled revenue - energy sales at the end of the year.

(o) **Financial instruments**

At inception, all financial instruments which meet the definition of a financial asset or financial liability are to be recorded at their fair value, unless fair value cannot be reliably determined. Depending on the nature of the financial instrument, revenues, expenses, gains and losses thereon would be reported in either net income or other comprehensive income. Subsequent measurement of each financial instrument will depend on the balance sheet classification selected by the Corporation. The Corporation has selected the following balance sheet classifications with respect to its financial assets and financial liabilities:

- Cash is a financial asset classified as "held for trading" and is measured at fair value";
- Cash equivalents, comprising short-term investments, are financial assets classified as "held to maturity investments" and are measured at amortized cost, which, upon initial recognition, is considered equivalent to fair value;
- Investment in 1700211 Ontario Inc. is a financial asset classified as available for sale and is measured at cost as there is no active market for these financial instruments;
- Accounts receivable, unbilled revenue and advances to related companies are financial assets classified as "loans and receivables" and are measured at amortized cost, which, upon initial recognition, is considered equivalent to fair value; subsequent measurements are recorded at amortized cost using the effective interest rate method; and,
- Accounts payable and accrued liabilities, payable for energy purchases and promissory note payable are financial liabilities classified as "other financial liabilities" and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

(p) **Future accounting pronouncements**

On February 13, 2008, the AcSB confirmed that publicly accountable enterprises will be required to adopt international financial reporting standards ("IFRS") in place of Canadian GAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. A limited number of converged or IFRS-based standards will be incorporated into Canadian GAAP prior to 2011, with the remaining standards to be adopted at the change over date. Although the impact of the adoption of IFRS on the Corporation's financial position and results of operations is not yet reasonably determinable or estimable, the Corporation does expect a significant increase in financial statement disclosure requirements resulting from the adoption of IFRS, and is designing the systems and related process changes, which will be required in order to provide the additional information required to make these disclosures.

3. Cash and investments

The Corporation and its related companies, Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc., Greater Sudbury Telecommunications Inc./Telecommunications du Grand Sudbury Inc., 1627596 Ontario Inc. and 1700211 Ontario Inc., have a banking arrangement with the Toronto Dominion Bank. Under the banking arrangement, at the end of each banking day, the balance in each entity's account is exactly offset by a contra balance in a related offset account. The offset account shall then be offset by withdrawing a similar amount from or depositing a similar amount to the concentration account. As a result, the amount owed to or from the related company is included in advances to/from related companies (note 5).

The Corporation and its related companies have arranged for a line of credit up to $7,500,000 for operating purposes at the corporate bank prime rate of interest. The line of credit is secured by an unlimited guarantee by the Corporation, Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc., Greater Sudbury Telecommunications Inc./Telecommunications du Grand Sudbury Inc., 1627596 Ontario Inc., 1700211 Ontario Inc., and a subordination agreement regarding the promissory note payable to Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc. At December 31, 2009 the balance outstanding on this credit facility is nil (2008 - nil).

4. Accounts receivable

	2009	2008
Electricity receivables	$ 4,467,009	$ 3,755,979
Other receivables	947,068	1,608,421
	5,414,077	5,364,400
Allowance for doubtful accounts	(2,065,000)	(1,925,000)
	$ 3,349,077	$ 3,439,400

5. Related party transactions

(a) The Corporation subcontracts its billing and collecting of revenue, building and maintenance of capital assets, payment of purchases and all related government remittances, engineering, information services, accounting, payroll processing, financial reporting and treasury services to Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc. The Corporation entered into a Service Level Agreement with Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc. for a monthly base cost of $3,500.

(b) The Corporation provides electrical energy to the City of Greater Sudbury "City" at the same price protected rates and terms as other similar customers based on the amount of electricity consumed.

Included in accounts payable and accrued liabilities is $731,827 (2008 - $1,075,448) relating to amounts collected by the Corporation on behalf of the City for water billing. Correspondingly, included in accounts receivable is $51,666 (2008 - $351,545) relating to amounts collected by the City relating to electricity and water bill payments.

During the year, the Corporation paid $197,209 (2008 - $184,469) to the City on account of municipal taxes.

(c) Transactions with related companies and the City are in the normal course of operations and are recorded at the exchange amount, which is the amount agreed to by the related parties. It is management's opinion that the exchange amount represents fair market value for these services.

5. Related party transactions (continued)

(d) Advances to related company:

	2009	2008
Greater Sudbury Telecommunications Inc./ Telecommunications du Grand Sudbury Inc.	$ -	$ 1,911,077

Advances from related companies:

	2009	2008
Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc.	$ 1,426,407	$ -
1700211 Ontario Inc.	207,728	11,409
Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc.	91,997	-
	$ 1,726,132	$ 11,409

The advances to/from related companies are unsecured, interest bearing at the corporate bank prime rate and have no fixed terms of repayment. During the year the Corporation earned interest revenue from related companies of NIL (2008 - $178,053) on these balances and paid interest to related companies of NIL (2008 - NIL).

The Corporation and Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc., Greater Sudbury Telecommunications Inc./Telecommunications du Grand Sudbury Inc. 1627596 Ontario Inc. and 1700211 Ontario Inc. are wholly owned subsidiaries of Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc. The corporation is related to the City of Greater Sudbury "City" by virtue of the fact that the City is 100% owner of the Corporation's sole shareholder.

6. Capital assets

	Cost	Accumulated Amortization	2009 Net	2008 Net
Land	$ 890,958	$ -	$ 890,958	$ 890,772
Buildings	9,636,766	3,956,844	5,679,922	5,634,631
Distribution systems	139,413,349	86,096,217	53,317,132	51,334,854
Automotive	4,500,502	3,130,422	1,370,080	1,226,332
Office and other equipment	1,858,861	1,357,123	501,738	459,972
Fibre optics	2,107,832	1,008,824	1,099,008	1,169,442
System supervisory equipment	1,542,696	1,102,779	439,917	196,193
Computer equipment	1,853,569	1,544,888	308,681	29,645
Construction in process	603,396	-	603,396	1,062,320
	$ 162,407,929	$ 98,197,097	$ 64,210,832	$ 62,004,161

Contributions in aid of construction received during the year totaled $788,212 (2008 - $1,867,298). Total contributions in aid of construction received at December 31, 2009 were $12,251,664 (2008- $11,463,452) with related accumulated amortization of $2,328,540 (2008 - $1,854,238) resulting in a net contra-asset of $9,923,124 (2008 - $9,609,214) which has been offset against the assets to which they relate.

7. Payment in lieu of taxes

a) The components of the payment in lieu of future tax balance is as follows:

		2009		2008
Difference between tax basis of capital assets and carrying value	$	2,747,312	$	2,426,432
Difference between carrying value of net regulatory liabilities and tax basis		733,063		1,018,291
Difference between tax basis of employee future benefit obligation and carrying value		2,855,434		2,630,826
	$	6,335,809	$	6,075,549

b) The provision for payments in lieu of taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 33.00% (2008 - 33.50%) to the earnings for the year as follows:

		2009		2008
Earnings before payment in lieu of taxes	$	560,354	$	3,076,794
Anticipated payment in lieu of tax expense		184,917		1,030,726
Effect of change in tax rates		206,044		1,388,053
Other		937		140,611
Provision for payment in lieu of taxes	$	391,898	$	2,559,390

8. Regulatory assets and liabilities

(a) Regulatory assets:

		2009		2008
Pre-market opening energy variances	$	211	$	62,394
Smart Grid		20,969		-
	$	21,180	$	62,394

(b) Regulatory liabilities:

		2009		2008
Retail settlement variances (ii)	$	2,973,315	$	3,016,699
Deferred transition costs (i)		17,837		264,054
Smart meters (iv)		283,398		238,657
Demand side management costs (iii)		332,593		97,245
	$	3,607,143	$	3,616,655

8. **Regulatory assets and liabilities (continued)**

The regulatory assets and liabilities arise as a result of the rate setting process by the OEB. The OEB authorizes the recovery of regulatory assets or repayment of regulatory liabilities through the distribution rate application.

(i) The OEB established a process for the recording of costs incurred by the Corporation to be market ready, including related carrying costs, as deferred transition costs to be recovered in the future through the regulatory rate setting process. In the absence of rate regulation, generally accepted accounting principles would require that the costs be recognized as an expense or capital asset, as applicable, when incurred and the related recovery of these costs in income when received or receivable.

(ii) Retail settlement variances represent the difference between the amount paid by the Corporation to the Independent Electricity System Operator ("IESO") for the cost of energy and the amount billed by the Corporation to its customers as energy sales, and related carrying costs, which are recorded on the balance sheet as retail settlement variances until their final disposition is decided by the OEB. The Corporation recognizes retail settlement variances as an asset or liability based on the expectation these amounts will be approved by the OEB for future collection from, or refund to, customers through the rate setting and approval process. The retail settlement variance liability represents the deficiency of amounts billed by the IESO for the cost of energy compared to the amounts charged to customers as energy sales. In the absence of rate regulation, generally accepted accounting principles would require that the total cost of energy be charged to operations when incurred and the total amount of energy sales be credited to operations when earned.

(iii) The Minister of Energy has granted approval to all distributors to apply to the OEB for an increase in their distribution rates, conditional on a commitment by the company to spend an equivalent amount on conservation and demand management initiatives. In 2008, the OEB approved additional conservation and demand management initiatives to be collected and spent over a three year period. In the absence of rate regulation, generally accepted account principles would require the Corporation to recognize such revenues and costs in the operating results in the year they were earned or incurred.

(iv) The Ontario Government has established targets for the installation of smart meters for all Ontario customers by December 31, 2010. Smart meter regulatory liabilities represent the excess of amounts billed by the Corporation to customers compared to costs incurred by the Corporation on smart meter activities. In the absence of rate regulation, generally accepted accounting principles would require the Corporation to recognize the amounts billed to customers as revenue in the year and the costs incurred be recognized as an expense or capital asset, as applicable, when incurred.

For certain of the regulatory assets and liabilities identified above, the expected recovery or settlement period, or likelihood of recovery or settlement, is affected by risks and uncertainties relating to the ultimate authority of the OEB in determining the item's treatment for rate setting purposes. The Corporation continually assesses the likelihood of recovery of each of its regulatory assets and refund of each of its regulatory liabilities and continues to believe that it is probable that the OEB will factor its regulatory assets and liabilities into the setting of future rates. If at some future date the company determines that it is no longer probable that the OEB will include a regulatory asset or liability in future rates, the appropriate carrying amount will be charged to operations in the period the determination is made.

9. Promissory note payable

The promissory note payable to Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc. is unsecured and bears interest at a rate of 7.26% per annum and has been subordinated to the Toronto Dominion Bank as security on the Corporation's operating credit facilities.

The note is repayable in full upon six months written notice of the holder of the note. As at March 29, 2010, the holder has not issued a demand to repay the note.

During the year interest totaling $3,531,660 (2008 - $3,531,660) was charged by Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc. on the promissory note payable.

10. Long-term obligations

	2009	2008
Employee future benefit liability - payable to Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc.	$ 18,212,495	$ 17,314,063
Customer deposits	1,751,559	1,749,878
Developer contributions	403,179	152,770
	20,367,233	19,216,711
Less current portion	(753,179)	(350,000)
	$ 19,614,054	$ 18,866,711

The Corporation assigned the employee future benefit liability to Greater Sudbury Hydro Plus Inc./Hydro Plus du Grand Sudbury Inc. who will recover the costs through the Service Level Agreement described in note 5(a).

11. Share capital

	2009	2008
Authorized		
Unlimited common shares		
Issued		
1,001 common shares	$ 20,848,052	$ 20,848,052

12. **Contingent liabilities**

(a) The Corporation has issued a $9,048,386 letter of guarantee to the Independent Electricity System Operator ("IESO"). This was a requirement of the IESO for market opening on May 1, 2002. At December 31, 2009, no amounts have been drawn on these letters of guarantee.

(b) A class action lawsuit claiming $500 million in restitutionary payments, plus interest, was served on Toronto Hydro Electric Commission, continuing as Toronto Hydro Corporation, on November 8, 1998. This action was initiated against Toronto Hydro Electric Commission as the representative of the defendant class consisting of all municipal electric utilities in Ontario which have charged late payment charges on overdue utility bills after April 1, 1981.

The claim is that late payment penalties result in the municipal electric utilities receiving interest at effective rates in excess of 60% per year, which is illegal under section 347(1)(b) of the Criminal Code.

The Electricity Distributors' Association (EDA) has undertaken the defense of this class action. The parties are in settlement discussions but no settlement has been reached. At this time it is not possible to quantify the effect, if any, on the financial statements of the Corporation.

Accordingly, no provision has been made in these financial statements with respect to any possible losses that may arise as a result of this matter.

(c) In 2009, the OEB commenced its review of the PILs variances accumulated in regulatory variance accounts for the period from October 1, 2001 to April 30, 2006 for all Municipal Electrical Utilities. The current proceeding is expected to provide direction regarding the interpretation of the rules issued by the OEB. The outcome of this proceeding could have a material impact on the financial position of the Corporation.

(d) The company, along with 1627596 Ontario Inc., is contingently liable for a line of credit to a maximum of $1,750,000 with the Sudbury Credit Union by way of a corporate guarantee. The line of credit is secured by a general security agreement (GSA) representing a first charge on all of the assets and undertakings of the company and 1627596 Ontario Inc. At year-end, the Sudbury Credit Union line of credit that is reflected in the financial statements of 1627596 Ontario Inc. was nil.

(e) The company, along with 1700211 Ontario Inc. is contingently liable for a loan with the TD bank by way of a corporate guarantee. The debt facility is secured by a general security agreement (GSA) representing the first charge on all of the assets and undertakings of 1700211 Ontario Inc.

The agreement contains covenants requiring a total debt to total capitalization ratio of less than 50% and an interest coverage ratio of not less than 1.2:1 be maintained by the company and its affiliates: 1700211 Ontario Inc., Greater Sudbury Hydro Plus Inc., Greater Sudbury Telecommunications Inc., 1627596 Ontario Inc. and

At year-end, the TD Loan that is reflected in the financial statements of 1700211 Ontario Inc. totaled $2,613,000.

13. **Financial instruments**

a) ***Credit risk***

The Corporation is exposed to credit risk with respect to its cash and investments, accounts receivable and unbilled revenue receivable.

The Corporation has deposited the cash and investments with large reputable financial institutions, from which management believes the risk of loss to be remote.

The Corporation has accounts receivable and unbilled revenue receivable from a large number of private individual and business customers in many industries located within the service territory. The Corporation monitors and limits its exposure to customers defaulting on their obligations. The Corporation provides for an allowance for uncollectible accounts to absorb estimated credit losses. At December 31, 2009, there were no significant concentrations of credit risk with respect to these financial assets.

b) ***Interest rate risk***

The Corporation is exposed to interest rate risk with respect to its operating line of credit facilities and promissory note payable.

The Corporation's operating line of credit facilities are sensitive to interest rate movements as they consist of variable prime rate based loans and advances.

The Corporation's promissory note payable is not sensitive to interest rate movements as it bears interest at a fixed rate.

c) ***Fair value of financial instruments***

The carrying value of cash and investments, accounts receivable, unbilled revenue receivable, and accounts payable and accrued liabilities approximates their fair value due to the immediate or short-term maturity of these financial instruments.

The fair value of the Corporation's investment in 1700211 Ontario Inc. and promissory note payable cannot be reliably determined because there is no active market for these instruments and expected future cash flows cannot be reliably predicted.

14. Pension agreements

The Corporation makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer pension plan, on behalf of two members of its staff . The plan is a defined benefit pension plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

Contributions of $10,551 (2008- $10,774) were paid during the year.

15. Comparative figures

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2009 financial statements. These changes do not affect prior year earnings.

16. Capital Disclosures

The Corporation's objective with respect to its capital structure is to maintain effective access to capital on an ongoing basis at reasonable rates while achieving appropriate rates of financial return for its shareholder.

The Corporation considers its capital structure to consist of shareholder's equity and a promissory note held by the Corporation's shareholder which has been subordinated to the Toronto Dominion Bank as security on the Corporation's operating credit facilities.

	2009	2008
Promissory note payable	$ 48,645,457	$ 48,645,457
Common shares	20,848,052	20,848,052
Deficit	(5,378,424)	(5,546,880)
Subtotal	15,469,628	15,301,172
Total capital	$ 64,115,085	$ 63,946,629

Greater Sudbury Hydro Inc./Hydro du Grand Sudbury Inc. is a Corporation regulated by the Ontario Energy Board. The regulator has prescribed a phased in capital structure of 60% debt and 40% equity. For rate setting purposes the Corporation has complied with these requirements.

HISTORICAL FINANCIAL RESULT FILINGS

Greater Sudbury has included a schedule which details the financial result filings for the 2009 Board Approved, 2009 Actual, 2010 Actual and 2011 Actual results at Exhibit 1, Tab 3, Schedule 2, Attachment 1.

Sudbury (ED-2002-0559)

2013 EDR Application (EB-2012-0126) version: 1

November 9, 2012

A2 Approved & Actual Balances

Enter historical approved and actual results by USA account

Account Grouping	Account Description	2011 Actual	2010 Actual	2009 Actual	2009 Approved
1050-Current Assets	1005-Cash	7,262,780.00	2,700,794.00	10,634,196.46	12,749,831.95
	1010-Cash Advances and Working Funds		100.00	100.00	
	1100-Customer Accounts Receivable	2,850,865.91	61,365.96	6,654,936.68	6,070,896.93
	1102-Accounts Receivable - Services	-130,615.74	-36,034.83		
	1104-Accounts Receivable - Recoverable Work	983,415.07	503,573.54		
	1110-Other Accounts Receivable	509,613.34	1,286,287.00	227,402.30	186,540.00
	1120-Accrued Utility Revenues	17,567,750.36	24,622,252.00	15,924,066.82	15,649,670.59
	1130-Accumulated Provision for Uncollectible Accounts--Credit	-1,200,000.00	-725,000.00	-2,065,000.00	-2,143,779.26
	1180-Prepayments	55,000.00			1,399.00
	1190-Miscellaneous Current and Accrued Assets			719,491.16	745,000.00
	1200-Accounts Receivable from Associated Companies	1,874,207.00			2,750,000.00
1100-Inventory	1330-Plant Materials and Operating Supplies	1,127,820.18	1,022,657.30	1,211,259.64	1,420,000.00
1150-Non-Current Assets	1460-Other Non-Current Assets	9,617,899.00	7,975,566.00		
	1480-Portfolio Investments - Associated Companies	400,000.00	400,000.00	400,000.00	400,000.00
1200-Other Assets and Deferred Charges	1508-Other Reg Assets-OEB Cost Assessments	87,180.60	48,085.00	3,165.28	127,949.00
	1521-Special Purpose Charge Assessment Variance Account	10,595.74	147,796.00		
	1525-Miscellaneous Deferred Debits	1,581.51	1,561.00	1,549.50	12,078.00
	1531-Renewable Connection Capital Deferral	10,851.70			
	1532-Renewable Connection OM&A Deferral	19,689.81			
	1535-Smart Grid OM&A Deferral	47,629.10	38,569.00	20,969.43	
	1550-LV Variance Account	15,440.05	293.00	34,346.60	95,665.00
	1555-Smart Meters Capital Variance Account	4,188,773.26	4,480,458.00	-542,004.75	5,374,662.84
	1556-Smart Meters OM&A Variance Account	856,445.81	497,478.00	258,606.59	870,279.08
	1562-Deferred Payments in Lieu of Taxes	-134,182.08	-1,303,163.00	-1,295,664.22	-2,351,371.00
	1563-Account 1563 - Deferred PILs Contra Account	7,413.32	1,303,163.00	1,295,664.22	2,361,174.00

Sudbury (ED-2002-0559)

2013 EDR Application (EB-2012-0126) version: 1
November 9, 2012

A2 Approved & Actual Balances

Enter historical approved and actual results by USA account

Account Grouping	Account Description	2011 Actual	2010 Actual	2009 Actual	2009 Approved
	1565-Conservation and Demand Management Expenditures and Recoveries	-1,403,800.20	-975,541.00	-74,311.53	
	1570-Qualifying Transition Costs	579.35	579.00	579.35	200,241.00
	1571-Pre-market Opening Energy Variance	210.29	210.00	210.29	62,886.00
	1574-Deferred Rate Impact Amounts	-2,226,200.23	-1,329,402.00	-440,712.00	
	1580-RSVAWMS	-2,861,000.44	-1,743,619.30	-578,840.90	-2,472,337.00
	1584-RSVANW	462,785.97	545,955.00	135,105.34	142,700.00
	1586-RSVACN	59,336.20	11,193.00	42,680.39	497,970.00
	1588-RSVAPOWER Main Account	1,211,708.67	1,460,139.00	977,946.76	-520,725.00
	1590-Recovery of Regulatory Asset Balances	-428,073.01	-1,180,950.00	-97,988.34	-542,647.00
	1595-Disposition and Recovery of Regulatory Balances	272,377.71	272,378.00	-2,591,261.21	
1300-Intangible Plant	1606-Organization		232,146.00	232,146.09	232,146.09
1450-Distribution Plant	1805-Land	857,298.24	857,298.00	890,957.93	890,771.88
	1808-Buildings and Fixtures	9,230,592.62	9,230,592.62	9,230,592.62	9,380,505.16
	1810-Leasehold Improvements	726,879.69	567,528.35	406,172.89	
	1820-Distribution Station Equipment - Normally Primary below 50 kV	16,461,161.40	16,299,670.00	16,086,488.70	16,565,704.02
	1830-Poles, Towers and Fixtures	17,990,851.08	16,383,183.00	15,311,139.06	14,433,645.90
	1835-Overhead Conductors and Devices	41,702,868.05	40,866,691.00	39,646,169.37	40,549,330.26
	1840-Underground Conduit	19,957,117.49	19,095,050.00	18,478,948.34	20,314,575.60
	1845-Underground Conductors and Devices	20,666,103.61	19,989,151.00	18,969,279.21	17,667,950.75
	1850-Line Transformers	27,928,855.11	26,909,416.00	24,951,584.45	24,830,370.99
	1855-Services	10,971,050.95	9,977,240.00	9,441,545.34	9,183,429.43
	1860-Meters	8,829,004.39	8,810,025.00	8,779,858.63	9,002,811.92
1500-General Plant	1905-Land				-55,368.96
	1915-Office Furniture and Equipment	44,314.56	44,315.00	44,314.56	44,314.56
	1920-Computer Equipment - Hardware	153,987.00			93,648.76
	1925-Computer Software	2,644,035.00	2,505,350.00	1,853,568.94	3,600,489.54
	1930-Transportation Equipment	5,163,078.78	5,041,489.00	4,500,502.16	4,238,494.45
	1940-Tools, Shop and Garage Equipment	1,819,609.41	1,741,756.00	1,667,431.27	1,701,785.18
	1955-Communication Equipment	2,220,586.68	2,212,830.00	2,212,829.68	2,205,658.55
	1980-System Supervisory Equipment	1,572,708.13	1,555,443.00	1,542,695.21	1,245,223.47
	1985-Sentinel Lighting Rental Units	42,116.86	42,117.00	42,116.86	42,116.86

Sudbury (ED-2002-0559)

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November 9, 2012

A2 Approved & Actual Balances

Enter historical approved and actual results by USA account

Account Grouping	Account Description	2011 Actual	2010 Actual	2009 Actual	2009 Approved
1550-Other Capital Assets	1995-Contributions and Grants - Credit	-14,578,300.73	-13,513,098.00	-12,251,664.18	-11,376,685.13
	2055-Construction Work in Progress--Electric	430,859.18	228,309.00	603,395.76	73,672.26
1600-Accumulated Amortization	2105-Accum. Amortization of Electric Utility Plant - Property, Plant, & Equipment	-108,870,023.64	-103,658,920.00	-98,197,097.57	-99,580,525.84
1650-Current Liabilities	2205-Accounts Payable	-131,330.69	-487,196.00	-570,750.29	-447,557.86
	2208-Customer Credit Balances			-2,187,768.30	-1,747,853.57
	2210-Current Portion of Customer Deposits	-490,000.00	-350,000.00	-350,000.00	-350,000.00
	2220-Miscellaneous Current and Accrued Liabilities	-1,846,125.65	-817,092.64	-1,276,684.93	-223,752.72
	2240-Accounts Payable to Associated Companies		-1,234,727.00	-1,726,131.53	-1,130,463.96
	2242-Notes Payable to Associated Companies	-48,645,456.97	-48,645,457.00	-48,645,456.97	-48,645,458.00
	2250-Debt Retirement Charges(DRC) Payable	-532,995.35	-2,019.00		
	2256-Independent Market Operator Fees and Penalties Payable	-10,434,707.13	-12,691,064.00	-12,159,003.48	-7,942,242.00
	2260-Current Portion of Long Term Debt	-841,083.88	-705,102.00	-403,179.24	
	2292-Payroll Deductions / Expenses Payable	-192,035.89	-43,341.00	-40,302.12	
	2294-Accrual for Taxes, Payments in Lieu of Taxes, Etc.				-263,526.00
	2296-Future Income Taxes - Current	-236,921.00	-560,504.00	1,543,669.00	
1700-Non-Current Liabilities	2306-Employee Future Benefits	-18,177,571.91	-16,207,556.00	-18,212,493.76	-18,599,022.86
	2320-Other Miscellaneous Non-Current Liabilities	-2,031,563.48			-152,769.96
	2335-Long Term Customer Deposits	-855,818.21	-1,443,524.00	-1,401,558.93	-1,788,691.41
	2350-Future Income Tax - Non-Current	-9,617,899.00	-7,975,566.00	6,335,809.00	5,981,621.00
	2425-Other Deferred Credits		-477,709.00	-477,709.28	-477,709.28
1800-Long-Term Debt	2520-Other Long Term Debt				-12,600,000.00
1850-Shareholders' Equity	3005-Common Shares Issued	-20,848,052.99	-20,848,052.00	-20,848,052.99	-20,848,052.00
	3045-Unappropriated Retained Earnings	6,984,586.39	11,714,233.00	5,546,881.98	3,954,367.09
	3046-Balance Transferred From Income	814,143.65	-4,729,648.00	-168,456.36	-1,691,038.30
3000-Sales of Electricity	4006-Residential Energy Sales	-27,968,161.70	-24,607,240.62	-22,285,398.39	-19,686,028.17
	4025-Street Lighting Energy Sales	-589,627.59	-557,551.29	-561,170.30	-551,087.18
	4030-Sentinel Lighting Energy Sales	-33,371.32	-29,664.23	-31,525.03	-36,012.87

Sudbury (ED-2002-0559)

2013 EDR Application (EB-2012-0126) version: 1

November 9, 2012

A2 Approved & Actual Balances

Enter historical approved and actual results by USA account

Account Grouping	Account Description	2011 Actual	2010 Actual	2009 Actual	2009 Approved
	4035-General Energy Sales	-36,077,651.78	-31,180,380.55	-27,522,632.36	-28,844,497.39
	4055-Energy Sales for Resale	-5,356,376.20	-8,579,916.53		-12,836,185.41
	4062-Billed WMS	-5,309,618.59	-5,224,774.21	-6,015,189.68	-6,678,271.50
	4066-Billed NW	-5,550,685.92	-4,978,073.36	-4,592,655.97	-4,894,846.29
	4068-Billed CN	-3,923,854.78	-3,891,279.54	-3,669,324.24	-3,987,199.52
	4075-Billed-LV	-199,593.17	-142,817.68	-99,438.99	-183,631.77
3050-Revenues From Services - Distribution	4080-Distribution Services Revenue	-22,270,236.54	-21,987,007.00	-21,544,350.39	-22,917,663.96
	4082-Retail Services Revenues	-62,657.90	-68,194.00	-76,578.10	-86,614.00
	4084-Service Transaction Requests (STR) Revenues	-1,757.25	-3,073.00	-1,423.75	-6,423.00
3100-Other Operating Revenues	4225-Late Payment Charges	-270,016.87	-132,947.00	-128,534.87	-112,728.00
	4235-Miscellaneous Service Revenues	-1,013,851.16	-985,662.00	-887,851.36	-872,672.00
3150-Other Income & Deductions	4355-Gain on Disposition of Utility and Other Property	-29,116.58	230,197.00	-2,370.00	
	4360-Loss on Disposition of Utility and Other Property	220,155.44		1,337,332.68	
	4375-Revenues from Non-Utility Operations	-470,740.71	-1,185,318.06	-819,778.93	-433,586.57
	4380-Expenses of Non-Utility Operations	483,425.08	699,808.06	797,370.26	433,586.57
	4390-Miscellaneous Non-Operating Income				-187,236.00
3200-Investment Income	4405-Interest and Dividend Income	-447,286.35	-125,934.00	-145,734.16	-258,212.00
3350-Power Supply Expenses	4705-Power Purchased	70,025,188.59	64,954,753.22	62,763,456.49	61,953,811.02
	4708-Charges-WMS	4,189,071.51	4,107,801.73	4,954,650.84	5,342,617.20
	4714-Charges-NW	5,550,685.92	4,978,073.36	4,592,655.97	4,894,846.29
	4716-Charges-CN	3,923,854.78	3,891,279.54	3,669,324.24	3,987,199.52
	4730-Rural Rate Assistance Expense	1,120,547.08	1,116,972.48	1,060,538.84	1,335,654.30
	4750-Charges-LV	199,593.17	142,817.68	99,438.99	183,631.77
3500-Distribution Expenses - Operation	5005-Operation Supervision and Engineering	903,975.76	772,290.00	727,708.88	926,982.00
	5010-Load Dispatching	500,314.99	541,203.00	594,072.09	499,384.00
	5012-Station Buildings and Fixtures Expense	218,694.57	230,856.00	219,146.80	215,888.00
	5016-Distribution Station Equipment - Operation Labour	416,175.62	293,588.00	349,861.45	244,234.00
	5017-Distribution Station Equipment - Operation Supplies and Expenses	173,290.73	101,687.00	120,129.66	12,977.00

Sudbury (ED-2002-0559)

2013 EDR Application (EB-2012-0126) version: 1
November 9, 2012

A2 Approved & Actual Balances

Enter historical approved and actual results by USA account

Account Grouping	Account Description	2011 Actual	2010 Actual	2009 Actual	2009 Approved
	5020-Overhead Distribution Lines and Feeders - Operation Labour	150,175.88	65,367.00	138,981.63	70,279.00
	5025-Overhead Distribution Lines & Feeders - Operation Supplies and Expenses	342,585.50	260,312.00	352,985.82	276,858.00
	5030-Overhead Subtransmission Feeders - Operation	15,339.55	27,488.00	23,512.60	45,819.00
	5035-Overhead Distribution Transformers- Operation	105,607.38	196,552.00	113,835.42	257,539.00
	5040-Underground Distribution Lines and Feeders - Operation Labour	13,650.89	14,322.00	3,408.62	19,086.00
	5045-Underground Distribution Lines & Feeders - Operation Supplies & Expenses	4,751.49	9,333.00	7,408.88	4,440.00
	5050-Underground Subtransmission Feeders - Operation		366.00	970.17	1,897.00
	5055-Underground Distribution Transformers - Operation	106,630.30	68,454.00	60,792.25	109,961.00
	5065-Meter Expense	186,074.44	220,947.00	244,855.78	282,710.00
	5070-Customer Premises - Operation Labour	549,410.24	562,116.00	637,695.62	520,678.00
	5075-Customer Premises - Materials and Expenses				70,883.78
	5085-Miscellaneous Distribution Expense				-31,145.04
	5095-Overhead Distribution Lines and Feeders - Rental Paid	76,624.94	67,991.00	56,688.59	42,745.00
3550-Distribution Expenses - Maintenance	5110-Maintenance of Buildings and Fixtures - Distribution Stations	30,599.53	38,253.00	36,772.84	16,928.00
	5114-Maintenance of Distribution Station Equipment	180,098.05	100,719.00	72,347.91	209,804.00
	5120-Maintenance of Poles, Towers and Fixtures	194,222.84	129,192.00	173,662.84	152,517.00
	5125-Maintenance of Overhead Conductors and Devices	158,548.46	292,005.00	268,802.22	205,042.00
	5130-Maintenance of Overhead Services	184,767.65	154,032.00	170,764.27	174,289.00
	5135-Overhead Distribution Lines and Feeders - Right of Way	416,624.71	669,674.00	415,591.20	544,880.00

Sudbury (ED-2002-0559)

2013 EDR Application (EB-2012-0126) version: 1

November 9, 2012

A2 Approved & Actual Balances

Enter historical approved and actual results by USA account

Account Grouping	Account Description	2011 Actual	2010 Actual	2009 Actual	2009 Approved
	5145-Maintenance of Underground Conduit	102,243.29	58,358.00	53,447.26	63,881.00
	5150-Maintenance of Underground Conductors and Devices	68,672.06	21,123.00	33,764.11	47,294.00
	5155-Maintenance of Underground Services	70,439.10	42,087.00	69,421.95	107,016.00
	5160-Maintenance of Line Transformers	88,131.62	174,983.00	204,621.43	223,447.00
	5175-Maintenance of Meters	3,184.13	1,217.00	3,118.34	
3650-Billing and Collecting	5310-Meter Reading Expense	204,714.91	227,655.00	224,521.35	230,600.00
	5315-Customer Billing	1,335,739.52	1,328,392.00	1,454,081.90	1,695,055.00
	5320-Collecting	203,223.48	144,250.00	193,042.29	248,520.00
	5335-Bad Debt Expense	463,316.04	105,536.00	148,802.58	165,000.00
	5340-Miscellaneous Customer Accounts Expenses	114,714.10	131,443.00	173,656.10	176,183.00
3700-Community Relations	5415-Energy Conservation	439,835.65	343,169.00	142,484.08	187,236.00
	5420-Community Safety Program				19,500.00
3800-Administrative and General Expenses	5605-Executive Salaries and Expenses	417,192.50	501,466.00	426,684.63	407,060.00
	5610-Management Salaries and Expenses	465,059.62	451,456.00	509,971.60	519,672.00
	5615-General Administrative Salaries and Expenses	466,709.02	529,316.00	492,148.42	556,172.00
	5620-Office Supplies and Expenses	81,723.45	88,610.00	65,800.98	101,976.00
	5630-Outside Services Employed	53,650.00	41,900.00	60,163.00	
	5640-Injuries and Damages	17,883.67	-284,366.00	314,078.73	
	5645-Employee Pensions and Benefits	1,280,544.00	-2,780,264.00		
	5655-Regulatory Expenses	275,241.37	208,573.00	553,280.79	323,100.00
	5660-General Advertising Expenses	34,408.25	103,092.00	49,394.94	47,981.00
	5665-Miscellaneous General Expenses	380,098.41	402,942.00	319,088.66	351,714.00
	5670-Rent	313,629.27	274,536.00	185,789.60	325,704.00
	5675-Maintenance of General Plant	1,143,724.06	974,850.00	967,442.91	997,758.00
3850-Amortization Expense	5705-Amortization Expense - Property, Plant, and Equipment	5,150,055.10	4,959,843.00	4,634,610.37	5,102,601.76
3900-Interest Expense	6005-Interest on Long Term Debt	4,411,943.47	4,385,967.00	4,389,526.17	3,915,960.16
	6035-Other Interest Expense	350,449.88	59,861.00	84,157.99	957,000.00
3950-Taxes Other Than Income Taxes	6105-Taxes Other Than Income Taxes	-656.00	23,784.00	166,451.66	200,000.00
4000-Income Taxes	6110-Income Taxes	1,785,193.00	1,491,956.00	652,158.00	2,300,404.00
	6115-Provision for Future Income Taxes			-260,260.00	-1,400,000.00

Sudbury (ED-2002-0559)

2013 EDR Application (EB-2012-0126) version: 1

November 9, 2012

A2 Approved & Actual Balances

Enter historical approved and actual results by USA account

Account Grouping	Account Description	2011 Actual	2010 Actual	2009 Actual	2009 Approved
4100-Extraordinary & Other Items	6205-Donations	27,000.00		202,000.00	5,000.00
Balance Sheet Total		**0.00**	**-0.00**	**0.00**	**-0.00**
Net Income		**814,143.65**	**-4,729,648.00**	**-168,456.36**	**-1,691,038.30**

RECONCILIATION BETWEEN FINANCIAL STATEMENTS AND RESULTS FILED

During Greater Sudbury's 2011 Financial Statement Audit, an entry was proposed by the independent external auditors to include Capital Inventory as a part of Fixed Assets on Greater Sudbury's Financial Statements. Included on the 2010 and 2011 continuity statements (Exhibit 2, Tab 3, Schedule 2, Attachment 2) is account 1330-Plant Materials and Operating Supplies, shown above account 2055-Work in Process. This account was included on the continuity schedules to ease in the reconciliation to Greater Sudbury's 2011 Audited Financial Statements (Exhibit 1, Tab 3, Schedule 1, Attachment 1). For comparative purposes, the amount included with the notes to the 2011 Audited Financial Statements included the comparative figure for 2010. The 2010 comparative figure included in those notes has also been included on the 2010 Continuity Schedule. These amounts are considered a work in progress and have not been included in the determination of rate base.

In 2011, Greater Sudbury grouped Computer Hardware and Computer Software in USofA account 1925 for reporting purposes. However for the purposes of this application Greater Sudbury has separated the two items into accounts 1920-Computer Equipment-Hardware and 1611-Computer Software as shown in Table 1 below. Greater Sudbury will file the amounts in the annual RRR's as presented in this application going forward.

Table 1 – Computer Software/Hardware Reconciliation

	2011 RRR Filing	2013 COS Application 2011 Continuity
1925-Computer Software	2,798,022	
1611-Computer Software		2,644,035
1920-Computer Equipment-Hardware		153,987
	2,798,022	2,798,022

During the last rebasing the Board instructed Greater Sudbury to remove 21.04% of the Customer Information System that would be used to bill both electric and water to its customers to represent the portion of the system deemed to be for non-electric use. The RRR filings have been submitted at 100% of the asset's value. However for the purposes of calculating rate base and for presentation purposes in this application, the continuity schedules are shown with an adjustment to the continuity at the bottom of the schedule for the 2010, 2011, 2012 and 2013 years that removes the 21.04% and related depreciation.

For 2009 results, $373,188 related to Smart Meter Capital was included in account 2055 (Construction Work in Progress) for the RRR filing and should have been included in the variance account. This has been corrected on the continuity statements included in Exhibit 2, Tab 3, Schedule 2, Attachment 2 and the correct figure that should have been reported is $8,221.

The following items were also included in incorrect USofA accounts for the 2009 RRR Trial Balance Filing. These items have been corrected in Appendix 2-F, Other Operating Revenue (Exhibit 3, Tab 3, Schedule 1, Attachment 1) for comparison purposes.

	Amount	Filed Under	Should Be
Late Payment Charges	128,535.87	4235	4225
Miscellaneous Revenues	13,311.62	4405	4235

In the 2010 RRR Trial Balance Filing, a loss on disposition of property in the amount $230,197 was reported under USofA account 4355 and should have been 4360. In the 2011 RRR Trial Balance Filing, sales of scrap was included in USofA account 4360 (loss) should have been in 4355 (gain). Again, these amounts have been corrected in Appendix 2-F noted above for comparison purposes.

FINANCIAL PROJECTIONS

The 2012 and 2013 pro-forma Financial Statements are included at Exhibit 1, Tab 3, Schedule 4, Attachments 1 and 2.

Sudbury (ED-2002-0559)

2013 EDR Application (EB-2012-0126) version: 1
November 9, 2012

S1 Finalize 2012 Pro-forma Projections

Account Grouping	Account Description	Final Projection
1050-Current Assets	1005-Cash	2,218,268
	1100-Customer Accounts Receivable	4,015,468
	1102-Accounts Receivable - Services	-130,616
	1104-Accounts Receivable - Recoverable Work	983,415
	1110-Other Accounts Receivable	509,613
	1120-Accrued Utility Revenues	17,817,750
	1130-Accumulated Provision for Uncollectible Accounts--Credit	-1,600,000
	1180-Prepayments	55,000
	1200-Accounts Receivable from Associated Companies	3,500,000
1100-Inventory	1330-Plant Materials and Operating Supplies	1,127,820
1150-Non-Current Assets	1460-Other Non-Current Assets	9,617,899
	1480-Portfolio Investments - Associated Companies	400,000
1200-Other Assets and Deferred Charges	1508-Other Reg Assets-OEB Cost Assessments	
	1508-Other Reg Assets- Deferred IFRS Transition	128,005
	1508-Other Reg Assets- Incremental Capital	4,372
	1521-Special Purpose Charge Assessment Variance Account	3,327
	1525-Miscellaneous Deferred Debits	1,582
	1531-Renewable Connection Capital Deferral	11,012
	1532-Renewable Connection OM&A Deferral	19,979
	1535-Smart Grid OM&A Deferral	48,316

Sudbury (ED-2002-0559)

2013 EDR Application (EB-2012-0126) version: 1

November 9, 2012

S1 Finalize 2012 Pro-forma Projections

Account Grouping	Account Description	Final Projection
	1550-LV Variance Account	15,665
	1555-Smart Meters Capital Variance Account	3,903,604
	1556-Smart Meters OM&A Variance Account	1,113,656
	1562-Deferred Payments in Lieu of Taxes	-0
	1563-Account 1563 - Deferred PILs Contra Account	
	1565-Conservation and Demand Management Expenditures and Recoveries	
	1570-Qualifying Transition Costs	
	1571-Pre-market Opening Energy Variance	
	1574-Deferred Rate Impact Amounts	-1,252,553
	1580-RSVAWMS	-2,902,333
	1584-RSVANW	469,435
	1586-RSVACN	60,225
	1588-RSVAPOWER Main Account	-182,442
	1589-1588 Global Adjustment sub-account	1,411,577
	1590-Recovery of Regulatory Asset Balances	-111,210

Sudbury (ED-2002-0559)

2013 EDR Application (EB-2012-0126) version: 1

November 9, 2012

S1 Finalize 2012 Pro-forma Projections

Account Grouping	Account Description	Final Projection
	1592-2006 PILs/Taxes Variance	-192,311
	1595-Disposition and Recovery of Regulatory Balances	-103,215
1450-Distribution Plant	1805-Land	862,867
	1808-Buildings and Fixtures	9,230,593
	1810-Leasehold Improvements	1,037,258
	1820-Distribution Station Equipment - Normally Primary below 50 kV	17,841,131
	1830-Poles, Towers and Fixtures	19,262,924
	1835-Overhead Conductors and Devices	42,704,509
	1840-Underground Conduit	20,958,582
	1845-Underground Conductors and Devices	21,444,920
	1850-Line Transformers	29,516,258
	1855-Services	12,011,838
	1860-Meters	8,936,258
1500-General Plant	1915-Office Furniture and Equipment	44,315
	1920-Computer Equipment - Hardware	525,497
	1925-Computer Software	2,762,471
	1930-Transportation Equipment	5,265,344
	1940-Tools, Shop and Garage Equipment	1,972,419
	1955-Communication Equipment	2,287,512
	1980-System Supervisory Equipment	1,572,708
	1985-Sentinel Lighting Rental Units	42,117
1550-Other Capital Assets	1995-Contributions and Grants - Credit	-15,652,645
	2055-Construction Work in Progress--Electric	
1600-Accumulated Amortization	2105-Accum. Amortization of Electric Utility Plant - Property, Plant, & Equipment	-115,455,812
1650-Current Liabilities	2205-Accounts Payable	-131,331
	2210-Current Portion of Customer Deposits	-490,000

Sudbury (ED-2002-0559)

2013 EDR Application (EB-2012-0126) version: 1

November 9, 2012

S1 Finalize 2012 Pro-forma Projections

Account Grouping	Account Description	Final Projection
	2220-Miscellaneous Current and Accrued Liabilities	-1,846,126
	2242-Notes Payable to Associated Companies	-48,645,457
	2250-Debt Retirement Charges(DRC) Payable	-532,995
	2256-Independent Market Operator Fees and Penalties Payable	-10,434,707
	2260-Current Portion of Long Term Debt	-845,799
	2292-Payroll Deductions / Expenses Payable	-192,036
	2296-Future Income Taxes - Current	-236,921
1700-Non-Current Liabilities	2306-Employee Future Benefits	-19,101,114
	2320-Other Miscellaneous Non-Current Liabilities	-1,928,653
	2335-Long Term Customer Deposits	-655,818
	2350-Future Income Tax - Non-Current	-9,617,899
1850-Shareholders' Equity	3005-Common Shares Issued	-20,848,053
	3045-Unappropriated Retained Earnings	7,798,730
	3046-Balance Transferred From Income	75,785
3000-Sales of Electricity	4006-Residential Energy Sales	-31,429,894
	4025-Street Lighting Energy Sales	-661,961
	4030-Sentinel Lighting Energy Sales	-35,927
	4035-General Energy Sales	-41,533,036
	4055-Energy Sales for Resale	
	4062-Billed WMS	-6,358,772
	4066-Billed NW	-6,457,611
	4068-Billed CN	-4,021,199
	4075-Billed-LV	-188,713
3050-Revenues From Services - Distribution	4080-Distribution Services Revenue	-22,946,308
	4082-Retail Services Revenues	-49,100
	4084-Service Transaction Requests (STR) Revenues	-1,550

Sudbury (ED-2002-0559)

2013 EDR Application (EB-2012-0126) version: 1

November 9, 2012

S1 Finalize 2012 Pro-forma Projections

Account Grouping	Account Description	Final Projection
3100-Other Operating Revenues	4210-Rent from Electric Property	-65,121
	4225-Late Payment Charges	-200,000
	4235-Miscellaneous Service Revenues	-731,825
3150-Other Income & Deductions	4355-Gain on Disposition of Utility and Other Property	
	4360-Loss on Disposition of Utility and Other Property	
	4375-Revenues from Non-Utility Operations	
	4380-Expenses of Non-Utility Operations	
3200-Investment Income	4405-Interest and Dividend Income	-318,200
3350-Power Supply Expenses	4705-Power Purchased	73,660,818
	4708-Charges-WMS	5,248,510
	4714-Charges-NW	6,457,611
	4716-Charges-CN	4,021,199
	4730-Rural Rate Assistance Expense	1,110,262
	4750-Charges-LV	188,713
3500-Distribution Expenses - Operation	5005-Operation Supervision and Engineering	1,310,072
	5010-Load Dispatching	486,215
	5012-Station Buildings and Fixtures Expense	234,265
	5016-Distribution Station Equipment - Operation Labour	217,971
	5017-Distribution Station Equipment - Operation Supplies and Expenses	191,851
	5020-Overhead Distribution Lines and Feeders - Operation Labour	128,478
	5025-Overhead Distribution Lines & Feeders - Operation Supplies and Expenses	320,061
	5030-Overhead Subtransmission Feeders - Operation	18,781

Sudbury (ED-2002-0559)

2013 EDR Application (EB-2012-0126) version: 1
November 9, 2012

S1 Finalize 2012 Pro-forma Projections

Account Grouping	Account Description	Final Projection
	5035-Overhead Distribution Transformers- Operation	181,137
	5040-Underground Distribution Lines and Feeders - Operation Labour	13,646
	5045-Underground Distribution Lines & Feeders - Operation Supplies & Expenses	6,686
	5050-Underground Subtransmission Feeders - Operation	2,125
	5055-Underground Distribution Transformers - Operation	96,240
	5065-Meter Expense	285,285
	5070-Customer Premises - Operation Labour	705,100
	5085-Miscellaneous Distribution Expense	876,705
	5095-Overhead Distribution Lines and Feeders - Rental Paid	82,000
3550-Distribution Expenses - Maintenance	5110-Maintenance of Buildings and Fixtures - Distribution Stations	18,089
	5114-Maintenance of Distribution Station Equipment	160,823
	5120-Maintenance of Poles, Towers and Fixtures	304,658
	5125-Maintenance of Overhead Conductors and Devices	550,407
	5130-Maintenance of Overhead Services	201,107
	5135-Overhead Distribution Lines and Feeders - Right of Way	553,623

Sudbury (ED-2002-0559)

2013 EDR Application (EB-2012-0126) version: 1

November 9, 2012

S1 Finalize 2012 Pro-forma Projections

Account Grouping	Account Description	Final Projection
	5145-Maintenance of Underground Conduit	58,229
	5150-Maintenance of Underground Conductors and Devices	52,953
	5155-Maintenance of Underground Services	116,305
	5160-Maintenance of Line Transformers	323,320
	5175-Maintenance of Meters	
3650-Billing and Collecting	5310-Meter Reading Expense	204,200
	5315-Customer Billing	1,037,933
	5320-Collecting	251,020
	5335-Bad Debt Expense	165,000
	5340-Miscellaneous Customer Accounts Expenses	121,550
3700-Community Relations	5415-Energy Conservation	
3800-Administrative and General Expenses	5605-Executive Salaries and Expenses	452,203
	5610-Management Salaries and Expenses	541,150
	5615-General Administrative Salaries and Expenses	666,396
	5620-Office Supplies and Expenses	249,355
	5630-Outside Services Employed	
	5640-Injuries and Damages	
	5645-Employee Pensions and Benefits	1,455,380

Sudbury (ED-2002-0559)

2013 EDR Application (EB-2012-0126) version: 1
November 9, 2012

S1 Finalize 2012 Pro-forma Projections

Account Grouping	Account Description	Final Projection
	5655-Regulatory Expenses	517,528
	5660-General Advertising Expenses	49,361
	5665-Miscellaneous General Expenses	317,562
	5670-Rent	226,614
	5675-Maintenance of General Plant	
3850-Amortization Expense	5705-Amortization Expense - Property, Plant, and Equipment	5,273,248
3900-Interest Expense	6005-Interest on Long Term Debt	4,586,923
	6035-Other Interest Expense	-44,483
3950-Taxes Other Than Income Taxes	6105-Taxes Other Than Income Taxes	
4000-Income Taxes	6110-Income Taxes	793,818
4100-Extraordinary & Other Items	6205-Donations	
3800-Administrative and General Expenses	6206-6205-Donations - LEAP Funding - Sub-Account	27,000

Sudbury (ED-2002-0559)

2013 EDR Application (EB-2012-0126) version: 1
November 9, 2012

E1 2012 Operating Projections

Account Grouping	Account Description	Final Projection
3000-Sales of Electricity	4006-Residential Energy Sales	-31,429,894
	4025-Street Lighting Energy Sales	-661,961
	4030-Sentinel Lighting Energy Sales	-35,927
	4035-General Energy Sales	-41,533,036
	4055-Energy Sales for Resale	
	4062-Billed WMS	-6,358,772
	4066-Billed NW	-6,457,611
	4068-Billed CN	-4,021,199
	4075-Billed-LV	-188,713
3050-Revenues From Services - Distribution	4080-Distribution Services Revenue	-22,946,308
	4082-Retail Services Revenues	-49,100
	4084-Service Transaction Requests (STR) Revenues	-1,550
3100-Other Operating Revenues	4210-Rent from Electric Property	-65,121
	4225-Late Payment Charges	-200,000
	4235-Miscellaneous Service Revenues	-731,825
3150-Other Income & Deductions	4355-Gain on Disposition of Utility and Other Property	
	4360-Loss on Disposition of Utility and Other Property	
	4375-Revenues from Non-Utility Operations	
	4380-Expenses of Non-Utility Operations	
3200-Investment Income	4405-Interest and Dividend Income	-318,200
3350-Power Supply Expenses	4705-Power Purchased	73,660,818
	4708-Charges-WMS	5,248,510
	4714-Charges-NW	6,457,611
	4716-Charges-CN	4,021,199
	4730-Rural Rate Assistance Expense	1,110,262
	4750-Charges-LV	188,713

Sudbury (ED-2002-0559)

2013 EDR Application (EB-2012-0126) version: 1

November 9, 2012

E1 2012 Operating Projections

Account Grouping	Account Description	Final Projection
3500-Distribution Expenses - Operation	5005-Operation Supervision and Engineering	1,310,072
	5010-Load Dispatching	486,215
	5012-Station Buildings and Fixtures Expense	234,265
	5016-Distribution Station Equipment - Operation Labour	217,971
	5017-Distribution Station Equipment - Operation Supplies and Expenses	191,851
	5020-Overhead Distribution Lines and Feeders - Operation Labour	128,478
	5025-Overhead Distribution Lines & Feeders - Operation Supplies and Expenses	320,061
	5030-Overhead Subtransmission Feeders - Operation	18,781
	5035-Overhead Distribution Transformers- Operation	181,137
	5040-Underground Distribution Lines and Feeders - Operation Labour	13,646
	5045-Underground Distribution Lines & Feeders - Operation Supplies & Expenses	6,686
	5050-Underground Subtransmission Feeders - Operation	2,125
	5055-Underground Distribution Transformers - Operation	96,240
	5065-Meter Expense	285,285
	5070-Customer Premises - Operation Labour	705,100

Sudbury (ED-2002-0559)

2013 EDR Application (EB-2012-0126) version: 1

November 9, 2012

E1 2012 Operating Projections

Account Grouping	Account Description	Final Projection
	5085-Miscellaneous Distribution Expense	876,705
	5095-Overhead Distribution Lines and Feeders - Rental Paid	82,000
3550-Distribution Expenses - Maintenance	5110-Maintenance of Buildings and Fixtures - Distribution Stations	18,089
	5114-Maintenance of Distribution Station Equipment	160,823
	5120-Maintenance of Poles, Towers and Fixtures	304,658
	5125-Maintenance of Overhead Conductors and Devices	550,407
	5130-Maintenance of Overhead Services	201,107
	5135-Overhead Distribution Lines and Feeders - Right of Way	553,623
	5145-Maintenance of Underground Conduit	58,229
	5150-Maintenance of Underground Conductors and Devices	52,953
	5155-Maintenance of Underground Services	116,305
	5160-Maintenance of Line Transformers	323,320
	5175-Maintenance of Meters	
3650-Billing and Collecting	5310-Meter Reading Expense	204,200
	5315-Customer Billing	1,037,933
	5320-Collecting	251,020
	5335-Bad Debt Expense	165,000

Sudbury (ED-2002-0559)

2013 EDR Application (EB-2012-0126) version: 1

November 9, 2012

E1 2012 Operating Projections

Account Grouping	Account Description	Final Projection
	5340-Miscellaneous Customer Accounts Expenses	121,550
3700-Community Relations	5415-Energy Conservation	
3800-Administrative and General Expenses	5605-Executive Salaries and Expenses	452,203
	5610-Management Salaries and Expenses	541,150
	5615-General Administrative Salaries and Expenses	666,396
	5620-Office Supplies and Expenses	249,355
	5630-Outside Services Employed	
	5640-Injuries and Damages	
	5645-Employee Pensions and Benefits	1,455,380
	5655-Regulatory Expenses	517,528
	5660-General Advertising Expenses	49,361
	5665-Miscellaneous General Expenses	317,562
	5670-Rent	226,614
	5675-Maintenance of General Plant	
3850-Amortization Expense	5705-Amortization Expense - Property, Plant, and Equipment	5,273,248
3900-Interest Expense	6005-Interest on Long Term Debt	4,586,923
	6035-Other Interest Expense	-44,483

Sudbury (ED-2002-0559)

2013 EDR Application (EB-2012-0126) version: 1

November 9, 2012

E1 2012 Operating Projections

Account Grouping	Account Description	Final Projection
3950-Taxes Other Than Income Taxes	6105-Taxes Other Than Income Taxes	
4000-Income Taxes	6110-Income Taxes	793,818
4100-Extraordinary & Other Items	6205-Donations	
3800-Administrative and General Expenses	6206-6205-Donations - LEAP Funding - Sub-Account	27,000
EARNINGS (LOSS) BEFORE TAX		**-75,785**

Sudbury (ED-2002-0559)

2013 EDR Application (EB-2012-0126) version: 1
November 9, 2012

S2 Finalize 2013 Pro-forma Projections

Account Grouping	Account Description	Final Projection
1050-Current Assets	1005-Cash	296,071
	1100-Customer Accounts Receivable	4,215,468
	1102-Accounts Receivable - Services	
	1104-Accounts Receivable - Recoverable Work	855,730
	1110-Other Accounts Receivable	584,613
	1120-Accrued Utility Revenues	17,817,750
	1130-Accumulated Provision for Uncollectible Accounts--Credit	-2,000,000
	1180-Prepayments	55,000
	1200-Accounts Receivable from Associated Companies	3,000,000
1100-Inventory	1330-Plant Materials and Operating Supplies	1,174,874
1150-Non-Current Assets	1460-Other Non-Current Assets	9,617,899
	1480-Portfolio Investments - Associated Companies	400,000
1200-Other Assets and Deferred Charges	1508-Other Reg Assets- Deferred IFRS Transition	128,005
	1508-Other Reg Assets- Incremental Capital	4,372
	1521-Special Purpose Charge Assessment Variance Account	3,327
	1525-Miscellaneous Deferred Debits	1,582
	1531-Renewable Connection Capital Deferral	11,012
	1532-Renewable Connection OM&A Deferral	19,979
	1535-Smart Grid OM&A Deferral	48,316
	1550-LV Variance Account	15,665

Sudbury (ED-2002-0559)

2013 EDR Application (EB-2012-0126) version: 1

November 9, 2012

S2 Finalize 2013 Pro-forma Projections

Account Grouping	Account Description	Final Projection
	1555-Smart Meters Capital Variance Account	0
	1556-Smart Meters OM&A Variance Account	400,000
	1562-Deferred Payments in Lieu of Taxes	-0
	1574-Deferred Rate Impact Amounts	-1,377,264
	1580-RSVAWMS	-2,902,333
	1584-RSVANW	469,435
	1586-RSVACN	60,225
	1588-RSVAPOWER Main Account	-182,442
	1589-1588 Global Adjustment sub-account	1,411,577
	1590-Recovery of Regulatory Asset Balances	-111,210
	1592-2006 PILs/Taxes Variance	-192,311
	1595-Disposition and Recovery of Regulatory Balances	-103,215
1450-Distribution Plant	1805-Land	862,867
	1808-Buildings and Fixtures	9,230,593
	1810-Leasehold Improvements	2,003,258
	1820-Distribution Station Equipment - Normally Primary below 50 kV	20,290,231
	1830-Poles, Towers and Fixtures	20,719,315

Sudbury (ED-2002-0559)

2013 EDR Application (EB-2012-0126) version: 1
November 9, 2012

S2 Finalize 2013 Pro-forma Projections

Account Grouping	Account Description	Final Projection
	1835-Overhead Conductors and Devices	44,040,549
	1840-Underground Conduit	21,441,258
	1845-Underground Conductors and Devices	21,955,959
	1850-Line Transformers	30,788,944
	1855-Services	12,921,566
	1860-Meters	8,483,181
1500-General Plant	1915-Office Furniture and Equipment	44,315
	1920-Computer Equipment - Hardware	730,312
	1925-Computer Software	3,412,818
	1930-Transportation Equipment	5,925,292
	1940-Tools, Shop and Garage Equipment	2,132,419
	1955-Communication Equipment	2,337,512
	1960-Miscellaneous Equipment	16,502
	1980-System Supervisory Equipment	1,952,199
	1985-Sentinel Lighting Rental Units	42,117
1550-Other Capital Assets	1995-Contributions and Grants - Credit	-16,356,435
1600-Accumulated Amortization	2105-Accum. Amortization of Electric Utility Plant - Property, Plant, & Equipment	-114,549,180
1650-Current Liabilities	2205-Accounts Payable	-206,331
	2210-Current Portion of Customer Deposits	-490,000
	2220-Miscellaneous Current and Accrued Liabilities	-2,019,227
	2242-Notes Payable to Associated Companies	-48,645,457
	2250-Debt Retirement Charges(DRC) Payable	-475,794
	2256-Independent Market Operator Fees and Penalties Payable	-9,507,246
	2260-Current Portion of Long Term Debt	-718,574
	2292-Payroll Deductions / Expenses Payable	-192,036
	2296-Future Income Taxes - Current	-236,921
1700-Non-Current Liabilities	2306-Employee Future Benefits	-19,902,589
	2320-Other Miscellaneous Non-Current Liabilities	-1,928,653

Sudbury (ED-2002-0559)

2013 EDR Application (EB-2012-0126) version: 1
November 9, 2012

S2 Finalize 2013 Pro-forma Projections

Account Grouping	Account Description	Final Projection
	2335-Long Term Customer Deposits	-655,818
	2350-Future Income Tax - Non-Current	-9,617,899
1800-Long-Term Debt	2520-Other Long Term Debt	-4,000,000
1850-Shareholders' Equity	3005-Common Shares Issued	-20,848,053
	3045-Unappropriated Retained Earnings	7,374,536
	3046-Balance Transferred From Income	-77,656
3000-Sales of Electricity	4006-Residential Energy Sales	-33,555,207
	4025-Street Lighting Energy Sales	-667,573
	4030-Sentinel Lighting Energy Sales	-38,510
	4035-General Energy Sales	-44,206,043
	4062-Billed WMS	-6,232,277
	4066-Billed NW	-6,145,691
	4068-Billed CN	-3,869,581
	4075-Billed-LV	-200,000
3050-Revenues From Services - Distribution	4080-Distribution Services Revenue	-22,840,975
	4082-Retail Services Revenues	-39,520
	4084-Service Transaction Requests (STR) Revenues	-1,228
3100-Other Operating Revenues	4210-Rent from Electric Property	-90,627
	4225-Late Payment Charges	-200,000
	4235-Miscellaneous Service Revenues	-843,150
3200-Investment Income	4405-Interest and Dividend Income	-245,000
3350-Power Supply Expenses	4705-Power Purchased	78,467,334
	4708-Charges-WMS	5,144,102
	4714-Charges-NW	6,145,691
	4716-Charges-CN	3,869,581
	4730-Rural Rate Assistance Expense	1,088,175
	4750-Charges-LV	200,000

Sudbury (ED-2002-0559)

2013 EDR Application (EB-2012-0126) version: 1

November 9, 2012

S2 Finalize 2013 Pro-forma Projections

Account Grouping	Account Description	Final Projection
3500-Distribution Expenses - Operation	5005-Operation Supervision and Engineering	1,374,758
	5010-Load Dispatching	579,569
	5012-Station Buildings and Fixtures Expense	234,956
	5016-Distribution Station Equipment - Operation Labour	217,095
	5017-Distribution Station Equipment - Operation Supplies and Expenses	291,851
	5020-Overhead Distribution Lines and Feeders - Operation Labour	120,031
	5025-Overhead Distribution Lines & Feeders - Operation Supplies and Expenses	307,303
	5030-Overhead Subtransmission Feeders - Operation	15,614
	5035-Overhead Distribution Transformers- Operation	164,805
	5040-Underground Distribution Lines and Feeders - Operation Labour	12,799
	5045-Underground Distribution Lines & Feeders - Operation Supplies & Expenses	6,686
	5050-Underground Subtransmission Feeders - Operation	2,049
	5055-Underground Distribution Transformers - Operation	88,655
	5065-Meter Expense	971,684
	5070-Customer Premises - Operation Labour	631,689

Sudbury (ED-2002-0559)

2013 EDR Application (EB-2012-0126) version: 1

November 9, 2012

S2 Finalize 2013 Pro-forma Projections

Account Grouping	Account Description	Final Projection
	5085-Miscellaneous Distribution Expense	1,813,189
	5095-Overhead Distribution Lines and Feeders - Rental Paid	82,000
3550-Distribution Expenses - Maintenance	5110-Maintenance of Buildings and Fixtures - Distribution Stations	17,720
	5114-Maintenance of Distribution Station Equipment	157,768
	5120-Maintenance of Poles, Towers and Fixtures	278,677
	5125-Maintenance of Overhead Conductors and Devices	503,398
	5130-Maintenance of Overhead Services	183,580
	5135-Overhead Distribution Lines and Feeders - Right of Way	514,475
	5145-Maintenance of Underground Conduit	56,309
	5150-Maintenance of Underground Conductors and Devices	48,520
	5155-Maintenance of Underground Services	106,504
	5160-Maintenance of Line Transformers	296,869
3650-Billing and Collecting	5310-Meter Reading Expense	29,200
	5315-Customer Billing	2,230,628
	5320-Collecting	364,089
	5335-Bad Debt Expense	400,000
	5340-Miscellaneous Customer Accounts Expenses	122,948
3700-Community Relations	5410-Community Relations - Sundry	78,108

Sudbury (ED-2002-0559)

2013 EDR Application (EB-2012-0126) version: 1

November 9, 2012

S2 Finalize 2013 Pro-forma Projections

Account Grouping	Account Description	Final Projection
3800-Administrative and General Expenses	5605-Executive Salaries and Expenses	523,280
	5610-Management Salaries and Expenses	551,537
	5615-General Administrative Salaries and Expenses	659,248
	5620-Office Supplies and Expenses	312,493
	5645-Employee Pensions and Benefits	
	5655-Regulatory Expenses	486,839
	5660-General Advertising Expenses	52,869
	5665-Miscellaneous General Expenses	551,028
	5670-Rent	62,000
	5675-Maintenance of General Plant	34,798
3850-Amortization Expense	5705-Amortization Expense - Property, Plant, and Equipment	3,876,864
3900-Interest Expense	6005-Interest on Long Term Debt	4,539,702
4000-Income Taxes	6110-Income Taxes	201,660
3800-Administrative and General Expenses	6206-6205-Donations - LEAP Funding - Sub-Account	27,000

Sudbury (ED-2002-0559)

2013 EDR Application (EB-2012-0126) version: 1
November 9, 2012

E2 2013 Operating Projections

Account Grouping	Account Description	Final Projection
3000-Sales of Electricity	4006-Residential Energy Sales	-33,555,207
	4025-Street Lighting Energy Sales	-667,573
	4030-Sentinel Lighting Energy Sales	-38,510
	4035-General Energy Sales	-44,206,043
	4062-Billed WMS	-6,232,277
	4066-Billed NW	-6,145,691
	4068-Billed CN	-3,869,581
	4075-Billed-LV	-200,000
3050-Revenues From Services - Distribution	4080-Distribution Services Revenue	-22,840,975
	4082-Retail Services Revenues	-39,520
	4084-Service Transaction Requests (STR) Revenues	-1,228
3100-Other Operating Revenues	4210-Rent from Electric Property	-90,627
	4225-Late Payment Charges	-200,000
	4235-Miscellaneous Service Revenues	-843,150
3200-Investment Income	4405-Interest and Dividend Income	-245,000
3350-Power Supply Expenses	4705-Power Purchased	78,467,334
	4708-Charges-WMS	5,144,102
	4714-Charges-NW	6,145,691
	4716-Charges-CN	3,869,581
	4730-Rural Rate Assistance Expense	1,088,175
	4750-Charges-LV	200,000
3500-Distribution Expenses - Operation	5005-Operation Supervision and Engineering	1,374,758
	5010-Load Dispatching	579,569
	5012-Station Buildings and Fixtures Expense	234,956

Sudbury (ED-2002-0559)

2013 EDR Application (EB-2012-0126) version: 1

November 9, 2012

E2 2013 Operating Projections

Account Grouping	Account Description	Final Projection
	5016-Distribution Station Equipment - Operation Labour	217,095
	5017-Distribution Station Equipment - Operation Supplies and Expenses	291,851
	5020-Overhead Distribution Lines and Feeders - Operation Labour	120,031
	5025-Overhead Distribution Lines & Feeders - Operation Supplies and Expenses	307,303
	5030-Overhead Subtransmission Feeders - Operation	15,614
	5035-Overhead Distribution Transformers- Operation	164,805
	5040-Underground Distribution Lines and Feeders - Operation Labour	12,799
	5045-Underground Distribution Lines & Feeders - Operation Supplies & Expenses	6,686
	5050-Underground Subtransmission Feeders - Operation	2,049
	5055-Underground Distribution Transformers - Operation	88,655
	5065-Meter Expense	971,684
	5070-Customer Premises - Operation Labour	631,689
	5085-Miscellaneous Distribution Expense	1,813,189
	5095-Overhead Distribution Lines and Feeders - Rental Paid	82,000
3550-Distribution Expenses - Maintenance	5110-Maintenance of Buildings and Fixtures - Distribution Stations	17,720

Sudbury (ED-2002-0559)

2013 EDR Application (EB-2012-0126) version: 1
November 9, 2012

E2 2013 Operating Projections

Account Grouping	Account Description	Final Projection
	5114-Maintenance of Distribution Station Equipment	157,768
	5120-Maintenance of Poles, Towers and Fixtures	278,677
	5125-Maintenance of Overhead Conductors and Devices	503,398
	5130-Maintenance of Overhead Services	183,580
	5135-Overhead Distribution Lines and Feeders - Right of Way	514,475
	5145-Maintenance of Underground Conduit	56,309
	5150-Maintenance of Underground Conductors and Devices	48,520
	5155-Maintenance of Underground Services	106,504
	5160-Maintenance of Line Transformers	296,869
3650-Billing and Collecting	5310-Meter Reading Expense	29,200
	5315-Customer Billing	2,230,628
	5320-Collecting	364,089
	5335-Bad Debt Expense	400,000
	5340-Miscellaneous Customer Accounts Expenses	122,948
3700-Community Relations	5410-Community Relations - Sundry	78,108
3800-Administrative and General Expenses	5605-Executive Salaries and Expenses	523,280
	5610-Management Salaries and Expenses	551,537
	5615-General Administrative Salaries and Expenses	659,248

Sudbury (ED-2002-0559)

2013 EDR Application (EB-2012-0126) version: 1

November 9, 2012

E2 2013 Operating Projections

Account Grouping	Account Description	Final Projection
	5620-Office Supplies and Expenses	312,493
	5645-Employee Pensions and Benefits	
	5655-Regulatory Expenses	486,839
	5660-General Advertising Expenses	52,869
	5665-Miscellaneous General Expenses	551,028
	5670-Rent	62,000
	5675-Maintenance of General Plant	34,798
3850-Amortization Expense	5705-Amortization Expense - Property, Plant, and Equipment	3,876,864
3900-Interest Expense	6005-Interest on Long Term Debt	4,539,702
4000-Income Taxes	6110-Income Taxes	201,660
3800-Administrative and General Expenses	6206-6205-Donations - LEAP Funding - Sub-Account	27,000
EARNINGS (LOSS) BEFORE TAX		**77,656**
	Deemed Interest Expense	2,248,499
	Deemed Return On Equity	3,213,148

Exhibit 1: Administrative Documents

Tab 4 (of 4): Materiality Threshold

MATERIALITY THRESHOLD

Section 2.4.4 of the Chapter 2 of the Filing Requirements for Electricity Transmission and Distribution Applications dated June 28, 2012 indicates that a materiality threshold must be calculated as a basis for determining significant variances from year to year to an applicant's its rate base, capital expenditures, OM&A and other items. Greater Sudbury has calculated it's materiality in accordance with the filing requirements as 0.5% of its distribution revenue requirement, as its revenue requirement falls between the $10 million and $200 million guideline indicated. The materiality threshold for Greater Sudbury is calculated to be $117,774. All variances greater than $115,000 have been analyzed.