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# Oakville Hydro Electricity Distribution Inc.

Expert Report

**Evaluating the Amounts Charged by Oakville Hydro Electricity Distribution Inc. to Sandpiper Energy  
Solutions Inc. for Shared Services Rendered**

February 17, 2016



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# 1 Introduction

## 1.1 Terms of Engagement and Independence

1 This report was prepared by Brad Rolph, a partner of Grant Thornton Consulting,  
2 which provides services to Grant Thornton LLP, at the request of Oakville Hydro  
3 Electricity Distribution Inc. ("Oakville Hydro") and HVAC Coalition Inc. ("HVAC  
4 Coalition"). In this report, I present my findings regarding my evaluation of the  
5 reasonableness of the amounts charged by Oakville Hydro for certain services  
6 rendered to an affiliate, Sandpiper Energy Solutions Inc. ("Sandpiper"), during the  
7 fiscal year ended December 31, 2014 ("the 2014 Test Year").

8 Grant Thornton Consulting and Grant Thornton LLP do not have a business  
9 relationship with either of the parties to this matter that would impair my ability to  
10 render an opinion.

## 1.2 Brad Rolph, MA, BA

11 I am the National Leader of Grant Thornton LLP's transfer pricing practice in  
12 Canada.<sup>1</sup> Transfer pricing involves evaluating the prices at which a company transfers  
13 physical goods and intangible property or renders services to a related party. The  
14 economics of transfer pricing has been my primary area of specialization since 1995.

## 1.3 The Assignment

15 Oakville Hydro and HVAC Coalition have asked me to prepare an independent  
16 expert report evaluating the reasonableness of the methods used to determine the  
17 amounts charged by Oakville Hydro for certain services rendered to Sandpiper during  
18 the 2014 Test Year. The amounts charged by Oakville Hydro for rendering these  
19 services represented 2.9 percent of Sandpiper's operating expenses during the 2014  
20 Test Year; the remaining 97.1 percent of Sandpiper's operating expenses were directly  
21 incurred and paid for by Sandpiper.<sup>2</sup> If applicable, I was asked to recommend

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<sup>1</sup> See Appendix A for a copy of my curriculum vitae.

<sup>2</sup> See OAK-HVAC-5.

1 alternative methods and quantify the impact of the recommended method on the  
2 allocation of costs to Sandpiper.

3 I was also asked to identify any services that were rendered by Oakville Hydro to  
4 Sandpiper for which amounts should have been charged but were not and to quantify  
5 any such amounts using a recommended pricing method subject to the materiality  
6 level established in Oakville Hydro's 2014 Cost of Service Application. Conversely, I  
7 was to also identify any services for which an amount had been charged by Oakville  
8 Hydro Sandpiper that should not have been.

9 The scope of my assignment was limited to evaluating the reasonableness of the  
10 methods used to determine the amounts charged by Oakville Hydro for certain  
11 services rendered to Sandpiper during the 2014 Test Year; any other related party  
12 transactions involving either Oakville Hydro or Sandpiper were outside of the scope  
13 of my assignment as were any other costs incurred by Sandpiper during the 2014 Test  
14 Year.

15 In preparing this report and rendering my opinion, my responsibility is to both  
16 Oakville Hydro and HVAC Coalition.

17 I reserve the right, but will be under no obligation, to review all calculations referred  
18 to in this report and, if considered necessary by me, to revise my opinion or amend  
19 any part of this report in light of any new facts that become apparent to me  
20 subsequent to the date of this report.

## 1.4 Information Relied Upon

21 In preparing my opinion, I have relied on:

- 22 • Evidence presented by Oakville Hydro in its 2014 Cost of Service Application  
23 and related appendices and exhibits;
- 24 • Information provided by Oakville Hydro in its responses to requests for  
25 information from me;
- 26 • Information provided by Ronald Coleman, an independent consultant hired to  
27 provide financial data for representative Canadian heating, ventilating, and air  
28 conditioning ("HVAC") companies earning similar revenues to Sandpiper  
29 during the 2014 Test Year; and

1       • Information obtained from public sources, as cited throughout this report.

2   The opinion expressed herein is subject to the general qualification that the  
3   information on which it relies is accurate and reliable. I did not audit or verify the  
4   accuracy of the information provided to me. I did not audit or verify whether the  
5   services had been rendered or whether they had been rendered effectively or  
6   efficiently.

7   The information provided to me is bound by confidentiality terms specified in my  
8   terms of engagement which restrict my ability to disclose certain information. The  
9   information which I have used to base my opinion has been presented in this report  
10   at a level of granularity that supports my opinions while complying with these  
11   confidentiality requirements. Any requests for the detailed or confidential information  
12   upon which my opinion is based must be made directly with Oakville Hydro.

## 1.5 Opinion

13   With respect to the shared services that Oakville Hydro rendered Sandpiper during  
14   the 2014 Test Year, based on the information relied upon, it is my opinion that:

- 15       • Oakville Hydro rendered shared services (i.e., executive services, finance  
16       services, human resources (“HR”) services, health and safety services,  
17       information technology (“IT”) services, and occupancy services) to Sandpiper  
18       and these are services that related parties within a corporate group would  
19       ordinarily share;
- 20       • Sandpiper derived value from the shared services rendered by Oakville Hydro  
21       and would have been willing to pay for these services had they been rendered  
22       by an independent enterprise or would have hired the personnel with the  
23       expertise to perform the activities for their own benefit in-house;
- 24       • Oakville Hydro rendered shared services to Sandpiper for which an amount  
25       should be charged;
- 26       • In the absence of a practical way to identify a competitive market price, using a  
27       an indirect charge method, or a direct charge method in the case of customer  
28       service and billing services, to determine an amount to be charged for the  
29       shared services rendered to Sandpiper was appropriate;
- 30       • With the exception of customer service and billing services, determining the  
31       costs to be recovered for rendering shared services by subtracting costs directly

- 1       attributable to a specific entity within the corporate group from the fully-  
2       burdened costs incurred by the departments within Oakville Hydro rendering  
3       the shared services was appropriate;
- 4       • It would have been appropriate for the billing rates used to determine the  
5       amount charged for customer service and billing services to include an amount  
6       to take in to account the indirect costs incurred rendering such services;
  - 7       • There was evidence that immaterial amounts of costs had been excluded from  
8       the costs to be recovered for HR services;
  - 9       • With the exception of customer service and billing services, allocating the costs  
10      to be recovered for rendering shared services based on time spent, headcount  
11      or the number users was appropriate;
  - 12     • It would have been appropriate to allocate the costs to be recovered rendering  
13      HR services and health and safety services based on Sandpiper’s relative and  
14      relevant full-time equivalents (“FTEs”) during the 2014 Test Year;
  - 15     • With the exception of occupancy services, it would have been appropriate for  
16      Oakville Hydro to add a return or mark-up consistent with the value of the  
17      service to the costs incurred rendering the shared services allocated to  
18      Sandpiper;
  - 19     • Not adding a return or markup to the occupancy costs allocated to Sandpiper  
20      given the difference between the anecdotal market data and the occupancy cost  
21      per square foot was appropriate;
  - 22     • It was appropriate to allocate the costs of employee events incurred by Oakville  
23      Hydro to Sandpiper without adding a return or mark-up; and
  - 24     • Oakville Hydro might have undercharged Sandpiper for some of the shared  
25      services rendered during the 2014 Test Year and overcharged for others, in all  
26      cases by an amount below the level of materiality. In Table 1, I present a  
27      summary of the amounts undercharged and overcharged.

**Table 1**  
**Summary of Differences**  
**Fiscal Year Ended December 31, 2014**  
**\$**

Shared Services	Cost Charged by Oakville Hydro	Arm's Length Charge	Undercharge/ (Overcharge)
Executive Services	16,045	17,433	1,388
Finance Services			
- Finance Group	21,774	22,863	1,089
- Customer Services and Billing Group	13,214	13,875	661
Human Resources Services	7,519	6,050	(1,469)
Health and Safety Services	8,740	6,668	(2,072)
Information Technology Services	23,103	27,200	4,097
Occupancy Services	850	12,244	11,394
<b>Total Undercharge</b>	<b>91,245</b>	<b>106,333</b>	<b>15,088</b>

*Note: Numbers might not add due to rounding.*

1 My opinion is based on:

- 2 • My expertise and experience in transfer pricing;
- 3 • Evidence presented by Oakville Hydro in its 2014 Cost of Service Application
- 4 and related appendices and exhibits;
- 5 • Information provided by Oakville Hydro in its responses to requests for
- 6 information from me;
- 7 • Information provided by Ronald Coleman;
- 8 • Information obtained from public sources, as cited throughout this report; and
- 9 • The evaluation framework I developed in Section 3 of this report.

## 1.6 Outline of the Report

10 The remainder of this report is structured as follows:

- 1       • Section 2: A description of the affiliate transactions;
- 2       • Section 3: A framework for evaluating the affiliate transactions;
- 3       • Section 4: Evaluating the affiliate transactions; and
- 4       • Section 5: Conclusion.

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# 2 A Description of the Affiliate Transactions

## 2.1 Overview

1 Virtually every independent enterprise requires services to be rendered to operate its  
2 business, including administrative, technical, financial, and commercial services. An  
3 independent enterprise in need of a service can acquire that service from a service  
4 provider who specializes in rendering that type of service or it can perform the service  
5 in-house. Similarly, a member of an affiliate group of companies in need of a service  
6 can acquire that service directly or indirectly from independent enterprises, from one  
7 or more of its affiliates, or perform the service in-house. Intra-group services often  
8 include services that are typically available externally from independent enterprises,  
9 such as legal or accounting services, and those that are ordinarily performed internally,  
10 such as central auditing and training.

## 2.2 Description of the Parties

### 2.2.1 Oakville Hydro Corporation

11 Oakville Hydro Corporation ("OHC"), currently known as Oakville Enterprises  
12 Corporation (effective June 29, 2015), is wholly-owned by the Municipality of the  
13 Town of Oakville ("Town of Oakville"). OHC operates as an energy and  
14 infrastructure company with a portfolio of businesses that deliver power and energy-  
15 related services to residential and commercial customers.<sup>3</sup>

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<sup>3</sup> <http://www.oecorp.ca/>



## 2.2.4 Sandpiper Energy Solutions Inc.

1 Sandpiper, a subsidiary of OHESI, provides unregulated water heating and home  
2 comfort solutions, including furnaces, central air conditioners, air filtration and  
3 purifiers, water softeners, tank and tankless water heaters, CO2 monitoring, and back-  
4 up generator solutions to customers throughout Southern Ontario.<sup>6</sup> Sandpiper  
5 operates out of Oakville Hydro's head office in Oakville, Ontario. Sandpiper is subject  
6 to federal and provincial corporate income tax.<sup>7</sup> At the end of the 2014 Test Year,  
7 Sandpiper reported \$3.3 million of revenue and employed a total of eight full-time  
8 individuals and a substantial number of HVAC suppliers under contract.<sup>8</sup>

## 2.3 Services Rendered by Oakville Hydro Electricity Distribution Inc.

### 2.3.1 Shared Services

9 During the 2014 Test Year, Oakville Hydro rendered the following shared services  
10 that were of benefit to Sandpiper:<sup>9</sup>

- 11 • Executive Services;
- 12 • Finance Services;
- 13 • HR Services;
- 14 • Health and Safety Services;
- 15 • IT Services; and
- 16 • Occupancy Services.

#### 2.3.1.1 Executive Services

17 The executive leadership team at Oakville Hydro provides strategic oversight and  
18 high-level management services. Services rendered include executive management of  
19 business functions and long-term strategy planning. During the 2014 Test Year,  
20 Oakville Hydro's leadership team consisted of the following four employees:

- 21 • President and Chief Executive Officer ("CEO");
- 22 • Chief Financial Officer ("CFO");
- 23 • Chief Operating Officer ("COO"); and

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<sup>6</sup> <http://www.oecorp.ca/> and per functional interview with Paula Burgin on November 2, 2015.

<sup>7</sup> See OAK-HVAC-37.

<sup>8</sup> See OAK-HVAC-35.

<sup>9</sup> Section 2.3 of this report is based on representations made by management.

- Executive Assistant.

The President and CEO is accountable to the Board of Directors of Oakville Hydro and of OHC. The President and CEO provides general direction and oversight over the activities of each OHC entity, including Oakville Hydro and Sandpiper.<sup>10</sup>

The CFO is accountable to the Board of Directors of Oakville Hydro and OHC for all accounting and financial matters and information and technology services. The CFO reports to the President and CEO.<sup>11</sup>

The COO primarily oversees Oakville Hydro's electricity distribution system, specifically the distribution operation, asset management, the control room, and engineering and construction. The COO does not provide direct governance and oversight related to the Sandpiper business but is the direct report of the heads of the health and safety department and the customer service and billing group.<sup>12</sup>

The Executive Assistant provides administrative support to the President and CEO.<sup>13</sup>

#### **2.3.1.2 Finance Services**

The Finance Department at Oakville Hydro consists of the Financial Services Group and the Customer Services and Billing Group.

The Financial Services Group at Oakville Hydro provides corporate financial reporting, business planning, financial planning, corporate tax, financial stewardship, public liability insurance, accounts receivable, accounts payable, payroll, banking, compliance, and financial audits. As shown in Exhibit 2, Oakville Hydro's Financial Services Group consisted of seven employees during the 2014 Test Year. During the 2014 Test Year, Oakville Hydro's Financial Services Group provided financial reporting and payroll processing services to Sandpiper.<sup>14</sup>

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<sup>10</sup> See OAK-HVAC-9.

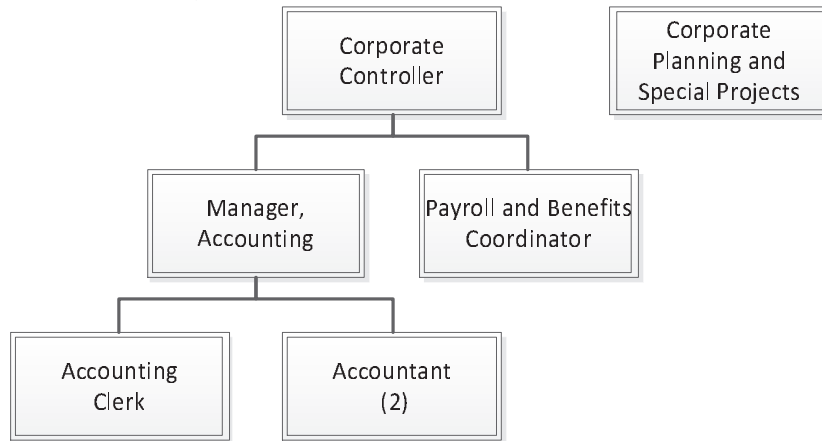
<sup>11</sup> See OAK-HVAC-32.

<sup>12</sup> See OAK-HVAC-19.

<sup>13</sup> See OAK-HVAC-32.

<sup>14</sup> See OAK-HVAC-7 and per functional interview with David Sweezie and Laura Wilson on November 2, 2015.

**Exhibit 2**  
**Oakville Hydro Electricity Distribution Inc.**  
**Finance Department, Financial Services Group**  
**Organizational Structure**  
**As at December 31, 2014**

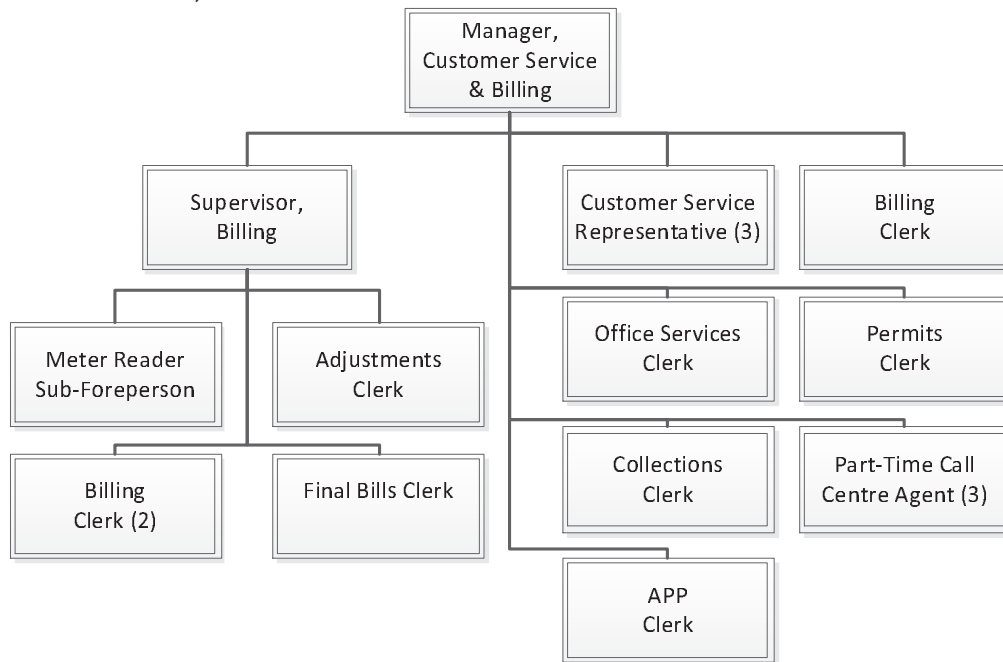


*Source: OAK-HVAC-22.*

1 The Customer Services and Billing Group at Oakville Hydro provides customer  
 2 service, billing, mailing, and payment processing services to its hydro customers. The  
 3 Customer Services and Billing Group also bills residents of the Town of Oakville for  
 4 water and wastewater on behalf of Halton Region, a regional municipality in Ontario.  
 5 As shown in Exhibit 3, Oakville Hydro's customer services group consisted of 18  
 6 employees during the 2014 Test Year. During the 2014 Test Year, Oakville Hydro's  
 7 Customer Services and Billing Group provided billing, bill printing, mailing, and  
 8 payment processing services to Sandpiper. Oakville Hydro's Customer Services and  
 9 Billing Group ceased rendering these services to Sandpiper in June 2014.<sup>15</sup>

<sup>15</sup> See OAK-HVAC-9 and per functional interview with Enzo Augimeri on November 2, 2015.

**Exhibit 3**  
**Oakville Hydro Electricity Distribution Inc.**  
**Finance Department, Customer Services and Billing Group**  
**Organizational Structure**  
**As at December 31, 2014**



Source: OAK-HVAC-22.

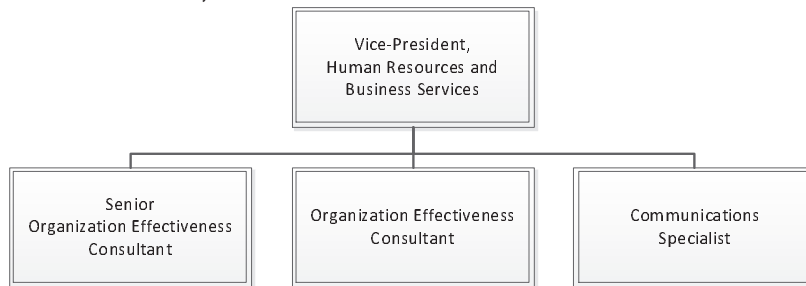
### 2.3.1.3 Human Resources Services

1 The HR Department at Oakville Hydro is responsible for the administration and  
 2 coordination of each OHC entity and the employee-related services, including:  
 3 employee records maintenance, labour relations management, union contract  
 4 administration, compensation and benefits administration, staff training, staff  
 5 recruitment, human rights management, and job evaluation administration. Any  
 6 changes to HR policies and programs are also the responsibility of the HR  
 7 Department. Oakville Hydro's HR Department provides limited functions to  
 8 Sandpiper; Sandpiper performs all recruiting and hiring functions for employees or  
 9 contractors, on its own behalf.<sup>16</sup>

10 During the 2014 Test Year, Oakville Hydro's HR Department provided human  
 11 resources support to Sandpiper's management staff. As shown in Exhibit 4, Oakville  
 12 Hydro's HR Department consisted of 4 employees during the 2014 Test Year.

<sup>16</sup> See OAK-HVAC-6 and per functional interview with Alison Griffin on November 2, 2015.

**Exhibit 4**  
**Oakville Hydro Electricity Distribution Inc.**  
**Human Resources Department**  
**Organizational Structure**  
**As at December 31, 2014**



Source: OAK-HVAC-22.

### 2.3.1.4 Health and Safety Services

- 1 The Health and Safety Department at Oakville Hydro is responsible for all aspects of
- 2 health and safety administration, program maintenance, training, and compliance.<sup>17</sup>
- 3 During the 2014 Test Year, the Oakville Hydro's Health and Safety Department
- 4 focused on the safety of its workers and provided training to its employees.
- 5 Sandpiper's employees do not work with electricity and did not benefit from much of
- 6 the training provided.<sup>18</sup> As shown in Exhibit 5, Oakville Hydro's Health and Safety
- 7 Department consisted of 2 employees during the 2014 Test Year.

**Exhibit 5**  
**Oakville Hydro Electricity Distribution Inc.**  
**Health and Safety Department**  
**Organizational Structure**  
**As at December 31, 2014**



Source: OAK-HVAC-22.

### 2.3.1.5 Information Technology Services

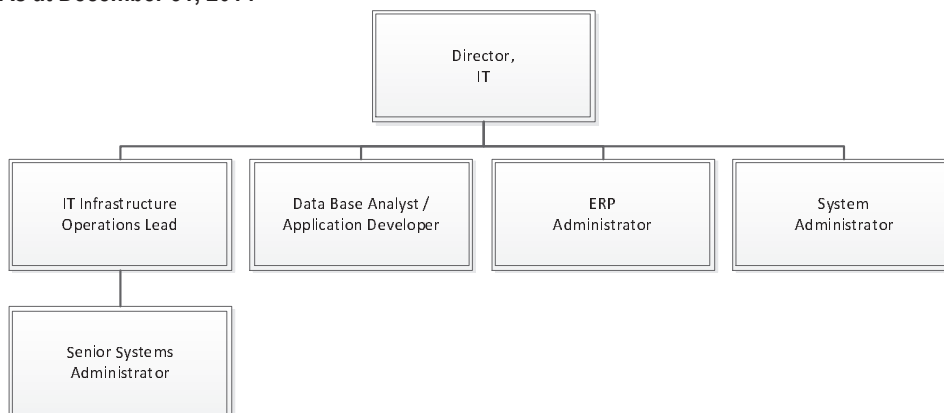
- 8 The IT Department at Oakville Hydro provides IT related services, including:
- 9 assistance and support in the areas of software applications, planning and integration,

<sup>17</sup> See OAK-HVAC-9 and per functional interview with Peter Michaud on November 2, 2015.

<sup>18</sup> Ibid.

1 and business solutions. As shown in Exhibit 6, Oakville Hydro's IT department  
2 consisted of 6 employees during the 2014 Test Year. During the 2014 Test Year, the  
3 Oakville Hydro's IT Department provided communication services, software  
4 licensing, and computer support to Sandpiper.

**Exhibit 6**  
**Oakville Hydro Electricity Distribution Inc.**  
**Information Technology Department**  
**Organizational Structure**  
**As at December 31, 2014**



Source: OAK-HVAC-22.

### 2.3.1.6 Occupancy Services

5 Oakville Hydro's head office is owned by the Town of Oakville. Oakville Hydro is in  
6 the fourth year of a 20-year lease. Oakville Hydro incurs the cost of maintenance and  
7 repairs, property tax, insurance, grounds maintenance, leasehold improvements, and  
8 janitorial services. Oakville Hydro also incurs interest costs and records depreciation  
9 of the building asset since the arrangement is in the form of a capital lease.<sup>19</sup>

## 2.4 Fees Charged by Oakville Hydro Electricity Distribution Inc. for Services Rendered

10 As shown in Table 2, Oakville Hydro charged Sandpiper \$91,245 for the shared  
11 services rendered during the 2014 Test Year.

---

<sup>19</sup> See OAK-HVAC-9.

**Table 2**  
**Oakville Hydro Electricity Distribution Inc.**  
**Amounts Charged to Sandpiper Energy Solutions Inc.**  
**For Shared Services Rendered**  
**Fiscal Year Ended December 31, 2014**  
**\$**

<b>Shared Services</b>	
Executive Services	16,045
Finance Services	
- Finance Group	21,774
- Customer Services and Billing Group	13,214
Human Resources Services	7,519
Health and Safety Services	8,740
Information Technology Services	23,103
Occupancy Services	850
<b>Total Charges</b>	<b>91,245</b>

*Source: OAK-HVAC-5 and OAK-HVAC-10.*

*Note: Numbers might not add due to rounding.*

## 2.5 Terms and Conditions

1 According to the Service Agreement, dated May 1, 2013, between Oakville Hydro and  
2 Sandpiper<sup>20</sup>, a pre-determined amount for cost recovery of intercompany transactions  
3 were to be paid during the 2014 Test Year in monthly installments, as agreed to from  
4 time-to-time by Oakville Hydro and Sandpiper. During the 2014 Test Year, Oakville  
5 Hydro charged Sandpiper by posting journal entries each month. Sandpiper paid  
6 Oakville Hydro via an electronic fund transfer. At the end of the 2014 Test Year, a  
7 true-up or true-down adjustment was made to reflect the actual cost incurred by  
8 Oakville Hydro for the services rendered to Sandpiper.<sup>21</sup>

9 If the amount was not paid in full upon demand by Oakville Hydro, the total amount  
10 not paid would bear interest at the prescribed rate until paid, and this interest would  
11 be due at the same time as the amount to which the interest related to, is paid.<sup>22</sup> The  
12 prescribed rate is calculated as the rate of interest allowed to Oakville Hydro on its  
13 debt for the purposes of calculating the electricity distribution rates for Hydro  
14 pursuant to Performance Based Regulation of Oakville Hydro by the Ontario Energy  
15 Board ("OEB").<sup>23</sup>

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<sup>20</sup> See OAK-HVAC-12.

<sup>21</sup> Per functional interview with Mary Caputi on November 2, 2015.

<sup>22</sup> There were no occurrences during the 2014 Test Year where Sandpiper did not pay the full amount to Oakville Hydro. As such, Sandpiper did not incur any interest expenses for delinquent payments during the 2014 Test Year.

<sup>23</sup> See Oakville Hydro and Sandpiper Services Agreement, pages 3 and 18.

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# 3 A Framework for Evaluating the Affiliate Transactions

## 3.1 Introduction

1 When unrelated companies transact with each other, the price of the goods bought  
2 and sold or the services rendered and received are determined by market forces.  
3 When related companies transact with each other, market forces might not be present.  
4 This situation creates the potential for mispricing, and in the case of Oakville Hydro  
5 and Sandpiper, any mispricing might allow Sandpiper to operate with a competitive  
6 advantage or disadvantage in the market.

7 In addition to my expertise and experience in transfer pricing, I considered the  
8 following sources to develop a framework upon which to evaluate the reasonableness  
9 of the methods used by Oakville Hydro to determine the amounts charged for  
10 services rendered to Sandpiper during the 2014 Test Year:

- 11 • Management accounting literature;
- 12 • The OEB's Affiliate Relationships Code for Electricity Distributors and  
13 Transmitters (the "ARC");
- 14 • Tax administration guidance; and
- 15 • Industry practice.

## 3.2 Management Accounting Literature

I considered the guidance provided in the management accounting literature regarding shared service strategies as a starting place for my evaluation framework.<sup>24</sup> This literature describes the principles of a shared services model and provides guidance with respect to two relevant concepts: fully loaded cost and activity-based costing.

### 3.2.1 Shared Services Model

Shared services, sometimes referred to as shared internal services, or shared common services and corporate services, is a business strategy that involves sharing and leveraging resources, people, and information to more effectively and efficiently render internal services such as executive management, financial services, human resources, information technology systems, billing, and health and safety. The strategy is used predominantly by large and medium-sized organizations in the private sector to:

- Reduce overall costs of providing internal services;
- Minimize duplication of internal services across the business units of the organization;
- Improve service levels; and
- Help the business units focus on their core business.

Lately, shared services strategies have been adopted by public sector agencies, such as Oakville Hydro, to resolve funding limitations.<sup>25</sup> Oakville Hydro renders and receives services from its affiliate companies to benefit from the cost savings generated from increased efficiencies and economies of scale.

Although it incorporates elements of each, a shared services strategy is fundamentally different from the centralized, decentralized and, more recently, outsourcing models used to provide internal services. The basic model of shared services first centralizes internal services as a means to control costs and then charges users for those services on a fully loaded cost recovery basis. The fully loaded charge for internal services

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<sup>24</sup> See The Society of Management Accountants of Canada ("SMAC"), 1999, Adopting and Implementing Shared Services, Management Accounting Guideline. Mississauga, ON: The Society of Management Accountants of Canada; Horngren, Charles T., Gary L. Sundem, William O. Stratton, and Philip Beaulieu, 2012, Management Accounting, Sixth Canadian Edition, Toronto, Ontario, Pearson Canada Inc. ("Horngren"); and Bragg, Steven M., Management Accounting Best Practices – A Guide for the Professional Accountant, Hoboken, New Jersey, John Wiley & Sons, Inc. ("Bragg").

<sup>25</sup> See SMAC, page 2.

1 provides users with a realistic picture of what it actually costs to render the internal  
2 services they require.

### 3.2.2 Fully Loaded Costs

3 A fully loaded cost for rendering an internal service includes all of the direct and  
4 indirect costs associated with rendering the internal service. Traditional methods of  
5 allocating the costs of rendering internal services do not necessarily include costs of a  
6 general overhead nature, such as costs relating to office facilities, telephone, computer  
7 hardware and software, and management. A fully loaded cost should include an  
8 amount to cover these types of expenses as well as depreciation, finance charges and  
9 taxes. In an asset-intensive service, such office facilities, the cost of capital and  
10 depreciation also need to be built into the internal charge.<sup>26</sup>

11 One of the common principles of pricing is to keep the model simple and have as few  
12 assumptions as possible. The more pricing models that are used, the higher the costs  
13 are of maintaining them. Detailed pricing on a per unit or hourly basis should be  
14 avoided in favour of more broadly defined fees. It is important to keep to a minimum  
15 the costs associated with pricing and billing internal services.

### 3.2.3 Activity-Based Costing

16 Identifying all costs associated with rendering internal services can be a difficult and  
17 time-consuming exercise. Some organizations have internal costing systems that  
18 enable them to identify specific charges related to an internal service. Others have to  
19 rely on the best available data or more complex means such as activity-based costing  
20 (“ABC”).

21 ABC establishes a cause-and-effect relationship between the internal services  
22 rendered, their related costs and their resulting output by tracing and allocating the  
23 costs by the activities performed to render the internal service. The steps involved to  
24 use ABC to determine the costs of internal services are:

- 25 • Identifying the services for which costing will be borne;
- 26 • Defining the activities performed to produce, market, and deliver the service;
- 27 • Identifying the causes of resources being consumed and activities being
- 28 performed;

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<sup>26</sup> See SMAC, page 12.

- 1       • Attributing direct and indirect costs to the activities being performed;
- 2       • Linking activities and costs to the services; and
- 3       • Managing and controlling the business process activities and their cost drivers.<sup>27</sup>

4       In other words, for each internal service that is rendered, the costs of providing those  
5       services are to be determined and allocated to the recipients of the services based on a  
6       metric closely linked to the service rendered. The groups of individual costs borne to  
7       render the services that are to be recovered are sometimes referred to as cost pools.  
8       When used for allocating costs, a cost driver is often called a cost-allocation base.<sup>28</sup> It  
9       is an activity driver that best explains the link the service rendered and its cost pool.<sup>29</sup>

10      As shown in Table 3, there are several possible activity drivers for specific types of  
11      costs.

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<sup>27</sup> See SMAC, page 13.

<sup>28</sup> See Horngren, page 179.

<sup>29</sup> See Bragg, page 303.

**Table 3**  
**Activity Drivers for Specific Types of Costs**

<b>Cost Type</b>	<b>Related Activity Driver</b>
Accounting costs	Number of billings
Accounting costs	Number of cash receipts
Accounting costs	Number of check payments
Accounting costs	Number of general ledger entries
Accounting costs	Number of reports issued
Administration costs	Hours charged to lawsuits
Administration costs	Number of stockholder contacts
Engineering costs	Hours charged to design work
Engineering costs	Hours charged to process planning
Engineering costs	Hours charged to tool design
Engineering costs	Number of engineering change orders
Facility costs	Amount of space utilization
Human resources costs	Employee headcount
Human resources costs	Number of benefits changes
Human resources costs	Number of insurance claims
Human resources costs	Number of pension changes
Human resources costs	Number of recruiting contacts
Human resources costs	Number of training hours
Manufacturing costs	Number of direct labor hours
Manufacturing costs	Number of field support visits
Manufacturing costs	Number of jobs scheduled
Manufacturing costs	Number of machine hours
Manufacturing costs	Number of machine setups
Manufacturing costs	Number of maintenance work orders
Manufacturing costs	Number of parts in product
Manufacturing costs	Number of parts in stock
Manufacturing costs	Number of price negotiations
Manufacturing costs	Number of purchase orders
Manufacturing costs	Number of scheduling changes
Manufacturing costs	Number of shipments
Marketing and sales costs	Number of customer service contacts
Marketing and sales costs	Number of orders processed
Marketing and sales costs	Number of sales contacts made
Quality control costs	Number of inspections
Quality control costs	Number of supplier reviews
Storage time (e.g., depreciation, taxes)	Inventory turnover
Storage transactions (e.g., receiving)	Number of times handled

*Source: Bragg, Exhibit 8.2, page 203.*

### 3.3 The Affiliate Relationships Code for Electricity Distributors and Transmitters

Oakville Hydro is an electricity distributor ("utility") that is licensed under Part V of the OEB Act, 1998. For this reason, the reasonableness of the methods used to determine the amount charged by Oakville Hydro for shared services rendered to Sandpiper during the 2014 Test Year must be considered in the context of the relevant provisions in the ARC.<sup>30</sup>

The ARC sets out rules that govern the conduct of electricity distributors and transmitters with their respective affiliates. In particular, where a reasonably competitive market exists for a service, product, resource or use of asset, a utility shall charge no less than the greater of the market price of the service, product, resource or use of asset and the utility's fully-allocated cost to provide service, product, resource or use of asset, when selling that service, product, resource or use of asset to an affiliate.<sup>31</sup>

Where a reasonably competitive market does not exist for a service, product, resource or use of asset that a utility sells to an affiliate, the utility shall charge no less than its fully-allocated cost to provide that service, product, resource or use of asset. The fully-allocated cost shall include a return on the utility's invested capital. The return on invested capital shall be no less than the utility's approved weighted average cost of capital.<sup>32</sup>

In the ARC, market price is defined as the price reached in an open and unrestricted market between informed and prudent parties, acting at arm's length and under no compulsion to act. Fully-allocated cost is defined as the sum of direct costs plus a proportional share of indirect costs and direct costs as the costs that can reasonably be identified with a specific unit of product or service or with a specific operation or cost centre. Indirect costs are defined as costs that cannot be identified with a specific unit of product or service or with a specific operation or cost centre, and include but are not limited to overhead costs, administrative and general expenses, and taxes.

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<sup>30</sup> See OAK-HVAC-2.

<sup>31</sup> See Section 2.3.3.6 of the ARC and OAK-HVAC-3.

<sup>32</sup> See Section 2.3.4.2 of the ARC and OAK-HVAC-3.

1 The definitions of market price and costs used in the ARC are akin to terminology  
2 used by tax administrators when they apply the arm's length principle in situations  
3 involving related parties for tax purposes.

### 3.4 Tax Administration Guidance

4 Sandpiper is an unregulated entity which is subject to federal and provincial corporate  
5 income tax. Subsection 69(1) of the Income Tax Act (Canada) requires services  
6 rendered between related parties be priced at an arm's length price. For this reason, I  
7 also considered the guidance provided by the Organisation for Economic  
8 Cooperation and Development ("OECD"), the Canada Revenue Agency ("CRA"),  
9 and other tax administrators around the world to develop my evaluation framework.  
10 As described earlier in Section 2.1, when related companies transact with each other,  
11 the potential exists for the related companies to determine and use a price that can  
12 disadvantage one party over the other but, on the whole, generates a net benefit for  
13 the corporate group. This situation is a critical issue for tax administrators worldwide.  
14 Intercompany transfer pricing lies at the core of concerns expressed by tax  
15 administrators regarding the ability of multinational companies to reduce their  
16 effective corporate tax rate through the use of inappropriate transfer prices. Although  
17 the affiliate transactions involving Oakville Hydro and Sandpiper do not transpire  
18 across international borders, there exists the potential for the parties to determine and  
19 use a transfer price for shared services that might allow Sandpiper to report lower  
20 corporate taxes.

21 For this reason, I also considered the following sources to develop my evaluation  
22 framework:

- 23 • The OECD's Transfer Pricing Guidelines for Multinational Enterprises and  
24 Tax Administrators ("OECD's Transfer Pricing Guidelines");
- 25 • The OECD's BEPS 2015 Final Reports, BEPS Action 8 - 10: Aligning Transfer  
26 Pricing Outcomes with Value Creation, specifically Low Value-Adding Intra-  
27 Group Services ("OECD BEPS Final Report");
- 28 • The CRA's Information Circular 87-2R International Transfer Pricing ("IC 87-  
29 2R");
- 30 • The CRA's Transfer Pricing Memorandum 15, Intra-group services and 247 of  
31 the Income Tax Act (the "Act"); and

- Internal Revenue Service's ("IRS") Internal Revenue Code §1.482-9.

### 3.4.1 The Organisation for Economic Cooperation and Development and Arm's Length Principle

The OECD is an international economic organization that promotes economic development and world trade by providing a platform for its 34 member states to compare policy experiences, seeks answers to common problems, identifies good practices, and coordinates domestic and international policies.

The OECD's Committee on Fiscal Affairs provides guidance regarding international standards on taxation, including transfer pricing. In the OECD's Transfer Pricing Guidelines, the OECD endorses the arm's length principle.<sup>33</sup> The arm's length principle requires that the prices and the terms and conditions agreed to between related parties in their commercial transactions be the same as expected had the parties been dealing at arm's length. Arm's length transactions are transactions in which the buyers and sellers of a product or service act independently and have no relationship to each other.

The arm's length principle is the internationally accepted norm for evaluating the reasonableness of the prices used for cross-border inter-company transactions. It is also endorsed by the United Nations.<sup>34</sup> As a member of the OECD and the United Nations, the Government of Canada and its tax administrator, the CRA, also endorse the arm's length principle.<sup>35</sup>

According to the OECD, the CRA and the IRS, the primary test to determine whether a specific activity performed by a member of the multinational group for another member is a service for which a charge is justified is "whether an independent enterprise in comparable circumstances would have been willing to pay for the activity if performed for it by an independent enterprise or would have performed the activity in-house for itself."<sup>36</sup>

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<sup>33</sup> See "Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrators," OECD and "Model Convention Tax Convention on Income and on Capital," July 17, 2008, Chapter III.

<sup>34</sup> See United Nations Practical Manual on Transfer Pricing for Developing Countries.

<sup>35</sup> Canada's transfer pricing rules are embodied in Section 247 of the ITA. Guidance with respect to the administrative application of those rules by the Canada Revenue Agency is published in IC 87-2R.

<sup>36</sup> See OECD Transfer Pricing Guidelines, Chapter VII, Section B.1, paragraph 7.6. See also OECD BEPS Final Report, page 169, IC 87-2R, paragraph 162 and §1.482-9(1)(3)(i).

1 If the activity is not one for which an independent enterprise would have been willing  
2 to pay or perform for itself, the activity ordinarily should not be considered an intra-  
3 group service under the arm's length principle.

4 Activities that ordinarily would be considered intra-group services can include:

- 5 • Administrative services;
- 6 • Financial services;
- 7 • Marketing services; and
- 8 • Services in staff matters.<sup>37</sup>

9 Similarly, an activity would not be considered an intra-group service if:

- 10 • It benefits the owner of the controlled group and does not confer a benefit on  
11 the recipient ("Shareholder benefits"),<sup>38</sup>
- 12 • It duplicates an activity that the recipient has already performed itself or had a  
13 third party perform on its behalf;<sup>39</sup> or
- 14 • If the benefit results from the recipient's status as a member of a controlled  
15 group.<sup>40</sup>

16 The following are examples of shareholder activity-related costs provided by the  
17 OECD:

- 18 • Costs related to the legal structure of the parent company itself, such as the  
19 parent's shareholder meetings, issuing shares in the parent company, stock  
20 exchange listing of the parent company, and costs related to the governance  
21 board;
- 22 • Costs related to the financial reporting or regulatory requirements of the parent  
23 company including the consolidation of the reports;
- 24 • Cost of raising funds for the acquisition of an interest in a business;
- 25 • Cost related to compliance of the parent company with the relevant tax laws;  
26 and

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<sup>37</sup> See OECD Transfer Pricing Guidelines, Chapter VII, Section B.1, paragraph 7.14. See also IC 87-2R, paragraph 162 and §1.482-9(1)(3)(i).

<sup>38</sup> See OECD Transfer Pricing Guidelines, Chapter VII, Section B.1, paragraph 7.9 and OECD BEPS Final Report, page 144.

<sup>39</sup> See OECD Transfer Pricing Guidelines, Chapter VII, Section B.1, paragraph 7.11 and OECD BEPS Final Report, page 144.

<sup>40</sup> See OECD Transfer Pricing Guidelines, Chapter VII, Section B.1, paragraph 7.13 and OECD BEPS Final Report, page 144.

- Costs which are ancillary to the corporate governance of the multinational enterprise as a whole.<sup>41</sup>

In the absence of transactions between Oakville Hydro or one of its affiliates and a third party, or between two third parties, involving the same or similar services rendered by Oakville Hydro to Sandpiper, which would yield arm's length prices, the OECD and the CRA encourage multinational companies to consider cost recovery-based methods to determine an appropriate cost of a service. This is consistent with the ARC's requirement for utilities to charge their shared services at a price no less than the greater of market price or fully-allocated costs.

Although there is limited guidance provided by the OECD or the CRA regarding which costs to take into account when determining the cost of rendering a service, the IRS' Internal Revenue Code defines total services cost as "all costs of rendering those services."<sup>42</sup> The term "all costs" generally includes direct operating costs (e.g., salaries and benefits) as well as indirect operating costs (e.g., overhead), but excludes non-operating costs, such as "interest expense, foreign income taxes, or domestic income taxes"<sup>43</sup> as well as "shareholder costs." This is consistent with the ARC's concept of fully-allocated costs.

Once the cost base is determined, taxpayers are then encouraged to identify and remove from the cost base those costs that are attributable to services performed by one group member solely on behalf of one other group member.<sup>44</sup>

The remaining cost base is then allocated to the relevant service recipients to approximate the cost of service to those recipients. The guidance provided by the OECD in its Transfer Pricing Guidelines is limited. It states the allocation can be based on "turnover, or staff employed, or some other basis."<sup>45</sup> The guidance provided by the CRA is also limited to the following:

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<sup>41</sup> See OECD Transfer Pricing Guidelines, Chapter VII, Section B.1, paragraph 7.10 and OECD BEPS Final Report, page 144. See also IC 87-2R, paragraphs 156 and 157, and §1.482-9(l).

<sup>42</sup> See §1.482-9(j).

<sup>43</sup> See §1.482-9(j).

<sup>44</sup> See OECD BEPS Final Report, page 151.

<sup>45</sup> See OECD Transfer Pricing Guidelines, Chapter VII, Section B.2.3, paragraph 7.25.

1 "When choosing an allocator (e.g., sales, gross or operation profits, units  
2 used/produced/sold, number of employees, or capital invested), the taxpayer  
3 should consider the nature and use made of the service."<sup>46</sup>

4 Even the IRS provides limited guidance to taxpayers in terms of an appropriate  
5 allocation method.

6 "Any reasonable method may be used to allocate and apportion costs. In  
7 establishing the appropriate method of allocation and apportionment,  
8 consideration should be given to all bases and factors, including, for example,  
9 total services costs, total costs for a relevant activity, assets, sales,  
10 compensation, space utilized, and time spent."<sup>47,48</sup>

11 In the OECD BEPS Final Report, the taxpayers are encouraged to select an allocation  
12 key that reflects the level of benefit expected to be received by each service recipient  
13 for each category of services rendered.<sup>49</sup> As a general rule, the allocation key should  
14 reflect the underlying need for the particular service rendered. For example, the  
15 allocation key for services related to people might use each company's share of total  
16 group headcount; IT services might use the share of total users, fleet management  
17 services might use the share of total vehicles, accounting support services might use  
18 the share of total relevant transactions or share of assets. In other cases, the share of  
19 total sales may be the most relevant key.

20 Once the cost of rendering a service has been determined, multinational companies  
21 must determine whether that cost of service should be marked-up, and if so, by how  
22 much. Although arm's length service providers would normally seek to charge a fee  
23 for their service that generates a profit, there are circumstances in which an arm's  
24 length party would not generate a profit from rendering a service.

25 In the context of multinational companies, tax administrators consider the value of  
26 the service being rendered to determine whether a cost of service should be marked-  
27 up. In general, tax administrators have historically permitted mark-ups on value-added  
28 activities and denied mark-ups on routine activities. This has been a contentious issue  
29 amongst tax administrators. In the OECD BEPS Final Report, the OECD has

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<sup>46</sup> See OECD Transfer Pricing Guidelines, Chapter VII, Section A, paragraph 7.2.

<sup>47</sup> See §1.482-9(k).

<sup>48</sup> See Appendix B for further detailed guidance.

<sup>49</sup> See OECD BEPS Final Report, page 158.

1 proposed a simplified approach to for determining the amount to be charged and paid  
2 for by individual members of a multinational enterprise for low value-adding services  
3 based on the costs incurred to render the service plus a mark-up of 5 percent. The  
4 services identified by the OECD that would likely meet the definition of low value-  
5 adding services included:

- 6 • Accounting and audit activities;
- 7 • Processing and management of accounts receivable and accounts payable;
- 8 • HR activities;
- 9 • Monitoring and compiling data related to health, safety environmental and  
10 other standards regulating the business;
- 11 • Information technology services, that are not part of the principal activity of  
12 the group;
- 13 • Internal and external communications and public relations support, excluding  
14 specific advertising and marketing activities;
- 15 • Legal services;
- 16 • Tax activities; and
- 17 • Administration support.

18 Whether the shared services rendered by Oakville Hydro to Sandpiper should have  
19 been marked up depends on the specific service rendered. For example, executive  
20 services rendered by Oakville Hydro to Sandpiper are services that, in my experience,  
21 would normally be marked-up because they require specific skills to perform.  
22 Alternatively, under the old OECD guidelines, the HR services rendered by Oakville  
23 Hydro are services that would not normally be marked-up. Further, the employee  
24 events costs charged by Oakville Hydro to Sandpiper would normally be treated as  
25 flow through costs and charged back without a mark-up. Whether a mark-up on a  
26 service is permitted by a tax administrator will also depend on the interaction of other  
27 intercompany transactions involving the related parties. Ultimately, from a transfer  
28 pricing perspective, a mark-up will or will not be permitted to the extent that it  
29 facilitates the accurate and reliable calculation of taxable income.

30 I considered whether the absence of a mark-up would create an inappropriate  
31 advantage for Sandpiper's operation in the heating, ventilation and air conditioning  
32 industry. The absence of a mark-up on the costs of rendering shared services would

1 lower the amounts charged for such services and increase the profits generated by  
2 Sandpiper. This outcome would create an inappropriate subsidy at the expense of  
3 Oakville Hydro and its customers. Accordingly, I believe that should Oakville Hydro  
4 render services to Sandpiper, the costs of rendering high value-added services might  
5 be subject to a substantial mark-up, while the other costs of rendering low-value  
6 added services might be subject to a lower or zero mark-up.

### 3.5 Industry Practice

7 I also considered the guidance provided by the internal costing practices of other  
8 regulated Canadian energy companies to develop my evaluation framework. In  
9 particular, I relied, in part, on publicly available documentation regarding the manner  
10 in which energy companies across Canada allocated shared services. The following  
11 nine energy companies were surveyed:

- 12 • ATCO Electric Ltd.;
- 13 • BC Hydro;
- 14 • Manitoba Hydro;
- 15 • New Brunswick Power Corporation;
- 16 • Newfoundland and Labrador Hydro;
- 17 • Nova Scotia Power Inc.;
- 18 • Hydro One;
- 19 • Maritime Electric; and
- 20 • SaskPower.<sup>50</sup>

21 The shared services cost allocation methods used by these energy companies are quite  
22 similar. Shared corporate service expenses are generally organized into cost pools,  
23 which are then allocated to the service recipients using a cost driver(s) based on the  
24 cost causation principle. In other words, for each internal service that is rendered, the  
25 costs of providing those services are to be determined and allocated to the recipients  
26 of the services based on a metric closely linked to the service rendered. The groups of  
27 individual costs borne to render the services that are to be recovered are referred to as  
28 cost pools. When used for allocating costs, a cost driver that best explains the link the  
29 service rendered and its cost pool is used as a cost-allocation base.

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<sup>50</sup> See Appendix C for a description of the cost allocation methods currently employed by these regulated Canadian energy companies.

### 3.6 Evaluation Framework

I developed the following evaluation framework based on my past experience, the managerial accounting literature, the ARC, tax administrator guidance, and industry practice described above:

- The service was rendered and was a service that would have entities within a corporate group that would have ordinarily shared justifying a charge;
- Where a service has been rendered and a charge justified, the amount charged for the service should be based on the competitive market price for that service or, in the absence of a competitive market price, the fully-allocated costs incurred to render that service plus an applicable return or mark-up;
- Fully-allocated cost should include all direct costs incurred to render the service plus a proportional share of any indirect costs including, but limited to, overhead costs, administrative and general expenses, and taxes.
- When allocating the fully-allocated costs amongst a group of affiliates, the allocator should have a causal relationship with the service rendered; and
- A return or mark-up should be applied to the fully-allocated cost of rendering the service. The magnitude of the return or mark-up should be dependent on the value of the service. The higher the value of the service, the higher the return of mark-up.

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# 4 Evaluating the Affiliate Transactions

## 4.1 Overview

1 In this section, I evaluate the amounts charged by Oakville Hydro for rendering the  
2 shared services to Sandpiper during the 2104 Test Year based on the evaluation  
3 framework I presented in Section 3.6.

## 4.2 Shared Services Rendered by Oakville Hydro

4 As described in Section 2.3.1, Oakville Hydro rendered the following shared services  
5 to Sandpiper during the 2014 Test Year:

- 6 • Executive Services;
- 7 • Finance Services;
- 8 • HR Services;
- 9 • Health and Safety Services;
- 10 • IT Services; and
- 11 • Occupancy Services.

### 4.2.1 Executive Services

#### 4.2.1.1 Determining Whether a Service had been Rendered

12 Evidence describing the executive services provided by Oakville Hydro's executive  
13 team to Sandpiper was presented in Section 2.3.1.1 of this report. Based on this  
14 evidence, I have concluded the following:

- 15 • The services were rendered and are services that related parties within a  
16 corporate group would ordinarily share;
- 17 • Sandpiper derived value from the executive services rendered by Oakville  
18 Hydro and would have been willing to pay for these services had they been

- 1 rendered by an independent enterprise or would have hired personnel with the  
2 expertise to perform the activities for its own benefit in-house; and  
3 • Oakville Hydro rendered executive services to Sandpiper for which an amount  
4 should be charged.

#### 4.2.1.2 The Amount Charged for Executive Services

5 During the 2014 Test Year, Oakville Hydro charged Sandpiper \$16,045 through the  
6 Management Fee for rendering executive services, including the cost of employee  
7 events.<sup>51</sup> Oakville Hydro determined the amount charged to Sandpiper for rendering  
8 these executive services based on an indirect cost recovery method, without adding a  
9 return or mark-up to the costs<sup>52</sup>.

10 As shown in Table 4, Oakville Hydro determined the costs incurred rendering  
11 executive services for the corporate group to be \$1,816,064 during the 2014 Test  
12 Year. Oakville Hydro calculated the costs to be recovered from other affiliates for  
13 rendering executive services by subtracting from the total operating costs incurred by  
14 the executive team, an amount that included costs for salaries and fringe benefits,  
15 transportation and vehicles, and general and administrative expenses, relevant costs  
16 that were incurred solely for a particular affiliate were charged to that affiliate directly,  
17 and the costs of employee events (reported under general and administrative  
18 expenses.

19 The resulting executive services costs to be recovered were allocated based on the  
20 estimated percentage of time that Oakville Hydro executives spent rendering services  
21 to each entity within the corporate group; the general and administrative expenses for  
22 the employee events were allocated based on the number of employees attending the  
23 events. During the 2014 Test Year, it was estimated that Oakville Hydro's executive  
24 team spent one percent of their time on Sandpiper-related matters. There were 11  
25 instances of Sandpiper employees attending employee events out of a total of 208  
26 total participants.<sup>53</sup>

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<sup>51</sup> See OAK-HVAC-10.

<sup>52</sup> See OAK-HVAC-21.

<sup>53</sup> See OAK-HVAC-9 and OAK-HVAC-10.

**Table 4**  
**Oakville Hydro Electricity Distribution Inc.**  
**Calculation of the Amount Charged to Sandpiper Energy Solution Inc.**  
**For Executive Services Rendered**  
**Fiscal Year Ended December 31, 2014**  
**\$**

	<b>Actuals</b>	<b>Costs Directly Attributable</b>	<b>Costs to be Allocated</b>
<b>Departmental Operating Costs</b>			
Salaries and fringe benefits	1,766,076	370,114	1,395,962
Transportation and vehicles	9,035	-	9,035
General and administrative	40,954	40,954	-
True up of continuance	-	17,050	(17,050)
<b>Totals</b>	<b>1,816,064</b>	<b>428,117</b>	<b>1,387,947</b>
<b>Executive Services Costs Allocated to Sandpiper</b>		1%	<b>13,879</b>
<b>Company Event Costs</b>			
Costs to be recovered		40,954	
Allocator (number of attendees)			
Sandpiper		11	
Total attendees		208	
<b>Company Event Costs Allocated to Sandpiper</b>			<b>2,166</b>
<b>Amount Charged</b>			<b>16,045</b>

Source: OAK-HVAC-9 and OAK-HVAC-10.

Note: Numbers might not add due to rounding.

#### 4.2.1.3 Determining an Arm's Length Price for Executive Services

1 There is no indication in the evidence that Oakville Hydro rendered to third parties  
2 any of the same executive services it rendered to Sandpiper. Nor is there any  
3 indication in the evidence that Sandpiper engaged any third parties to render any of  
4 the same executive services Oakville Hydro rendered to them. In addition, there is no  
5 known information source that would permit Oakville Hydro to identify, in a practical  
6 way, the price at which third parties comparable to Sandpiper would have paid for the  
7 same or similar executive services from third parties comparable to Oakville Hydro  
8 under similar circumstances. For these reasons, it would not have been practical for  
9 Oakville Hydro to determine a charge for executive services based on a direct pricing  
10 method using competitive market pricing data.

11 In the absence of reliable competitive market pricing, Oakville Hydro applied an  
12 indirect cost recovery method, without a return or mark-up. However, I identified one  
13 issue with the way in which Oakville Hydro implemented this pricing method. It is  
14 likely that were any such competitive market pricing available, it would have included  
15 an unidentifiable profit element for the executive services. The OECD recognizes  
16 executive services as a high value-added service; the expenses related to the employee  
17 events would have been treated as a flow through cost.

18 To benchmark an arm's length return or markup earned by companies that render  
19 executive services, I performed a search using a subscription database to identify 15  
20 suitable service providers with sufficient financial and descriptive data.<sup>54</sup> The  
21 interquartile range of arm's length returns on fully-allocated costs realized by these 15  
22 companies was 7.4 percent to 16.5 percent, with a median of 9.5 percent, during the  
23 2014 Test Year. Based on a return or mark-up of 10 percent, I have estimated that  
24 \$15,267 was an arm's length price for the executive services rendered by Oakville  
25 Hydro to Sandpiper during the 2014 Test Year.

26 Based on the guidance described in Section 3.4.1, the amounts allocated to Sandpiper  
27 for employee events expense would have been treated as a flow through cost. For this  
28 reason, no return or mark-up would have been added to these costs.

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<sup>54</sup> See Appendix D for details regarding the search process undertaken to identify high value-added executive companies. Appendix E presents the search rejection matrix, Appendix F presents the business descriptions of the high value-added executive companies identified, Appendix G presents the arm's length cost plus margins of high value-added executive companies identified, and Appendix H presents the financial data for the high value-added executive companies identified.

#### 4.2.1.4 Evaluating the Amount Charged for Executive Services

1 Based on this evidence, I have concluded the following:

- 2 • In the absence of a practical way to identify a competitive market price, using  
3 an indirect charge method to determine the amount to charge Sandpiper for  
4 rendering executive services during the 2014 Test Year was appropriate;
- 5 • Determining the costs to be recovered for rendering executive services by  
6 subtracting costs directly attributable to a specific entity within the corporate  
7 group from the fully-burdened costs incurred by Oakville Hydro's executive  
8 team was appropriate;
- 9 • Allocating the costs to be recovered for rendering executive services based on  
10 the estimated percentage of time that the executive team spent providing  
11 executive services to the entities within the corporate group was appropriate;
- 12 • Allocating the costs of employee events based on the number of participating  
13 employees from each entity within the corporate group was appropriate;
- 14 • It would have been appropriate for Oakville Hydro to add a return or mark-up  
15 equal to 10 percent of the costs incurred rendering executive services allocated  
16 to Sandpiper;
- 17 • It was appropriate to allocate the costs of employee events incurred by Oakville  
18 Hydro to Sandpiper without adding a return or mark-up;
- 19 • Oakville Hydro might have undercharged Sandpiper \$1,388 for the executive  
20 services rendered during the 2014 Test Year, an amount below the level of  
21 materiality.

### 4.2.2 Finance Services

#### 4.2.2.1 Financial Group

##### 4.2.2.1.1 Determining Whether a Service had been Rendered

22 Evidence describing the financial services rendered by Oakville Hydro's Financial  
23 Group to Sandpiper was presented in Section 2.3.1.2 of this report. Based on this  
24 evidence, I have concluded the following:

- 25 • The services were rendered and are services that related parties within a  
26 corporate group would ordinarily share;

- Sandpiper derived value from the financial services rendered by Oakville Hydro and would have been willing to pay for these services had they been rendered by an independent enterprise or would have hired personnel with the expertise to perform the activities for its own benefit in-house; and
- Oakville Hydro rendered financial services to Sandpiper for which an amount should be charged.

#### **4.2.2.1.2 The Amount Charged for Financial Services**

During the 2014 Test Year, Oakville Hydro charged Sandpiper \$21,774 through the Management Fee for rendering financial services.<sup>55</sup> Oakville Hydro determined the amount charged to Sandpiper for rendering financial services based on an indirect cost recovery method, without adding a return or mark-up to the costs<sup>56</sup>.

As shown in Table 5, Oakville Hydro determined the costs incurred rendering financial services for the corporate group to be \$1,095,010 during the 2014 Test Year. Oakville Hydro's calculated the costs to be recovered from other affiliates for rendering financial services by subtracting from the total operating costs incurred by the Financial Group, an amount that included costs for salaries and fringe benefits, contract services, transportation and vehicles, and general and administrative expenses, relevant costs that were incurred solely for a particular affiliate were charged to that affiliate and were excluded from the calculation of fully-burdened costs (i.e., insurance premiums paid for a particular affiliate).

The financial services costs to be recovered were allocated based on the time spent by each employee in the Financial Group providing financial reporting and payroll processing services to each entity within the corporate group. The percentage of time spent by each employee to each affiliate was tracked through the simple time reporting system and time estimates. This was then averaged across all employees in the Financial Group and calculated for an overall allocation of time to Sandpiper. During the 2014 Test Year, it was estimated that Oakville Hydro's Financial Group spent two percent of their time on Sandpiper-related matters.<sup>57</sup>

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<sup>55</sup> See OAK-HVAC-10.

<sup>56</sup> See OAK-HVAC-21.

<sup>57</sup> See OAK-HVAC-7 and OAK-HVAC-10.

**Table 5**  
**Oakville Hydro Electricity Distribution Inc.**  
**Calculation of Amount Charged to Sandpiper Energy Solutions Inc.**  
**For Financial Services Rendered**  
**Fiscal Year Ended December 31, 2014**  
**\$**

	<b>Actuals</b>	<b>Costs Directly Attributable</b>	<b>Costs to be Allocated</b>
<b>Departmental Operating Costs</b>			
Salaries and fringe benefits	855,818	-	855,818
Contract services	6,620	-	6,620
Transportation and vehicles	1,271	-	1,271
General and administrative	231,300	6,300	225,000
<b>Totals</b>	<b>1,095,009</b>	<b>6,300</b>	<b>1,088,710</b>
<b>Amount Charged</b>		<b>2%</b>	<b>21,774</b>

Source: OAK-HVAC-7 and OAK-HVAC-10.

Note: Numbers might not add due to rounding.

#### 4.2.2.1.3 Determining an Arm's Length Price for Financial Services

There is no indication in the evidence that Oakville Hydro rendered to third parties any of the same financial services it rendered to Sandpiper. Nor is there any indication in the evidence that Sandpiper engaged any third parties to render any of the same financial services Oakville Hydro rendered to them. In addition, there is no known information source that would permit Oakville Hydro to identify, in a practical way, the price at which third parties comparable to Sandpiper would have paid for the same or similar financial services from third parties comparable to Oakville Hydro under similar circumstances. For these reasons, it would not have been practical for Oakville Hydro to determine a charge for financial services based on a direct pricing method using competitive market pricing data.

In the absence of reliable competitive market pricing, Oakville Hydro applied an indirect cost recovery method, without a return or mark-up. However, I identified one issue with the way in which Oakville Hydro implemented this pricing policy. It is likely that were any such competitive market pricing available, it would have included

1 an unidentifiable profit element. I relied on the guidance provided by the OECD  
2 suggesting that 5 percent is a reasonable return or mark-up for rendering financial  
3 services.

4 Based on a return or mark-up of 5 percent, I have estimated that \$22,863 was an arm's  
5 length price for the financial services rendered by Oakville Hydro to Sandpiper during  
6 the 2014 Test Year.

#### **4.2.2.1.4 Evaluating the Amount Charged for Financial Services**

7 Based on this evidence, I have concluded the following:

- 8 • In the absence of a practical way to identify a competitive market price, using  
9 an indirect charge method to determine an amount for the financial services it  
10 rendered to Sandpiper during the 2014 Test Year was appropriate;
- 11 • Determining the costs to be recovered rendering financial services by  
12 subtracting costs directly attributable to a specific entity within the corporate  
13 group from the fully-burdened costs incurred by Oakville Hydro's Financial  
14 Group was appropriate;
- 15 • Allocating the costs to be recovered for rendering financial services based on  
16 the estimated percentage of time that the Financial Group spent providing  
17 services to the entities within the corporate group was appropriate;
- 18 • It would have been appropriate for Oakville Hydro to add a return or mark-up  
19 equal to 5 percent of the costs incurred rendering financial services allocated to  
20 Sandpiper; and
- 21 • Oakville Hydro might have undercharged Sandpiper \$1,089 for the financial  
22 services rendered during the 2014 Test Year, an amount below the level of  
23 materiality.

#### **4.2.2.2 Customer Services and Billing Group**

##### **4.2.2.2.1 Determining Whether a Service had been Rendered**

24 Evidence describing the customer service and billing services rendered by Oakville  
25 Hydro's Customer Service and Billing Group was presented in Section 2.3.1.2 of this  
26 report. Based on this evidence, I have concluded the following:

- 27 • The services were rendered and are services that related parties within a  
28 corporate group would ordinarily share;

- Sandpiper derived value from the customer service and billing services rendered by Oakville Hydro and would have been willing to pay for these services had they been rendered by an independent enterprise or hired personnel with the expertise to perform the activities for its own benefit in-house; and
- Oakville Hydro rendered customer service and billing services to Sandpiper for which an amount should be charged.

#### **4.2.2.2.2 The Amount Charged for Customer Service and Billing Services**

During the 2014 Test Year, Oakville Hydro charged Sandpiper \$13,214 through the Administration Fee for rendering customer service and billing services.<sup>58</sup> Oakville Hydro determined the amount charged to Sandpiper for rendering customer service and billing services based on a direct charge method.

As shown in Table 6, Oakville Hydro determined the amount it charged Sandpiper for rendering customer service and billing services during the 2014 Test Year by multiplying the hours spent by each employee in the Customer Services and Billing Group providing water heater billing services to Sandpiper by their respective billing rate.<sup>59</sup> The time spent by each employee rendering services to Sandpiper was tracked through the time reporting system and time estimates. The customer service manager stopped rendering services to Sandpiper when it moved to its own CRM system in June 2014. For the same reason, the other employees in the Customer Services and Billing Group also significantly decreased the amount of time spent rendering water heater billing services to Sandpiper after May 2014.

The hourly rates charged by Oakville Hydro were \$21 per hour for the part-time staff who were hired to work on the activities required by Sandpiper and \$63 per hour for the [REDACTED] manager who was responsible for overseeing these activities. The \$21 per hour rate was based on the wages and benefits paid to the part-time staff. The \$63 per hour rate was based on the [REDACTED] annual salary and benefits, converted to an hourly rate.<sup>60</sup>

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<sup>58</sup> See OAK-HVAC-15, OAK-HVAC-20, and OAK-HVAC-28.

<sup>59</sup> See OAK-HVAC-20.

<sup>60</sup> See OAK-HVAC-28 and OAK-HVAC-40.

1 The customer service and billing services group provides the majority of its services to  
 2 Oakville Hydro, with minimal services to Sandpiper.<sup>61</sup> During the 2014 Test Year,  
 3 these activities were deemed by Oakville Hydro to be insignificant and immaterial. For  
 4 this reason, Oakville Hydro charged Sandpiper based on an hourly rate and the  
 5 amount of time spent and did not attempt to recover any of the department's indirect  
 6 costs.

**Table 6**  
**Oakville Hydro Electricity Distribution Inc.**  
**Calculation of Amount Charged to Sandpiper Energy Solutions Inc.**  
**For Customer Service and Billing Services Rendered**  
**Fiscal year Ended December 31, 2014**  
**\$**

Total hours spent by customer service employees	311.25
Rate charged per hour	21.0
Total employee cost allocation	6,536
Total hours spent by the customer service manager	106
Rate charged per hour	63.0
Total customer service manager cost allocation	6,678
<b>Amounts Charged</b>	<b>13,214</b>

Source: OAK-HVAC-9 and OAK-HVAC-10.

Note: Numbers might not add due to rounding.

#### **4.2.2.2.3 Determining an Arm's Length Price for Customer Service and Billing Services**

7 There is no indication in the evidence that Oakville Hydro rendered to third parties  
 8 any of the same customer service and billing services it rendered to Sandpiper. Nor is  
 9 there any indication in the evidence that Sandpiper engaged any third parties to render  
 10 any of the same customer service and billing services Oakville Hydro rendered to  
 11 them. In addition, there is no known information source that would permit Oakville  
 12 Hydro to identify, in a practical way, the price at which third parties comparable to  
 13 Sandpiper would have paid for the same or similar customer service and billing

<sup>61</sup> See OAK-HVAC-41.

1 services from third parties comparable to Oakville Hydro under similar circumstances.  
2 For these reasons, it would not have been practical for Oakville Hydro to determine a  
3 charge for customer service and billing services based on a direct pricing method  
4 using competitive market pricing data.

5 In the absence of reliable competitive market pricing, Oakville Hydro applied a direct  
6 charge method. However, I identified two issues regarding the manner in which  
7 Oakville Hydro implemented this pricing method. First, the billing rates used by  
8 Oakville Hydro did not take into account any indirect costs incurred render customer  
9 service and billing services to Sandpiper. Given the relatively immaterial amount of  
10 time spent by Oakville Hydro's staff rendering these services to Sandpiper, this  
11 omission would have an immaterial impact of the amount charged that should have  
12 be charged by Oakville Hydro. Second, it is likely that were any such competitive  
13 market pricing available, it would have included an unidentifiable profit element. I  
14 relied on the guidance provided by the OECD suggesting that 5 percent is a  
15 reasonable return or mark-up for rendering customer service and billing services; a  
16 low value-added service.

17 After making the adjustment for the second issue, I have estimated that \$13,875 was  
18 an arm's length price of the customer service and billing services rendered by Oakville  
19 Hydro to Sandpiper during the 2014 Test Year.

#### **4.2.2.2.4 Evaluating the Amount Charged for Customer Service and Billing Services**

20 Based on this evidence, I have concluded the following:

- 21 • In the absence of a practical way to identify a competitive market price, it was  
22 reasonable for Oakville Hydro to use an direct charge method to determine an  
23 amount to charge Sandpiper for rendering customer service and billing services  
24 during the 2014 Test Year;
- 25 • It would have been appropriate for Oakville Hydro to include in the billing  
26 rates an amount to account for the indirect costs incurred rendering customer  
27 service and billing services;
- 28 • It would have been appropriate for Oakville Hydro to add a return or mark-up  
29 equal to 5 percent of the costs incurred rendering customer service and billing  
30 services allocated to Sandpiper, an amount below the level of materiality; and

- 1 • Oakville Hydro might have undercharged Sandpiper \$661 for the customer  
2 service and billing services rendered during the 2014 Test Year, an amount  
3 below the level of materiality.

## 4.2.3 Human Resources Services

### 4.2.3.1 Determining Whether a Service had been Rendered

4 Evidence describing the HR services provided by Oakville Hydro's HR Department  
5 to Sandpiper was presented in Section 2.3.1.3 of this report. Based on this evidence, I  
6 have concluded the following:

- 7 • The services were rendered and are services that related parties within a  
8 corporate group would ordinarily share;
- 9 • Sandpiper derived value from the HR services rendered by Oakville Hydro and  
10 would have been willing to pay for these services had they been rendered by an  
11 independent enterprise or would have hired personnel with the expertise to  
12 perform the activities for its own benefit in-house; and
- 13 • Oakville Hydro rendered HR services to Sandpiper for which an amount  
14 should be charged.

### 4.2.3.2 The Amount Charged for Human Resources Services

15 During the 2014 Test Year, Oakville Hydro charged Sandpiper \$7,519 through the  
16 Management Fee for rendering HR services.<sup>62</sup> Oakville Hydro determined the amount  
17 charged to Sandpiper for HR services rendered based on an indirect cost recovery  
18 method, without adding a return or mark-up to the costs<sup>63</sup>.

19 As shown in Table 7, Oakville Hydro determined the costs incurred rendering HR  
20 services for the corporate group to be \$601,970 during the 2014 Test Year. Oakville  
21 Hydro calculated the HR costs to be recovered by subtracting from the total operating  
22 costs incurred by its HR Department, an amount that included costs for salaries and  
23 fringe benefits, contract services, transportation and vehicles, professional fees,  
24 general and administrative, and miscellaneous expenses, relevant costs that were  
25 incurred solely for a particular affiliate were charged to that affiliate and were excluded

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<sup>62</sup> See OAK-HVAC-10.

<sup>63</sup> See OAK-HVAC-21.

1 from the calculation of fully-burdened costs (i.e., salaries and fringe benefits of  
2 employees hired to provide HR services solely for the benefit of a particular affiliate).

3 The HR costs to be recovered were allocated based on the number of employees in  
4 each entity within the corporate group. Since Sandpiper performed the majority of the  
5 its HR functions internally and Oakville Hydro only provided HR support for  
6 Sandpiper's management staff, costs were allocated to Sandpiper based on the  
7 number of its management employees. During the 2014 Test Year, there were three  
8 Sandpiper management employees for which Oakville Hydro's HR Department  
9 provided support.<sup>64</sup>

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<sup>64</sup> See OAK-HVAC-6 and OAK-HVAC-10.

**Table 7**  
**Oakville Hydro Electricity Distribution Inc.**  
**Calculation of Amount Charged to Sandpiper Energy Solutions Inc.**  
**For Human Resources Services Rendered**  
**Fiscal Year Ended December 31, 2014**  
**\$**

	<b>Actuals</b>	<b>Costs Directly Attributable</b>	<b>Costs to be Allocated</b>
<b>Departmental Operating Costs</b>			
Salaries and fringe benefits	368,626	122,462	246,155
Contract services	41,707	41,707	-
Transportation and vehicles	1,570	1,570	-
Professional fees	180,731	45,129	135,602
General and administrative	35,996	15,136	20,860
Adjustment	(26,660)	-	(26,660)
<b>Totals</b>	<b>601,970</b>	<b>226,003</b>	<b>375,967</b>
<b>Allocator (number of employees)</b>			
Sandpiper's management employees		3	
Total average users		150	
<b>Amount Charged</b>			<b>7,519</b>

Source: OAK-HVAC-6 and OAK-HVAC-10.

Note: Numbers might not add due to rounding.

#### 4.2.3.3 Determining an Arm's Length Price for Human Resources Services

- 1 There is no indication in the evidence that Oakville Hydro rendered to third parties
- 2 any of the same HR services it rendered to Sandpiper. Nor is there any indication in
- 3 the evidence that Sandpiper engaged any third parties to render any of the same HR
- 4 services Oakville Hydro rendered to them. In addition, there is no known information
- 5 source that would permit Oakville Hydro to identify, in a practical way, the price at
- 6 which third parties comparable to Sandpiper would have paid for the same or similar
- 7 HR services from third parties comparable to Oakville Hydro under similar

1 circumstances. For these reasons, it would not have been practical for Oakville Hydro  
2 to determine a charge for HR services based on a direct pricing method using  
3 competitive market pricing data.

4 In the absence of reliable competitive market pricing, Oakville Hydro applied an  
5 indirect cost recovery method, without a return or mark-up. However, I identified  
6 three issues regarding the manner in which Oakville Hydro implemented this pricing  
7 method. First, the total operating expenses incurred by the HR Department rendering  
8 HR services to the corporate group was \$628,630 and not \$601,970. Of the  
9 difference, \$20,750 of expenses should have been included in the cost base to be  
10 allocated.<sup>65</sup> Second, one of the three full-time HR management individuals employed  
11 by Sandpaper at the end of the 2014 Test Year returned from maternity leave in  
12 November. For this reason, Sandpaper's FTEs were 2½ and not three.<sup>66</sup> Finally, it is  
13 likely that were any such competitive market pricing available, it would have included  
14 an unidentifiable profit element. I relied on the guidance provided by the OECD  
15 suggesting that 5 percent is a reasonable return or mark-up for rendering HR services;  
16 a low value-added service.

17 After making adjustments for these three issues, I have estimated that \$6,050 was an  
18 arm's length price of the HR services rendered by Oakville Hydro to Sandpaper during  
19 the 2014 Test Year.<sup>67</sup>

#### 4.2.3.4 Evaluating the Amount Charged for Human Resources Services

20 Based on this evidence, I have concluded the following:

- 21 • In the absence of a practical way to identify a competitive market price, using  
22 an indirect charge method to determine an amount to charge Sandpaper for  
23 rendering HR services during the 2014 Test Year was appropriate;
- 24 • Determining the costs to be recovered for rendering HR services by  
25 subtracting costs directly attributable to a specific entity within the corporate  
26 group from the fully-burdened costs incurred by Oakville Hydro's HR  
27 Department was appropriate;

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<sup>65</sup> See OAK-HVAC-16.

<sup>66</sup> I did not undertake to determine the total FTEs for which Oakville Hydro rendered HR services.

<sup>67</sup>  $=[(601970 + 20750 - 226003) \times (2\frac{1}{2} \div 149\frac{1}{2})] \times 1.05 = 6,050$

- It would have been appropriate to include \$20,750 of additional costs in the costs incurred by Oakville Hydro's HR department rendering HR services to the corporate group during the 2014 Test Year;
- It would have been appropriate to allocate the costs to be recovered rendering HR services based on Sandpiper's relative and relevant FTEs during the 2014 Test Year;
- It would have been appropriate for Oakville Hydro to add a return or mark-up equal to 5 percent of the costs incurred rendering HR services allocated to Sandpiper;
- Oakville Hydro might have overcharged sandpiper \$1,469 for the HR services rendered during the 2014 Test Year, an amount below the level of materiality;

## 4.2.4 Health and Safety Services

### 4.2.4.1 Determining Whether a Service had been Rendered

Evidence describing the health and safety services provided by Oakville Hydro's Health and Safety Department to Sandpiper was presented in Section 2.3.1.4 of this report. Based on this evidence, I have concluded the following:

- The services were rendered and are services that related parties within a corporate group would ordinarily share;
- Sandpiper derived value from the health and safety services rendered by Oakville Hydro and would have been willing to pay for these services had they been rendered by an independent enterprise or would have hired personnel with the expertise to perform the activities for its own benefit in-house; and
- Oakville Hydro rendered health and safety services to Sandpiper for which an amount should be charged.

### 4.2.4.2 The Amount Charged for Health and Safety Services

During the 2014 Test Year, Oakville Hydro charged Sandpiper \$8,740 through the Management Fee for rendering health and safety services.<sup>68</sup> Oakville Hydro determined the amount charged to Sandpiper for health and safety services rendered

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<sup>68</sup> See OAK-HVAC-10.

1 based on an indirect cost recovery method, without adding a return or mark-up to the  
2 costs<sup>69</sup>.

3 As shown in Table 8, Oakville Hydro determined the costs incurred rendering health  
4 and safety services for the corporate group to be \$473,324 during the 2014 Test Year.  
5 Oakville Hydro calculated the health and safety costs to be recovered by subtracting  
6 from the total operating costs of its Health and Safety Department's operating costs,  
7 an amount that included costs for salaries and fringe benefits, contract services,  
8 transportation and vehicles, professional fees, and general and administrative  
9 expenses, relevant costs that were incurred solely for a particular affiliate were charged  
10 to that affiliate and were excluded from the calculation of fully-burdened costs (i.e.,  
11 salaries and fringe benefits for employees and consultants hired solely for the benefit  
12 of a particular affiliate).

13 The health and safety costs to be recovered were allocated based on the number of  
14 management employees, an estimate of the number of Sandpiper employees who  
15 benefitted from the health and safety activities.<sup>70</sup> Sandpiper employees work in an  
16 office and are not exposed to the typical dangers encountered by people working in  
17 the field.

18 During the 2014 Test Year, Oakville Hydro identified certain costs that benefitted  
19 Sandpiper and a subset of the affiliates who typically received health and safety  
20 benefits. For this reason, \$153,864 of the \$222,456 of the direct costs removed from  
21 department's total operating costs were allocated to Sandpiper and the subset of  
22 affiliates, which brought the total number of users down from 150 to 124 total users  
23 for this allocation factor.<sup>71</sup>

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<sup>69</sup> See OAK-HVAC-21.

<sup>70</sup> See OAK-HVAC-30.

<sup>71</sup> See OAK-HVAC-9 and OAK-HVAC-10.

**Table 8**  
**Oakville Hydro Electricity Distribution Inc.**  
**Calculation of Amount Charged to Sandpiper Energy Solutions Inc.**  
**For Health and Safety Services Rendered**  
**Fiscal Year Ended December 31, 2014**  
**\$**

	<b>Actuals</b>	<b>Costs Directly Attributable</b>	<b>Costs to be Allocated</b>
<b>Departmental Operating Costs</b>			
Salaries and fringe benefits	250,816	-	250,816
Contract services	19,973	19,973	-
Transportation and vehicles	2,621	2,621	-
Professional fees	6,195	6,195	-
General and administrative	193,720	193,667	53
<b>Totals</b>	<b>473,324</b>	<b>222,456</b>	<b>250,868</b>
<b>Allocator (number of employees)</b>			
Sandpiper		3	
Total average users		150	
<b>Health and Safety Services Costs Allocated to Sandpiper</b>			<b>5,017</b>
<b>Other Costs To Be Recovered</b>		<b>153,864</b>	
<b>Allocator (number of employees)</b>			
Sandpiper		3	
Total average users		124	
<b>Other Costs Allocated to Sandpiper</b>			<b>3,723</b>
<b>Amount Charged</b>			<b>8,740</b>

Source: OAK-HVAC-9 and OAK-HVAC-10.

Note: Numbers might not add due to rounding.

#### 4.2.4.3 Determining an Arm's Length Price for Health and Safety Services

There is no indication in the evidence that Oakville Hydro rendered to third parties any of the same health and safety services it rendered to Sandpiper. Nor is there any indication in the evidence that Sandpiper engaged any third parties to render any of the same health and safety services Oakville Hydro rendered to them. In addition, there is no known information source that would permit Oakville Hydro to identify, in a practical way, the price at which third parties comparable to Sandpiper would have paid for the same or similar health and safety services from third parties comparable to Oakville Hydro under similar circumstances. For these reasons, it would not have been practical for Oakville Hydro to determine a charge for health and safety services based on a direct pricing method using competitive market pricing data.

In the absence of reliable competitive market pricing, Oakville Hydro applied an indirect cost recovery method, without a return or mark-up. However, I identified two issues with the way in which Oakville Hydro implemented this pricing method. As was the case with the way in which the amount was calculated to determine the charge for HR services, Sandpiper's FTEs were  $2\frac{1}{6}$ , not three, and it is likely that were any such competitive market pricing available, it would have included an unidentifiable profit element. I relied on the guidance provided by the OECD suggesting that 5 percent is a reasonable return or mark-up for rendering health and safety services; a low value-added service.

After making adjustments for these two issues, I have estimated that \$6,668 was an arm's length price of the health and safety services rendered by Oakville Hydro to Sandpiper during the 2014 Test Year.<sup>72</sup>

#### 4.2.4.4 Evaluating the Amount Charged for Health and Safety Services

Based on this evidence, I have concluded the following:

- In the absence of a practical way to identify a competitive market price, using an indirect charge method to determine an amount to charge for rendering health and safety services to Sandpiper during the 2014 Test Year was appropriate;

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<sup>72</sup>  $= (250,868 \times 2\frac{1}{6} \div 149\frac{1}{6}) \times 1.05 + (153,864 \times 2\frac{1}{6} \div 123\frac{1}{6}) \times 1.05 = 6,668$

- 1 • Determining the costs to be recovered rendering health and safety services by  
2 subtracting costs directly attributable to a specific entity within the corporate  
3 group from the fully-burdened costs incurred by Oakville Hydro's health and  
4 safety department was appropriate;
- 5 • It would have been appropriate for Oakville Hydro to allocate the costs to be  
6 recovered rendering health and safety services based on Sandpiper's relative  
7 share of FTEs;
- 8 • It would have been appropriate for Oakville Hydro to add a return or mark-up  
9 equal to 5 percent of the costs incurred rendering health and safety services  
10 allocated to Sandpiper; and
- 11 • Oakville Hydro might have overcharged Sandpiper \$2,072 for health and safety  
12 services rendered during the 2014 Test Year, an amount below the level of  
13 materiality.

## 4.2.5 Information Technology Services

### 4.2.5.1 Determining Whether a Service had been Rendered

14 Evidence describing the IT services provided by Oakville Hydro's IT Department was  
15 presented in Section 2.3.1.5 of this report. Based on this evidence, I have concluded  
16 the following:

- 17 • The services were rendered and are services that related parties within a  
18 corporate group would ordinarily share;
- 19 • Sandpiper derived value from the IT services rendered by Oakville Hydro and  
20 would have been willing to pay for these services had they been rendered by an  
21 independent enterprise or would have hired personnel with the expertise to  
22 perform the activities for its own benefit in-house; and
- 23 • Oakville Hydro rendered IT services to Sandpiper for which an amount should  
24 be charged.

### 4.2.5.2 The Amount Charged for IT Services

25 During the 2014 Test Year, Oakville Hydro charged Sandpiper \$23,103 through the  
26 Management Fee for rendering IT services.<sup>73</sup> Oakville Hydro determined the amount

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<sup>73</sup> See OAK-HVAC-10.

1 charged to Sandpiper for IT services rendered based on an indirect cost recovery  
2 method, without adding a return or mark-up to the costs<sup>74</sup>.

3 As shown in Table 9, Oakville Hydro determined the costs incurred rendering IT  
4 services within the corporate group to be \$1,215,637 during the 2014 Test Year.  
5 Oakville Hydro calculated the IT costs to be recovered by subtracting from the total  
6 operating costs of its IT Department, an amount that included costs for salaries and  
7 fringe benefits, contract services, transportation and vehicles, and general and  
8 administrative expense, relevant costs that were incurred solely for a particular affiliate  
9 were charged to that affiliate directly and were excluded from the calculation of fully-  
10 burdened cost.

11 The IT services costs to be recovered were allocated based on the estimated number  
12 of users. Oakville Hydro determined that the six Sandpiper employees to which it  
13 rendered IT services during the 2104 Test Year only used half of the software,  
14 systems, and services that Oakville Hydro offered. For this reason, Oakville Hydro  
15 applied a factor of 0.5 to Sandpiper's headcounts during the 2014 Test Year.<sup>75</sup>

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<sup>74</sup> See OAK-HVAC-21.

<sup>75</sup> See OAK-HVAC-8 and OAK-HVAC-10.

**Table 9**  
**Oakville Hydro Electricity Distribution Inc.**  
**Amount Charged to Sandpiper Energy Solutions Inc.**  
**For Information Technology Services Rendered**  
**Fiscal Year Ended December 31, 2014**  
**\$**

	<b>Actuals</b>	<b>Costs Directly Attributable</b>	<b>Costs to be Allocated</b>
<b>Departmental Operating Costs</b>			
Salaries and fringe benefits	677,051	105,300	571,751
Contract Services	109,633	16,779	92,854
Transportation and vehicles	976	-	976
General and administrative	427,977	227,198	200,778
<b>Totals</b>	<b>1,215,637</b>	<b>349,278</b>	<b>866,359</b>
<b>Allocator (average user)</b>			
Sandpiper		3	
Total average users		112.5	
<b>Amount Charged</b>			<b>23,103</b>

Source: OAK-HVAC-8 and OAK-HVAC-10.

Note: Numbers might not add due to rounding.

#### 4.2.5.3 Determining an Arm's Length Price for IT Services

1 There is no indication in the evidence that Oakville Hydro rendered to third parties  
2 any of the same IT services it rendered to Sandpiper. Nor is there any indication in  
3 the evidence that Sandpiper engaged any third parties to render any of the same IT  
4 services Oakville Hydro rendered to them. In addition, there is no known information  
5 source that would permit Oakville Hydro to identify, in a practical way, the price at  
6 which third parties comparable to Sandpiper would have paid for the same or similar  
7 IT services from third parties comparable to Oakville Hydro under similar  
8 circumstances. For these reasons, it would not have been practical for Oakville Hydro  
9 to determine a charge for IT services based on a direct pricing method using  
10 competitive market pricing data.

1 In the absence of reliable competitive market pricing, Oakville Hydro applied an  
2 indirect cost recovery method, without a return or mark-up. I have two issues with  
3 the way in Oakville Hydro implemented this pricing method. First, Oakville Hydro  
4 used a headcount of six for the purposes of allocating IT services. Although there  
5 were eight full-time individuals employed by Sandpiper at the end of the 2014 Test  
6 Year, four of the eight employees joined Sandpiper at various times during 2014 Test  
7 Year.<sup>76</sup> For this reason, Sandpiper's FTEs was calculated to have been 6¾ during the  
8 2014 Test Year and not 6. Second, it is likely that were any such competitive market  
9 pricing available, it would have included an unidentifiable profit element. I relied on  
10 the guidance provided by the OECD suggesting that 5 percent is a reasonable return  
11 or mark-up for rendering health and safety services; a low value-added service.

12 After making adjustments for these two issues, I have estimated that \$27,200 was an  
13 arm's length price of the IT services rendered by Oakville Hydro to Sandpiper during  
14 the 2014 Test Year.<sup>77</sup>

#### 4.2.5.4 Evaluating the Amount Charged for IT Services

15 Based on this evidence, I have concluded the following:

- 16 • In the absence of a practical way to identify a competitive market price, using  
17 an indirect charge method to determine an arm's length price for the IT  
18 services it rendered to Sandpiper during the 2014 Test Year was appropriate;
- 19 • Determining the costs to be recovered by rendering IT services by subtracting  
20 costs directly attributable to a specific entity within the corporate group from  
21 the fully-burdened costs incurred by Oakville Hydro's IT group was  
22 appropriate;
- 23 • Allocating the costs to be recovered rendering IT services based on the  
24 headcount of the employees within the corporate group receiving IT services  
25 was appropriate. For those employees who were deemed to be receiving  
26 approximately half of the IT services that a full user would receive, applying a  
27 0.5 factor on these headcounts was appropriate;
- 28 • It would have been appropriate for Oakville Hydro to increase the headcount  
29 allocator from 3 employees to 3⅜ employees to calculate the charge for IT  
30 services rendered to Sandpiper;

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<sup>76</sup> See OAK-HVAC-35.

<sup>77</sup>  $=(866,359 \times 3\% \div 112\%) \times 1.05 = 27,200$

- It would have been appropriate for Oakville Hydro to add a return or mark-up equal to 5 percent of the costs incurred rendering IT services allocated to Sandpiper; and
- Oakville Hydro might have undercharged Sandpiper \$4,097 for the IT services rendered during the 2014 Test Year, an amount below the level of materiality

## 4.2.6 Occupancy Services

### 4.2.6.1 Determining Whether a Service had been Rendered

Evidence that Sandpiper occupied office space at Oakville Hydro's head office was presented in Section 2.3.1.6. Based on this evidence, I have concluded the following:

- The services were rendered and are services that related parties within a corporate group would ordinarily share;
- Sandpiper derived value from occupying the office space at Oakville Hydro's head office and would have been willing to pay for this office space had it been provided by an independent enterprise or would have leased alternative office space owned by an independent enterprise; and
- Oakville Hydro provided office space to Sandpiper for which an amount should be charged.

### 4.2.6.2 The Amount Charged for Occupancy Services

During the 2014 Test Year, Sandpiper was expected to vacate the office space occupied at Oakville Hydro. For this reason, Oakville Hydro only charged Sandpiper \$850 based on the amount included in the annual budget based on the portion of the year Sandpiper was expected to occupy office space at Oakville Hydro. Sandpiper did not vacate the office space at Oakville Hydro.<sup>78</sup>

Ordinarily, Oakville Hydro would have determined the amount to charge Sandpiper for occupying office space at Oakville Hydro based on an indirect cost recovery method, without adding a return or mark-up to the costs. As shown in Table 10, Oakville Hydro determined the costs incurred to occupy its building to be \$1,544,979 during the 2014 Test Year. Oakville Hydro's building rental costs included salaries and fringe benefits, contract services, property taxes, general and administrative, and

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<sup>78</sup> See OAK-HVAC-15.

1 building and leasehold depreciation.<sup>79</sup> Substation costs not relating to Oakville Hydro's  
2 building were removed. Oakville Hydro also received \$273,170 in sublease payments  
3 from Oakville and Rogers Communications for space occupied by these entities  
4 during the 2014 Test Year. Subtracting these sublease payments from the costs  
5 incurred to occupy the building left \$1,271,809 of building cost to be allocated during  
6 the 2014 Test Year.

7 The occupancy services costs to be recovered would have been allocated based on the  
8 square footage that Sandpiper occupied during the year compared to the total square  
9 footage available in the building. During the 2014 Test Year, Sandpiper occupied 686  
10 square feet of a possible 71,254 square feet.<sup>80</sup>

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<sup>79</sup> See OAK-HVAC-34.

<sup>80</sup> See OAK-HVAC-24 and OAK-HVAC-25.

**Table 10**  
**Oakville Hydro Electricity Distribution Inc.**  
**Calculation of Amount Charged to Sandpiper Energy Inc.**  
**For Occupancy Services Rendered**  
**Fiscal Year Ended December 31, 2014**  
**\$**

**Itemized Listing of Operating Costs**

Salaries and fringe benefits	151,603
Contract services	4,964
Property taxes	361,096
General and administrative	755,049
Less: substation costs	(322,157)

**Subtotal Operations & Maintenance** **950,555**

Depreciation – building	241,320
Depreciation – leaseholds	353,104

**Total Depreciation** **594,424**

Sublease revenue from Town of Oakville	(146,829)
Sublease revenue from Rogers Communications	(126,341)

**Total Sublease Revenue from Redwood** **(273,170)**

**Total Costs To Be Allocated** **1,271,809**

**Allocator (square footage)**

Sandpiper	686
Total square footage	71,254

**Amount Charged** **12,244**

Source: OAK-HVAC-9 and OAK-HVAC-10.

Note: Numbers might not add due to rounding.

#### 4.2.6.3 Determining an Arm's Length Price for Occupancy Services

1 During the 2014 Test Year, Oakville Hydro leased office space to the Town of  
2 Oakville. This is a related party transaction and cannot be relied on to assess the  
3 amount charged by Oakville to Sandpiper for occupying office space in its head  
4 office. Similarly, Oakville Hydro leased space in the basement of their building to  
5 Rogers Communications for use as a back-up for their data center. This space is not  
6 comparable to office space.<sup>81</sup> For this reason, this unrelated party transaction cannot  
7 be relied on to assess the amount charged by Oakville to Sandpiper for occupying  
8 office space in its head office. There is no indication in the evidence that Sandpiper  
9 engaged any third parties to render any of the same occupancy services Oakville  
10 Hydro rendered to them.

11 Prior to entering into a 20-year lease renewal on December 31, 2009, Oakville Hydro  
12 obtained an independent assessment of the lease price for its head office prepared by  
13 DTZ Barnicke to ensure that the renewed lease price was within market rates. This  
14 assessment concluded that alternative options in the marketplace at the time would  
15 yield a price between \$11.00 net to \$12.00 net per square foot.<sup>82</sup> The occupancy costs  
16 to be allocated during the 2014 Test Year are equivalent to \$17.85 per square foot. In  
17 addition, to the occupancy costs charged by Oakville Hydro for occupying office  
18 space at its head office, Sandpiper would also have to factor in the cost of moving to  
19 and furnishing new office space.

20 For these reasons, it would not have been practical for Oakville Hydro to determine a  
21 charge for occupancy services based on a direct pricing method using competitive  
22 market pricing data.

23 In the absence of reliable competitive market pricing, Oakville Hydro applied an  
24 indirect cost recovery method, without a return or mark-up. As described in Section  
25 3.4.1, there are circumstances in which an arm's length party would not generate a  
26 profit from rendering a service. Given the difference in the occupancy costs per  
27 square feet and the market data from the DTZ Barnicke report, it is likely that  
28 Oakville Hydro would derive little to no profit under this circumstance.

29 Based on the fact that Sandpiper did not vacate the office space at Oakville Hydro  
30 and occupied office space for all the 2014 Test Year, I have estimated that \$12,244

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<sup>81</sup> See OAK-HVAC-42.

<sup>82</sup> See OAK-HVAC-33.

1 should have been the amount charged by Oakville Hydro for the occupancy services  
2 rendered to Sandpiper during the 2014 Test Year.

3 Evidence to support this conclusion was provided by Ronald Coleman of Coleman  
4 Management Services Inc.<sup>83</sup> In Table 11, I present the rent expense to operating  
5 expense ratio calculated based on the financial data provided for six HVAC  
6 contractors identified by Mr. Coleman with net sales between \$2 million and \$5  
7 million.<sup>84</sup>

<b>Table 11</b> <b>Occupancy Services Analysis</b> <b>Fiscal Year Ended December 31, 2014</b> <b>\$</b>			
	Rent Expense	Operating Expense	Rent Expense / Operating Expense
Company 1	51,000	1,145,648	4.5%
Company 2	4,500	1,082,009	0.4%
Company 3	63,549	1,298,526	4.9%
Company 4	25,553	682,742	3.7%
Company 5	4,800	566,006	0.9%
Company 6	11,935	1,034,433	1.2%
<b>Summary</b>			
Minimum			0.4%
First Quartile			0.9%
Median			2.5%
Third Quartile			4.3%
Maximum			4.9%

Source: See Appendix J.

<sup>83</sup> See Appendix I for Ronald Coleman's biography.

<sup>84</sup> See Appendix J for the income statements of the 6 companies identified in the submission prepared by Ronald Coleman. Although the financial data submitted by Mr. Coleman in his submission enable me to indirectly compare Sandpiper's estimated occupancy services charge to the rent expense incurred by the six HVAC contractors identified by Ronald Coleman, the financial data was not sufficiently granular to enable me to make similar comparisons to the amounts paid by Sandpiper for the other shared services rendered by Oakville Hydro.

1 As shown Table 11, the rent expense to operating expense ratio of the six HVAC  
2 contractors during 2014 ranged from 0.4 percent to 4.9 percent, with a median of 2.5  
3 percent. Sandpiper's estimated occupancy services charge to operating expense ratio  
4 was 0.7 percent during the 2014 Test Year. Sandpiper's ratio falls within the range  
5 calculated for the six HVAC contractors identified by Ronald Coleman. Evaluating  
6 the amount charged for occupancy services

7 Based on this evidence, I have concluded the following:

- 8 • In the absence of a practical way to identify a competitive market price, using  
9 an indirect charge method to determine an amount to be charged for the  
10 occupancy services rendered to Sandpiper was appropriate;
- 11 • It would have been appropriate for Oakville Hydro to charge Sandpiper  
12 occupancy costs for the entire 2014 Test Year;
- 13 • Allocating the occupancy costs to be recovered based on the square footage  
14 occupied by Sandpiper was appropriate;
- 15 • Oakville Hydro undercharged Sandpiper \$11,394 for occupancy services  
16 rendered during the 2014 Test Year; and
- 17 • There are no alternative allocation methods deemed to be more appropriate  
18 than the one selected and used.

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# 5 Conclusion

1 With respect to the shared services that Oakville Hydro rendered Sandpiper during  
2 the 2014 Test Year, based on the information relied upon, it is my opinion that:

- 3 • Oakville Hydro rendered shared services (i.e., executive services, finance  
4 services, HR services, health and safety services, IT services, and occupancy  
5 services) to Sandpiper and these are services that related parties within a  
6 corporate group would ordinarily share;
- 7 • Sandpiper derived value from the shared services rendered by Oakville Hydro  
8 and would have been willing to pay for these services had they been rendered  
9 by an independent enterprise or would have hired the personnel with the  
10 expertise to perform the activities for their own benefit in-house;
- 11 • Oakville Hydro rendered shared services to Sandpiper for which an amount  
12 should be charged;
- 13 • In the absence of a practical way to identify a competitive market price, using a  
14 an indirect charge method, or a direct charge method in the case of customer  
15 service and billing services, to determine an amount to be charged for the  
16 shared services rendered to Sandpiper was appropriate;
- 17 • With the exception of customer service and billing services, determining the  
18 costs to be recovered for rendering shared services by subtracting costs directly  
19 attributable to a specific entity within the corporate group from the fully-  
20 burdened costs incurred by the departments within Oakville Hydro rendering  
21 the shared services was appropriate;
- 22 • It would have been appropriate for the billing rates used to determine the  
23 amount charged for customer service and billing services to include an amount  
24 to take in to account the indirect costs incurred rendering such services;
- 25 • There was evidence that immaterial amounts of costs had been excluded from  
26 the costs to be recovered for HR services;
- 27 • With the exception of customer service and billing services, allocating the costs  
28 to be recovered for rendering shared services based on time spent, headcount  
29 or the number users was appropriate;

- 1 • It would have been appropriate to allocate the costs to be recovered rendering  
2 HR services and health and safety services based on Sandpiper's relative and  
3 relevant FTEs during the 2014 Test Year;
- 4 • With the exception of occupancy services, it would have been appropriate for  
5 Oakville Hydro to add a return or mark-up consistent with the value of the  
6 service to the costs incurred rendering the shared services allocated to  
7 Sandpiper;
- 8 • Not adding a return or markup to the occupancy costs allocated to Sandpiper  
9 given the difference between the anecdotal market data and the occupancy cost  
10 per square foot was appropriate;
- 11 • It was appropriate to allocate the costs of employee events incurred by Oakville  
12 Hydro to Sandpiper without adding a return or mark-up;
- 13 • Oakville Hydro might have undercharged Sandpiper for some of the shared  
14 services rendered during the 2014 Test Year and overcharged for others, in all  
15 cases by an amount below the level of materiality.

16 My opinion is based on:

- 17 • My expertise and experience in transfer pricing;
- 18 • Evidence presented by Oakville Hydro in its 2014 Cost of Service Application  
19 and related appendices and exhibits;
- 20 • Information provided by Oakville Hydro in its responses to requests for  
21 information from me;
- 22 • Information provided by Ronald Coleman;
- 23 • Information obtained from public sources, as cited throughout this report; and  
24 • The evaluation framework I developed in Section 3 of this report.

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# Appendix A: Brad Rolph's Curriculum Vitae

## Brad Rolph

Partner - National Transfer Pricing Leader

### A.1 Experience

For the past 20 years, Mr. Rolph has helped multinational companies address their transfer pricing issues. Euromoney has recognized Brad as one of Canada's leading transfer pricing advisers in its 2015 Guide to the World's Leading Transfer Pricing Advisers. He was the first economist hired by any accounting firm in Canada to practice transfer pricing exclusively.

His areas of expertise include planning, implementing and documenting intercompany transactions for tangible goods, services and intangibles in a tax-efficient, defensible manner ("TESCM"); building models to price complex financial transactions; resolving audit disputes at the field, appeals and Competent Authority level; negotiating advance pricing arrangements ("APA"); and providing litigation support.

Brad has served companies based in Canada, the United States, England, Ireland, Finland, France, Germany, Sweden, Saudi Arabia and Japan. He has dealt with issues in the following industries: Aerospace, Mining, Metals and Minerals, Pulp and Paper, Transportation, Heavy Manufacturing, Steel, Utilities, Automotive, Chemical, Pharmaceutical, Food and Beverage, Electronic, Financial Services, Wholesale Trade, Apparel, Software, Consumer Goods and Entertainment. He also has extensive experience with Japanese trading companies and web-based businesses.

Previously, Mr. Rolph was a Partner and the Chief Economist of the Canadian transfer pricing practice of a Big Four firm. He also held senior leadership positions with two transfer pricing boutiques.

Brad is a frequent speaker and commentator on transfer pricing matters. He has been published in *International Tax Review*, *Euromoney* and *Tax Management International*. Brad has also been a tutorial leader at the CPA's In-Depth Transfer Pricing course.

In addition to an Honours Bachelor of Arts degree in economics from Wilfrid Laurier University and a Masters of Arts degree in economics from Queen's University, Brad has completed the course work and comprehensive theory exams in economics at the Ph.D. level at York University.

## **A.2 Recent Transfer Pricing Engagements**

### **A.2.1 TESCM**

- Restructured the supply chain of a Canadian based manufacturer to address expansion in the U.S.
- Restructured the supply chain of a Canadian-based manufacturer to address U.S. customs issues.
- Planned the transfer pricing policies for a Canadian-based start-up internet media publishing company with U.S. operations.
- Planned the transfer pricing policies for buy-sell tangible goods transactions between a Canadian pharmaceutical company and its limited function/risk U.S. subsidiary so as to maximize profits in Canada.
- Planned and documented transfer prices for chemicals sold by a manufacturing parent in Saudi Arabia to European customers through subsidiaries in Switzerland and the Netherlands fees so as to maximize profits reported in Saudi Arabia.

### **A.2.2 Financial Transactions**

- Supported the quantum and related interest rates for intercompany loans between a Canadian-based professional services firm and its U.S. subsidiary.
- Determined fees for parent guarantees provided by a Canadian manufacturing company to subsidiaries in the Aerospace and Transportation industries.
- Estimated the credit rating for a Canadian subsidiary of a Swedish heavy manufacturing company.
- Developed a Monte Carlo simulation model to determine the base rate of interest for profit participating debt instruments between:
  - Belgium and Latvia affiliates of a Finnish utility company;
  - Belgium and Lithuania affiliates of a Finnish utility company; and
  - Canadian and Luxembourg affiliates of a U.S. water treatment business.
- Developed a Monte Carlo simulation model to convert a fixed rate of interest to a floating rate for intercompany loans involving countries for which Bloomberg's Swap Manager does not have such capabilities.
- Estimated loan guarantee fees between related parties of a Finnish utility company.

- Estimated credit ratings and developed a methodology to determine interest rates on short-term and long term loans for 33 subsidiaries in Finland, Sweden, Norway, the Baltics, Russia, France and England for a Finnish utility company. This project required estimating credit ratings for unregulated utilities, unregulated power companies, regulated utilities, service companies and 5 captive finance entities.
- Estimated credit ratings for almost 20 U.S. and foreign subsidiaries and provided preliminary estimates of associated interest rates on long term debt for a French heavy manufacturing company.
- Estimated the credit rating and used regression analysis to determine the discount rate on preferred shares issued by a Singapore affiliate of a French mining company.
- Estimated the credit rating and the discount rate on preferred shares issued by a U.S. affiliate of a Canadian steel company.
- Determined an interest rate for funds advanced periodically to fund pre-export activities on sales of coal by a Colombian subsidiary of a U.S. mining company.
- Estimated the credit ratings, the interest rate on intercompany loans and the discount rates on preferred shares between subsidiaries in Finland, Spain and Turkey for a Canadian mining company.

### **A.2.3 Audit Dispute Resolution**

- Negotiated a settlement of transfer pricing adjustments at the Appeals Branch of the CRA for the Canadian subsidiary of a U.S. provider of information technology services. The transactions involved the provision of information technology services by the Canadian subsidiary to its U.S. parent.
- Developed a model to defend the transfer pricing policies of a Canadian food processor against a CRA reassessment at Competent Authority. The transaction at issue was a buy-sell tangible goods transaction involving a limited function/risk distributor.
- Obtained a downward adjustment for the Canadian subsidiary of a U.S. business service provider during a transfer pricing audit.

- In anticipation of an audit, measured the exposure related to transfer pricing policies for transactions involving the sale and purchase of tangible goods used as inputs between a Canadian pulp manufacturer and affiliated paper manufacturers in Canada and the U.S.

#### **A.2.4 Advanced Pricing Arrangements**

- Requested a unilateral APA with the CRA for a Canadian subsidiary of a US pharmaceutical company.
- Requested a bilateral APA between the CRA and the Internal Revenue Service for a U.S. alcoholic beverage company.
- Negotiated a unilateral APA for a Canadian subsidiary of U.S. automotive parts supplier.

#### **A.2.5 Expert Witness/Litigation Support**

- Prepared an expert report and gave testimony on behalf on the Board of Commissioners of Newfoundland and Labrador as part of Newfoundland and Labrador Hydro's General Rate Application hearing. The report addresses the transfer price for intra-group services.
- Supported counsel to object against transfer pricing adjustments assessed against a Canadian real estate developer. This matter is currently before the Tax Court of Canada.
- Supported counsel to appeal transfer pricing adjustments assessed against a Canadian food harvester on its sales of food product to an off-shore affiliate. This matter is currently before the Tax Court of Canada.
- Prepared expert witness reports at the request of counsel on a matter involving intercompany services rendered and arranged by a Canadian service provider to an off-shore, web-based affiliate. The first report was issued in support of a notice of appeal issued to the Appeals Branch of the CRA. The second report was issued in support of the audit defense for subsequent taxation years.
- Prepared draft expert witness reports at the request of counsel on a matter involving the appropriate discount rates for the factoring of accounts receivable. The matter is currently before the Federal Court of Appeals.

- Supported the work of an expert witness on a matter involving the tax treatment of lawsuit settlement expenses. The matter is currently before the Tax Court of Canada.
- Supported the work of an expert witness on a matter involving the appropriate rate for guaranteeing bank deposits that was before the Tax Court of Canada. The matter was settled.
- Supported the work of an expert witness on a matter involving the transfer pricing policies of a North American automotive manufacturer that was before the Ontario Superior Court.

### **A.3 Recent Presentations**

Risk Shifting Considerations: Economic Viewpoints, panelist, University of San Diego, 3rd Annual Transfer Pricing Symposium, April 23, 2015, San Diego, California.

Industry Panel on Intra-Group Financing, moderator, TP Minds Transfer Pricing Summit Americas 2015, February 25, 2015, Miami, Florida.

Customs Valuation and Transfer Pricing: Comparing Canada and U.S. Interpretations, presenter with Joy Nott, Canadian Importers and Exporters Association Webinar Series, September 25, 2014.

Customs Valuation and Transfer Pricing: Review of the Methodologies, presenter with Joy Nott, Canadian Importers and Exporters Association Webinar Series, September 11, 2014.

Customs Valuation and Transfer Pricing: Starting from the Beginning, presenter with Joy Nott, Canadian Importers and Exporters Association Webinar Series, August 20, 2013.

Transfer Pricing Update - Transfer Pricing in Other Countries, Networking Seminars, April 29, 2014, New York, New York.

Related Party Pricing & Transfer Pricing in the Oil and Gas Industries, presenter with Joy Nott and Lisa Zajko, Canadian Importers and Exporters Association, Western Regional Conference, February 27, 2014, Calgary, Alberta.

Best Practices in Transfer Pricing Planning and Implementation, presenter with Joy Nott and Glen Haslhofer, Insight, Latest Transfer Pricing Updates and Best Practices in Planning, Implementation and Documentation, February 21, 2014, Toronto, Ontario.

Customs Valuation and Transfer Pricing Boot Camp, presenter with Joy Nott and Lisa Zajko, Canadian Importers and Exporters Association, July 9-10, 2013.

Customs Valuation and Transfer Pricing: Comparing Canada and U.S. Interpretations, presenter with Joy Nott, Canadian Importers and Exporters Association Webinar Series, May 2, 2013.

Customs Valuation and Transfer Pricing: Review of the Methodologies, presenter with Joy Nott, Canadian Importers and Exporters Association Webinar Series, April 18, 2013.

Customs Valuation and Transfer Pricing: Starting from the Beginning, presenter with Joy Nott, Canadian Importers and Exporters Association Webinar Series, April 4, 2013.

The International Traders' Trifecta: International Tax, Transfer Pricing and Integrated Supply Chain, co-presenter with Claire Kennedy, Canadian Importers and Exporters Association, Transfer Pricing & International Tax Conference, October 16, 2012, Mississauga, Ontario.

Dispute Resolution: Global Approaches to Global Issues, panelist, International Tax Review, 12th Annual Global Transfer Pricing Forum, September 26, Paris, France.

A Global Transfer Pricing Update, Trends & Outlook with a U.S. Spin, presenter with Kathrine Kimball, Networking Seminars, U.S. - Canada International Tax Planning Conference, March 26, 2012, New York, New York.

Transfer Pricing, panelist, Boston Bar Association, Update on International Tax Compliance and Reporting, Transfer Pricing & International Tax Reform, March 21, 2012, Boston, Massachusetts.

Developing an Effective Advance Pricing Agreement (APA) in Anticipation of an Audit, panelist, Infonex, 16th Annual Transfer Pricing Conference, March 7, 2012, Toronto, Ontario.

Understanding Guarantee Fees, presenter, Infonex, 16th Annual Transfer Pricing Conference, March 7, 2012, Toronto, Ontario.

Understanding Guarantee Fees, presenter, Infonex, Latest Developments in Global Transfer Pricing Conference, October 18, 2011, Williamsburg, Virginia.

Intercompany Services, presenter with Brian Andreoli, Networking Seminars U.S. - Canada International Tax Planning Conference, September 26, 2011, Toronto, Ontario.

Advanced Pricing Arrangements, presenter, Canadian Importers and Exporters Association, Transfer Pricing & International Tax Conference, May 9, 2011, Toronto, Ontario.

Understanding the Economics of Transfer Pricing, presenter, Infonex, Key Issues in Global Transfer Pricing, April 1, 2011, San Diego, California.

An Introduction to Transfer Pricing, presenter, Infonex, Key Issues in Global Transfer Pricing, Pre-conference Workshop, March 30, 2011, San Diego, California.

The Canadian & U.S. Transfer Pricing Update: Trends & Outlook, presenter with Kathrine Kimball, Infonex, 15th Annual Transfer Pricing Update, February 2, 2011, Toronto, Ontario.

An Introduction to Transfer Pricing, presenter, Infonex, 15th Annual Transfer Pricing Update, Pre-conference Workshop, February 1, 2011, Toronto, Ontario.

Understanding Financial Transactions, presenter with Anne Lam, Infonex, Key Issues in Global Transfer Pricing, September 28, 2010, Chicago, Illinois.

Forum for In-house Transfer Pricing Practitioners, presenter, Infonex, 14th Annual Transfer Pricing Update, Post-conference Workshop, January 28, 2010, Toronto, Ontario.

Understanding the Economics of Transfer Pricing, presenter, Infonex, 14th Annual Transfer Pricing Update, January 27, 2010, Toronto, Ontario.

Review of Current Transfer Pricing Case Law in Canada and the U.S., chair and presenter, CITE, 8th Annual Canada-U.S. Transfer Pricing Symposium, October 21, 2009, Toronto, Ontario.

## A.4 Recent Publications

McKesson: A cautionary transfer pricing tale, with Claire Kennedy of Bennett Jones LLP, *International Tax Review*, February 2014, pp.19-21.

NHL Needs to Stop Rewarding Losers, editorial in the *National Post*, April 22, 2013.

GlaxoSmithKline case: legal form and economic relevance prevail, with Claire Kennedy of Bennett Jones LLP, *International Tax Review*, April 2013, pp.47-50.

Canada - U.S. arbitration: Too soon to pass judgement, *International Tax Review*, September 2012, pp. 38-40.

Canada: A year in review, *Euromoney Yearbooks*, *Transfer Pricing Review* 2012/13, pp. 19-22.

To mark-up intra-groups services or not, that is the question, *Insights: Transfer Pricing*, a Charles River Associates' publication, June 2012.

Canadian budget clarifies treatment of transfer pricing secondary adjustments and forces multinationals to re-evaluate and better monitor cross-border debt, *Insights: Transfer Pricing*, a Charles River Associates' Publication, March 2012.

In the circumstances: The Supreme Court of Canada hears the GlaxoSmithKline transfer pricing case, *Insights: Transfer Pricing*, a Charles River Associates' Publication, February 2012.

Canada's obsession with the CUP method leads to strange ruling in Alberta Printed Circuits case, *Euromoney Yearbooks*, *Transfer Pricing Review* 2011/12, pp. 33-37.

Canada Intangibles Guide, *Transfer Pricing Week—International Tax Review*, July 2011.

An alternative approach to measuring adjustments for differences in working capital intensity, *Insights: Transfer Pricing*, a Charles River Associates' Publication, June 2011.

Federal Court of Appeal upholds decision in GE Capital Canada case, *Insights: Transfer Pricing*, a Charles River Associates' Publication, February 2011.

Limited-Function Distributors: Alternatives to the Canada Revenue Agency's Co-Distributor Approach, BNA Tax Management Transfer Pricing Report, Vol. 19, No. 2, May 20, 2010, pp. 79-85.

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# Appendix B: Tax Administration Guidance

## **B.1 Determining Whether a Charge for a Service Rendered is Justified**

Under the OECD's Transfer Pricing Guidelines, the CRA's IC 87-2R and IRS' Internal Revenue Code, the primary test to determine whether a specific activity performed by a member of the multinational group for another member is a service for which a charge is justified is "whether an independent enterprise in comparable circumstances would have been willing to pay for the activity if performed for it by an independent enterprise or would have performed the activity in-house for itself."<sup>85</sup>

If the activity is not one for which an independent enterprise would have been willing to pay or perform for itself, the activity ordinarily should not be considered an intra-group service under the arm's length principle.

Activities that ordinarily would be considered intra-group services may include:

- Administrative services such as:
  - Planning,
  - Coordination,
  - Budgetary control,
  - Financial advice,
  - Accounting,
  - Auditing,
  - Legal,

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<sup>85</sup> See OECD Transfer Pricing Guidelines, Chapter VII, Section B.1, paragraph 7.6. See also IC 87-2R, paragraph 162 and §1.482-9(1)(3)(i).

- Factoring, and
- Computer services;
- Financial Services such as:
  - Supervising cash flows and solvency,
  - Capital increases,
  - Loan contracts,
  - Managing interest and exchange rate risks, and
  - Refinancing;
- Assistance in the fields of:
  - Production,
  - Buying,
  - Distribution, and
  - Marketing; and
- Services in staff matters such as:
  - Recruitment, and
  - Training.<sup>86</sup>

Similarly, an activity would not be considered an intra-group service if:

- It is classified as a Shareholder benefit;<sup>87</sup>
- It duplicates an activity that the recipient has already performed itself or had a third party perform on its behalf;<sup>88</sup> or
- If the benefit results from the recipient's status as a member of a controlled group.<sup>89</sup>

Although it would also be unusual for a group member to incur a charge for a service performed by another member of the group if that activity is performed by the member itself or by an arm's length party on the member's behalf, in some cases there may be a valid business reason for duplicating a service.<sup>90</sup>

The following are examples of shareholder activity-related costs provided by the OECD:

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<sup>86</sup> See OECD Transfer Pricing Guidelines, Chapter VII, Section B.1, paragraph 7.14. See also IC 87-2R, paragraph 162 and §1.482-9(1)(3)(i).

<sup>87</sup> See OECD Transfer Pricing Guidelines, Chapter VII, Section B.1, paragraph 7.9 and OECD BEPS Final Report, page 144.

<sup>88</sup> See OECD Transfer Pricing Guidelines, Chapter VII, Section B.1, paragraph 7.11 and OECD BEPS Final Report, page 145.

<sup>89</sup> See OECD Transfer Pricing Guidelines, Chapter VII, Section B.1, paragraph 7.13 and OECD BEPS Final Report, page 146.

<sup>90</sup> See OECD Transfer Pricing Guidelines, Chapter VII, Section B.1, paragraph 7.11.

- Costs related to the legal structure of the parent company itself, such as the parent's shareholder meetings, issuing shares in the parent company, stock exchange listing of the parent company, and costs related to the governance board;
- Costs related to the financial reporting or regulatory requirements of the parent company including the consolidation of the reports;
- Cost of raising funds for the acquisition of an interest in a business;
- Cost related to compliance of the parent company with the relevant tax laws; and
- Costs which are ancillary to the corporate governance of the multinational enterprise as a whole.<sup>91</sup>

## B.2 Determining an Arm's Length Charge

Where a charge for a service is justified, the amount charged should be determined in accordance with the arm's length principle. Determining the arm's length price for a service should be considered from the perspective of both the supplier and the recipient of the service. The arm's length price will not only be a function of the cost incurred by the supplier providing the service, but also a function of the value of the service to the recipient and how much an arm's length entity would be prepared to pay for such the service in comparable circumstances.<sup>92</sup>

In its Transfer Pricing Guidelines, the OECD recommends two methods that, when applied correctly, result in an arm's length price for the provision of services.<sup>93</sup> These methods are the comparable uncontrolled price ("CUP") method and the cost plus method.<sup>94</sup> The United Nations and CRA endorse the use of these methods.<sup>95</sup>

For U.S. tax purposes, the arm's length price charged for rendering services to related parties must be determined under one of the following six methods listed in §1.482-9:

<sup>91</sup> See OECD Transfer Pricing Guidelines, Chapter VII, Section B.1, paragraph 7.10 and OECD BEPS Final Report, page 145. See also IC 87-2R, paragraphs 156 and 157, and §1.482-9(l).

<sup>92</sup> See OECD Transfer Pricing Guidelines, Chapter VII, Section B.2.3, paragraph 7.29 and IC 87-2R, paragraph 162.

<sup>93</sup> See "Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrators," OECD.

<sup>94</sup> See OECD Transfer Pricing Guidelines, Chapter VII, Section B.2.3., paragraph 7.31.

<sup>95</sup> See IC 87-2R, paragraphs 160 and 162.

- Service cost method;
- Comparable uncontrolled services price method;
- Gross service margin method;
- Cost of services plus method;
- Comparable profits method; and
- Profit split methods.

Each method must be applied in accordance with the provisions of §1.482-1, including the best method rule, the comparability analysis, and the arm's length range.

These methods endorsed by the OECD, the UN, the CRA and the IRS, can be generally categorized into methods that evaluate the actual price of a service (the "comparable price methods") and methods that are based on the recovery of costs incurred by the service provider, plus a mark-up, if appropriate ("cost recovery methods").

### **B.2.1 Comparable Price Methods**

Comparable price methods compare the price charged for services rendered between related parties in controlled transactions to the price charged for services rendered between unrelated parties in uncontrolled transactions in similar circumstances.<sup>96</sup> Evidence that would permit the application of the comparable price methods may arise where:

- The taxpayer or another member of the group receives or renders a service of substantially the same quality, in similar quantities and under comparable terms from/to arm's length parties in similar markets (internal comparable uncontrolled transactions); or
- An arm's length party receives or renders a service of substantially the same quality, in similar quantities and under comparable terms to another arm's length party in similar markets (external comparable uncontrolled transactions).<sup>97</sup>

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<sup>96</sup> See OECD Transfer Pricing Guidelines, Chapter II, Section B, paragraph 2.13.

<sup>97</sup> See IC 87-2R, paragraphs 64 and 161.

Accordingly, the comparable price methods are likely to be used where there is a comparable service rendered between third parties in the recipient's market, or by the related party providing the service to a third party in comparable circumstances.

The CRA believes that the CUP method provides the best evidence of an arm's length price because it focuses directly on the price of a transaction and requires a high level of comparability.<sup>98</sup>

Transactions may serve as comparable transactions despite the existence of differences between those uncontrolled and the controlled transactions, if the differences can be reasonably quantified and appropriate adjustments can be made to eliminate the effects of those differences.<sup>99</sup> However, at some point, the differences may become so significant that the CUP method cannot be relied upon to produce arm's length price and other transfer pricing methods may have to be considered.<sup>100</sup>

## **B.2.2 Cost Recovery Methods**

In cases where comparable price methods cannot be reliably applied, the OECD encourages taxpayers to consider alternative methods which involve identifying an appropriate cost of a service. Once an appropriate cost of rendering a service is identified, the taxpayer must determine whether that cost of service should be marked-up, and if so, by how much.

The cost of providing such services may be borne initially by the parent company or alternatively, by a specially designated group member or by any group member.<sup>101</sup>

Affiliate services can be charged out to the recipients using either the direct charge method or the indirect charge method. Under the direct charge method, an affiliate is charged based on the costs incurred for a specific, readily-identifiable service. Under the indirect charge method, an affiliate is charged based on an allocation of costs incurred for a central beneficial service.<sup>102</sup>

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<sup>98</sup> See IC 87-2R, paragraph 53.

<sup>99</sup> See IC 87-2R, paragraph 66.

<sup>100</sup> See IC 87-2R, paragraph 55.

<sup>101</sup> See OECD Transfer Pricing Guidelines, Chapter VII, Section A, paragraph 7.2.

<sup>102</sup> See OECD Transfer Pricing Guidelines, Chapter VII, Section B.2.2, paragraph 7.20-7.27.

### B.2.3 Determining the Cost Base

There is limited guidance provided in OECD's Transfer Pricing Guidelines and the CRA's IC-87-2R regarding which costs to take into account when determining the cost of rendering a service. However, the IRS' Internal Revenue Code defines total services cost as "all costs of rendering those services."<sup>103</sup> The term "all costs" will generally include direct operating costs (e.g., salaries and benefits) as well as indirect operating costs (e.g., overhead), but will exclude non-operating costs, such as "interest expense, foreign income taxes, or domestic income taxes"<sup>104</sup> as well as "shareholder costs."

### B.2.4 Determining the Allocation Method

Once the cost base is determined, taxpayers are then encouraged to identify and remove from the cost base those costs that are attributable to services performed by one group member solely on behalf of one other group member.<sup>105</sup>

The remaining cost base is then allocated to the relevant service recipients to approximate the cost of service to those recipients. The guidance provided by the OECD in its Transfer Pricing Guidelines is limited. It states the allocation can be based on "turnover, or staff employed, or some other basis."<sup>106</sup> The guidance provided by the CRA is also limited to the following:

"When choosing an allocator (e.g., sales, gross or operation profits, units used/produced/sold, number of employees, or capital invested), the taxpayer should consider the nature and use made of the service."<sup>107</sup>

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<sup>103</sup> See §1.482-9(j).

<sup>104</sup> See §1.482-9(j).

<sup>105</sup> See OECD BEPS Final Report, page 158.

<sup>106</sup> See OECD Transfer Pricing Guidelines, Chapter VII, Section B.2.3, paragraph 7.25.

<sup>107</sup> See OECD Transfer Pricing Guidelines, Chapter VII, Section A, paragraph 7.2.

Even the IRS provides limited guidance to taxpayers in terms of an appropriate allocation method.

"Any reasonable method may be used to allocate and apportion costs. In establishing the appropriate method of allocation and apportionment, consideration should be given to all bases and factors, including, for example, total services costs, total costs for a relevant activity, assets, sales, compensation, space utilized, and time spent."<sup>108</sup>

In the OECD BEPS Final Report, the taxpayers are encouraged to select an allocation key that reflects the level of benefit expected to be received by each service recipient for each category of services rendered.<sup>109</sup> As a general rule the allocation key should reflect the underlying need for the particular service rendered. For example, the allocation key for services related to people might use each company's share of total group headcount; IT services might use the share of total users, fleet management services might use the share of total vehicles, accounting support services might use the share of total relevant transactions or share of assets. In other cases, the share of total sales may be the most relevant key.

### **B.2.5 Determining Whether a Mark-up Should Be Applied**

Arm's length service providers would normally seek to charge a fee for their services in such a way so as to generate a profit, rather than merely charging for the service at cost. However, there are circumstances in which an arm's length party would not generate a profit from rendering a service. Accordingly, it need not always be the case that an arm's length price will result in a profit for an associated enterprise that is performing an intragroup service.<sup>110</sup>

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<sup>108</sup> See §1.482-9(k).

<sup>109</sup> See OECD BEPS Final Report, page 158.

<sup>110</sup> See OECD Transfer Pricing Guidelines, Chapter VII, Section B.2.3, paragraph 7.33. In the context of determining whether to add a mark-up to a service-related cost transferred between related parties, the OECD distinguishes between situations in which one of the related parties renders the service and situations in which one of the related parties involved acts solely as an intermediary on behalf of the other related party or parties to acquire services from an arm's length party. In the latter situation, the OECD suggests that it may be appropriate to pass on these costs to the group recipients without a mark-up because they are costs that the group recipients would have incurred directly had they been independent parties (See OECD Transfer Pricing Guidelines, Chapter VII, Section B.2.3, paragraph 7.36). The CRA provides similar guidance on the issue of flow-through costs (See IC 87-2R, paragraphs 165).

The guidance provided by the CRA mirrors that of the OECD on this issue. According to the CRA, determining whether a mark-up is appropriate and, if so, the quantum of the mark-up requires careful consideration of the following factors:

- The nature of the activity;
- The significance of the activity to the group;
- The relative efficiency of the service supplier; and
- Any advantage that the activity creates for the group.<sup>111</sup>

With the exception of the services cost method, the methods by which the IRS determines arm's length amounts charged in affiliate services transactions include a profit element. The services cost method allows a zero mark-up. The services cost method may be applied if the following conditions are met:

- The service is a covered service;<sup>112</sup>
- The service is not an excluded activity;<sup>113</sup>
- The service is not precluded from constituting a covered service by the business judgment rule;<sup>114</sup> and
- Permanent books of account and records are maintained for as long as the costs with respect to the covered services are incurred by the renderer.<sup>115</sup>

Many tax administrators consider the value of the service being rendered to determine whether a cost of service should be marked-up. In general, tax administrators have historically permitted mark-ups on value-added activities and denied mark-ups on routine activities. This has been a contentious issue amongst tax administrators. In the OECD BEPS Final Report, the OECD has proposed a simplified approach to for determining the amount to be charged and paid for by individual members of a multinational enterprise for low value-adding services based on the costs incurred to render the service plus a mark-up between 2 percent to 5 percent. The services identified by the OECD that would likely meet the definition of low value-adding services included:

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<sup>111</sup> See IC 87-2R, paragraph 164.

<sup>112</sup> See §1.482-9(b)(3).

<sup>113</sup> See §1.482-9(b)(4).

<sup>114</sup> See §1.482-9(b)(5).

<sup>115</sup> See §1.482-9(b)(6).

- Accounting and audit activities;
- Processing and management of accounts receivable and accounts payable;
- HR activities;
- Monitoring and compiling data related to health, safety environmental and other standards regulating the business;
- Information technology services, that are not part of the principal activity of the group;
- Internal and external communications and public relations support, excluding specific advertising and marketing activities;
- Legal services;
- Tax activities; and
- Administration support.

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# Appendix C: Best Practices Amongst Regulated Canadian Utility Companies

I performed a survey of utility companies to determine the utility industry's best practices for cost allocations of shared services. In Table 12, I present a list of utility service providers in certain provinces that was compiled using information from Industry Canada and The Electricity Forum's database of utility companies.<sup>116</sup>

I relied on allocation methods used by the utility company with the largest revenues in each province represent the allocation methods used by utility companies in that province. A description of the cost allocation methods used by each of the largest utility companies in each province follows.

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<sup>116</sup> Information from Industry Canada was sourced from [www.ic.gc.ca/eic/site/mc-mc.nsf/eng/lm00525.html](http://www.ic.gc.ca/eic/site/mc-mc.nsf/eng/lm00525.html) and Information from The Electricity Forum was sourced [www.electricityforum.com/links/cdautil.html](http://www.electricityforum.com/links/cdautil.html).

**Table 12**  
**Summary of Utility Companies by Province**  
**\$**

<b>Company</b>	<b>Province</b>	<b>Revenue (Million)</b>	<b>Notes</b>
ATCO Electric Ltd.	Alberta	4,554	
ENMAX Corporation	Alberta	386	
EPCOR Distribution & Transmission Inc.	Alberta	1,904	
FortisAlberta	Alberta	518	Subsidiary of Fortis Inc.
TransAlta	Alberta	2,623	Based in Alberta and largest operations in Alberta, but operates across North America.
BC Hydro and Power Authority	British Columbia	5,392	
Fortis BC Energy Inc.	British Columbia	334	Subsidiary of Fortis Inc.
Manitoba Hydro	Manitoba	1,914	
New Brunswick Power Corporation	New Brunswick	1,797	
Newfoundland and Labrador Hydro	Newfoundland	796	
Nova Scotia Power Inc.	Nova Scotia	1335	Subsidiary of Emera.
Hydro One	Ontario	6,074	
Hydro Ottawa	Ontario	173	
London Hydro Inc.	Ontario	405	
Niagara Peninsula Energy Inc.	Ontario	-	
Oakville Hydro Energy Services Inc.	Ontario	187	Retrieved from 2012 Annual Report.

**Table 12**  
**Summary of Utility Companies by Province**  
**\$**

<b>Company</b>	<b>Province</b>	<b>Revenue (Million)</b>	<b>Notes</b>
Maritime Electric	Prince Edward Island	1,008	Subsidiary of Fortis Inc. Revenue reported is for all of Fortis Inc.'s Eastern Canada Operations.
Hydro-Québec	Québec	13,638	
SaskPower	Saskatchewan	2,045	
Saskatoon Light & Power	Saskatchewan	-	

*Source: Annual Reports of each Company.*

## C.1 Alberta

Of the utility companies listed in Table 12, ATCO Electric Ltd. ("ATCO") has the largest revenues in Alberta. Publicly available information regarding ATCO's cost allocation methods is available from the Alberta Utilities Commission ("UAC"), the regulatory body which oversees utility companies in Alberta. The UAC published ATCO's 2013-2014 Transmission General Tariff Application issued on September 24, 2013. This publication is the most recent document which details the cost allocation methods used by ATCO. In Table 13, I present the cost allocation methods used by ATCO.

**Table 13**  
**ATCO Electric Ltd.**  
**Cost Allocation Methods Used**  
**September 24, 2013**

Cost	Allocation Method
General O&M expenditures	Analysis of Communication costs; Analysis of Expenditures; Square Footage analysis; Average of the Percentages for Revenue; Net Property Plant & Equipment ("Net PP&E") and Capital Expenditures; Number of employees training; and Analysis of Transmission vs Distribution O&M Inventory Transactions.
Common operations	Number of Employees; Analysis of Transmission vs Distribution O&M Inventory Transactions; Average of the Percentages for Revenue; Net PP&E and Capital Expenditures; Average number of employee moves; Analysis of percentage of O&M that relates to each business unit; Analysis of time spent supervising O&M employees by business unit; Analysis of expenditures; and Number of application users.
Corporate A&G expenses	Insurable Value of PP&E; Number of Employees; Number of Vehicles; Analysis of Expenditures; Analysis of Capital Expenditures; Occupied Square Footage; Revenue Requirement and Analysis of Expenditures; Average of the Percentages for Revenue; Net PP&E and Capital Expenditures; and Internal Review of Services Provided.

Corporate general PP&E	<p>Assignment of corporate employees to business units;</p> <p>Proportion of land, buildings &amp; structures directly assigned to each business unit;</p> <p>Proportion of occupied square footage for corporate areas assigned to each business unit;</p> <p>Assignment of employees to the business units'</p> <p>Average of actual revenue; and</p> <p>Year-end Net PP&amp;E and Capital Expenditures.</p>
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*Source: Page 184 to 186 of the ATCO Electric Ltd. 2013-2014 Transmission General Tariff Application, September 24, 2013 - Schedules 27-1 through to 27-4.*

## C.2 British Columbia

Of the utility companies listed in Table 12, BC Hydro has the largest revenues in British Columbia. Publicly available information regarding BC Hydro's cost allocation methods is available from the British Columbia Utilities Commission ("BCUC"), the regulatory body which oversees utility companies in British Columbia. The BCUC published BC Hydro's FY2015-16 Revenue Requirements Application issued on March 7, 2014.<sup>117</sup> This publication is the most recent document which details the cost allocation methods used by BC Hydro. In Table 14, I present the cost allocation methods used by BC Hydro.

<b>Table 14</b> <b>BC Hydro</b> <b>Cost Allocation Methods Used</b> <b>March 7, 2014</b>	
Cost	Allocation Method
Building Operation Costs	Floor space occupied
Accenture Business Services for Utilities (ABSU) Support costs	Expenditures and headcount, or headcount alone
Insurance Cost	Assets covered by the policies, and risks associated with the operations
Billing System Amortization, and Customer Care	Allocated to customer care & conservation
Remaining Corporate Costs	Allocated by the average proportionate shares of expenditures (operating costs and capital) and headcount

*Source: Section 7.9, page 7-6 of BC Hydro's F09/F10 Revenue Requirements Application.*

<sup>117</sup> Page 5 of BC Hydro's FY2015-16 Revenue Requirements Application states that the allocation methodology used by BC Hydro are based on the DARR allocation table initially approved by the BCUC in its decision on BC Hydro's F09/F10 RRA (DARR Allocation Table) and further confirmed through BCUC Order No. G-77-12A.

### C.3 Manitoba

Of the utility companies listed in Table 12, Manitoba Hydro has the largest revenues in Manitoba. Publicly available information regarding Manitoba Hydro's cost allocation methods is available from the Manitoba Public Utilities Board ("MPUB"), the regulatory body which oversees utility companies in Manitoba. The MPUB published Manitoba Hydro's 2015/16 & 2016/17 General Rate Application issued on January 16, 2015. This publication is the most recent document which details the cost allocation methods used by Manitoba Hydro. Appendix 5.5, page 15 and page 16, of Manitoba Hydro's 2015/16 & 2016/17 General Rate Application states that capital allocations are based on each division's estimate of the amount of internal labour that is needed to support capital projects and will vary based on the capital projects planned in the year. I subsequently contacted MPUB to request more details on their cost allocation methods and was provided Centra Gas Manitoba Inc.'s, Manitoba Hydro's parent company, cost allocation methods. In Table 15, I present the cost allocation methods used by Centra Gas Manitoba Inc.

**Table 15**  
**Centra Gas Manitoba Inc.**  
**Cost Allocation Methods Used**  
**January 16, 2015**

Cost	Allocation Method
Activity charges	Based on time spent
Overhead	Percentage mark-up on activity charges; Stores overhead, based upon a percentage mark-up on materials used
Vehicle and work equipment costs	Charged into resource cost centres using unit rates which are calculated based upon the cost of owning and operating this equipment

*Source: Page 11 of 2013/14 General Rate Application Cost Allocation Methodology PUB/Centra I-21(a).*

*Note: Manitoba Oakville Hydro is a subsidiary of Centra Gas Manitoba Inc.*

## C.4 New Brunswick

Of the utility companies listed in Table 12, New Brunswick Power Corporation ("NB Power") has the largest revenues in New Brunswick. Publicly available information regarding NB Power's cost allocation methods is available from the New Brunswick Energy and Utilities Board ("NBEUB"), the regulatory body which oversees utility companies in New Brunswick. The NBEUB published a cost allocation report by KPMG titled NB Power Corporation Review and Update of Overhead Capitalization Rate and Corporate Services Cost Allocation issued on October 23, 2014. This publication is the most recent document which details the cost allocation methods used by NB Power. Page 23 of KPMG's cost allocation report states that the cost allocation methods used by NB Power for its shared services cost are as follows: OM&A expenses, total assets, total revenue, employees, and Net PP&E.

## C.5 Newfoundland and Labrador

Of the utility companies listed in Table 12, Newfoundland and Labrador Hydro ("NL Hydro") has the largest revenues in Newfoundland and Labrador. Publicly available information regarding NL Hydro's cost allocation methods is available from the Board of Commissioners of Public Utilities ("BCPU"), the regulatory body which oversees utility companies in Newfoundland and Labrador. Cost allocation information was provided in NL Hydro's 2014 General Rate Application filed with the BCPU. This publication is the most recent document which details the cost allocation methods used by NL Hydro. Page 3.36 of the 2014 General Rate Application states that the cost allocation methods used by NS Power for its corporate support services are as follows: analysis of costs or expenditures, number of employees, number of users, and square footage.

## C.6 Nova Scotia

Of the utility companies listed in Table 12, Nova Scotia Power Inc. ("NS Power") has the largest revenues in Nova Scotia. Publicly available information regarding NS Power's cost allocation methods is available from the Nova Scotia Utility Review Board ("NSUARB"), the regulatory body which oversees utility companies in Nova Scotia. No cost allocation information was provided in NS Power's 2013 General Rate Application filed with the NSUARB. The NSUARB published NS Power Affiliate Code of Conduct 2013 Report issued on May 30, 2014. This publication is the most recent document which details the cost allocation methods used by NS Power. Page 138 of the NS Power Affiliate Code of Conduct 2013 Report states that the cost allocation methods used by NS Power for its corporate support services are as follows: time analysis, project analysis, enterprise employees, total capitalization, number of invoices, number of distribution lines, number of vehicles, asset value, and total revenue.

## C.7 Ontario

Of the utility companies listed in Table 12, Hydro One has the largest revenues in Ontario. Publicly available information regarding Hydro One's cost allocation methods is available from OEB, the regulatory body which oversees utility companies in Ontario. The OEB published Hydro One's Common Corporate Costs, Cost Allocation Methodology issued on December 19, 2013. This publication is the most recent document which details the cost allocation methods used by Hydro One. Page 2 of Hydro One's Hydro One's Common Corporate Costs, Cost Allocation Methodology report states that Hydro One's Planning & Operating and Customer Service groups' costs are allocated based on a time study. Hydro One's Common Corporate Costs, Cost Allocation Methodology report also states that it commissioned a study by Black and Veatch ("B&V") to recommend a best practice methodology to allocate common corporate costs among the business entities using the common services. B&V's Review of Allocation of Common Corporate Costs (Distribution) - 2013 report states the following allocation methods were used: headcount (of employees), number of workstations, invoices to vendors, capital expenditures, net utility plant, program project costs, total capital, and total revenue.

## C.8 Prince Edward Island

Of the utility companies listed in Table 12, Maritime Electric has the largest revenues in Prince Edward Island. Publicly available information regarding Maritime Electric's cost allocation methods is available from the Island Regulatory and Appeals Commission ("IRAC"), the regulatory body which oversees utility companies in Prince Edward Island. No cost allocation information was provided in documents published by the IRAC. I subsequently contacted Fortis Inc. ("Fortis"), the parent company of Maritime Electric, to request more information on how costs are allocated among its affiliates. A representative from Fortis stated the following:

"The operating model and approach for the Fortis utilities is that each utility is located in its respective service territory and is responsible for its own standalone operations, including oversight by respective Board of Directors for each utility. In this manner, the "shared services" between Fortis Inc. and its utilities are not as significant as they would be in a centralized environment. There are, however, a number of operating expenses at the Fortis Inc. head office level that do provide benefits to our utility subsidiaries and, as such, certain of these costs are allocated to our utilities and billed to them accordingly. These items include, but are not limited to: board of directors expenses, investor relations expenses, insurance, internal audit, treasury and taxation, financial reporting and audit expenses. All of these types of costs would include associated salaries for these functions. The allocation method used to bill these shared services is based on percentage of Fortis Inc.'s investments (assets) in the various utilities."

## C.9 Saskatchewan

Of the utility companies listed in Table 12, SaskPower has the largest revenues in Saskatchewan. Publicly available information regarding SaskPower's cost allocation methods is available from the Saskatchewan Rate Review Panel ("SRRP"), the regulatory body which oversees utility companies in Saskatchewan. No cost allocation information was provided in documents published by the SRRP. I subsequently reviewed SaskPower's 2014, 2015, 2016 Rate Application issued in October 2013. This publication is the most recent document which details the cost allocation methods of SaskPower. Page 28 of SaskPower's 2014, 2015, 2016 Rate Application states that affiliate costs are allocated based on the National Association of Regulatory Utility Commissioner's Guidelines for Cost Allocations. In Table 16, I present the cost allocation methods used by SaskPower.

**Table 16**  
**SaskPower**  
**Cost Allocation Methods Used**  
**October 2013**

Cost	Allocation Method
Transmission & Distribution	Cost centre reports
Customer Services	Cost centre operation, maintenance and administration reports
Corporate & Financial Services	Employee headcount
Planning, Environment & Regulatory Affairs	Employee analysis
Safety	Safety department staff assignments to the Business Units and Support Groups
Corporate Information & Technology	Employee headcount
Human Resources	Employee headcount

*Source: Page 22 of SaskPower's 2014, 2015, 2016 Rate Application.*

## **C.10 Summary of Search Results for Utility Companies' Cost Allocation Methods**

In Table 17, I present the results of my industry survey of intra-group cost allocation methods used by Canadian utility companies. Based on my review of the allocation methods used by the utility company with the largest revenues in each province, it is my opinion that the following allocation methods should be considered depending on the nature of the service rendered:

- Time spent;
- Square footage;
- Number of employees or headcount;
- Costs or expenditures;
- Revenue;
- Assets; and
- Number of transactions, assignments, or projects.

**Table 17**  
**Regulated Canadian Utility Companies**  
**Summary of Cost Allocation Methods**  
**2013-2015**

Province	Allocation Methods
Alberta	Analysis of costs or expenditures; Square footage; Revenue; Number of employees; Number of transactions; Time spent; Number of users; and Portion of resources assigned to each business unit.
British Columbia	Floor space; Expenditures; Headcount; and Assets.
Manitoba	Time spent; Materials used; and Cost of owning and operating this equipment.
New Brunswick	OM&A expenses; Total assets; Total revenue Employees; and Net PP&E.
Newfoundland and Labrador	Analysis of costs or expenditures; Square footage; Number of employees; and Number of users.
Nova Scotia	Time analysis; Project analysis; Enterprise employees; Total capitalization; Number of invoices; Number of distribution lines;

**Table 17**  
**Regulated Canadian Utility Companies**  
**Summary of Cost Allocation Methods**  
**2013-2015**

	Number of vehicles; Asset value; and Total revenue.
Ontario	Time spent; Headcount (of employees); Number of workstations; Invoices to vendors; Capital expenditures; Net utility plant; Program project costs; Total capital; and Total revenue.
Prince Edward Island	Asset value.
Saskatchewan	Cost specific reports; Employee head count; and Assignments.

*Source: Compilation of tables presented in the subsections above.*

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# Appendix D: Executive Services Search Process

## D.2 Searching for and Selecting Support and Strategic Management Companies

We identified companies in the S&P North American database that were classified in one of the following Standard Industrial Classification (“SIC”) Codes:<sup>118</sup>

- SIC Code 7389 – Business Services, Not Elsewhere Classified;
- SIC Code 8111 – Legal Services;
- SIC Code 8721 – Accounting, Auditing and Bookkeeping Services;
- SIC Code 8741 – Management Services;
- SIC Code 8742 – Management Consulting Services;
- SIC Code 8744 – Facilities Support Management Services; and
- SIC Code 8748 – Business Consulting Services, Not Elsewhere Classified.

Based on these SIC Codes, 110 companies were identified using the S&P North American database.

We eliminated 34 of these 110 companies because they did not have at least two years of financial data for the relevant period. This screening criterion is useful to eliminate development-stage and inactive companies, to provide sufficient historical data to even out one-year aberrations in financial results, and to normalize the effects of product or industry cycles. We eliminated an additional 2 companies as they were duplicates.

We then reviewed the short business descriptions of the remaining 74 companies identified from the S&P North American database to determine whether they performed functions similar to those of Oakville Hydro. We eliminated 56 of the 74 companies because they were development stage companies, companies who distributed significantly different products, operated in a significantly different geographic market, or those companies who are principally engaged in manufacturing, research and development, or activities other than providing value-added services. Finally, we removed companies who were not a going concern.<sup>119</sup>

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<sup>118</sup> SIC codes were selected using the Standard Industrial Classification Manual prepared in 1987 by the Executive Office of the President -- Office of Management and Budget.

<sup>119</sup> See Appendix E for the search matrix of potentially executive companies.

Finally, we reviewed the annual reports and/or SEC Form 10-Ks for the remaining 18 companies. Based on this final review, we identified the following 15 comparable companies:<sup>120</sup>

- Accenture Plc;
- The Advisory Board Co.;
- CBIZ Inc.;
- CEB Inc.;
- Convergys Co.;
- CRA International Inc.;
- Exponent Inc.;
- FTI Consulting Inc.;
- Hackett Group Inc.;
- Huron Consulting Group Inc.;
- ICF international Inc.;
- Navigant Consulting Inc.;
- Resources Connection Inc.;
- Teletech Holdings Inc.; and
- Towers Watson & Co.

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<sup>120</sup> See Appendix F for business descriptions of these 15 companies.

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# Appendix E: Search Matrix of Potentially Comparable Executive Companies

**Summary of Potentially Comparable Companies Reviewed  
Corresponding to Taxation Year Ended December 31, 2014**

<b>No.</b>	<b>COMPANY NAME</b>	<b>ACCEPT</b>	<b>REJECT</b>	<b>NOTES</b>
1	Accenture Plc	✓		
2	Access Worldwide Cmmnctns		✓	Insufficient sales data.
3	Accretive Health Inc		✓	Healthcare revenue cycle management.
4	Act Clean Technologies Inc		✓	Insufficient sales data.
5	Advantex Marketing Intl Inc		✓	Loyalty programs.
6	Advisory Board Co	✓		
7	Af Ocean Investment Mgmt Co		✓	Capital advisory, Chinese-American business relations.
8	Affinion Group Holdings Inc		✓	Loyalty programs.
9	Affinion Group Inc		✓	Duplicate company.
10	Aimia Inc		✓	Loyalty programs, software.
11	All Marketing Solutions Inc		✓	Insufficient sales data.
12	Altisource Portfolio Soltns		✓	Asset management services.
13	Amrep Corp		✓	Media services, real estate.
14	Arc Document Solutions Inc		✓	Document solutions for architectural engineering.
15	Ashford Inc		✓	Asset management services.
16	Avalon Correctional Svcs Inc		✓	Insufficient sales data.
17	B. Riley Financial Inc		✓	Real estate consulting, capital advisory, and financial services.
18	Bluford Inc		✓	Insufficient sales data.
19	Bridgepoint Intl Inc		✓	Insufficient sales data.
20	Butler National Corp		✓	Aerospace products and services.
21	Cardtronics Inc		✓	Automated consumer financial services.
22	Cartesian Inc		✓	3 years negative.
23	Cass Information Systems Inc		✓	Payment and information processing services.
24	Cbiz Inc	✓		
25	Ceb Inc	✓		
26	Chuma Holdings Inc		✓	Financial services for the cannabis industry.
27	Cinedigm Corp		✓	Cinema-related services.
28	Collectors Universe Inc		✓	Collectibles authentication and related publications.
29	Convergys Corp	✓		
30	Cosmos Holdings Inc		✓	Acquires and operates real estate holdings.
31	Cra International Inc	✓		
32	Crown Baus Capital Corp		✓	Insufficient sales data.
33	Crown Equity Holdings Inc		✓	Advertising and marketing services.
34	Cumo Resources Ltd		✓	Insufficient sales data.
35	Environmental Service Pros		✓	Insufficient sales data.
36	Envoy Capital Group Inc		✓	Insufficient sales data.
37	Eurocontrol Technics Grp Inc		✓	Energy security services.
38	Eurotech Ltd		✓	Insufficient sales data.
39	Exponent Inc	✓		
40	Fti Consulting Inc	✓		
41	Fullcircle Registry Inc		✓	Acquisitions of small businesses.
42	Green Dot Corp		✓	Personal banking services.
43	Hackett Group Inc	✓		
44	Hill International Inc		✓	Construction consulting services.
45	Huron Consulting Group Inc	✓		
46	Ibi Group Inc		✓	Planning and consulting services for infrastructure.
47	Icf International Inc	✓		

**Summary of Potentially Comparable Companies Reviewed  
Corresponding to Taxation Year Ended December 31, 2014**

<b>No.</b>	<b>COMPANY NAME</b>	<b>ACCEPT</b>	<b>REJECT</b>	<b>NOTES</b>
48	Inamerica Inc		✓	Insufficient sales data.
49	Incumaker Inc		✓	Insufficient sales data.
50	Innovaro Inc		✓	Insufficient sales data.
51	Intermap Technologies Corp		✓	Database for geospatial applications.
52	International Monetary Sys		✓	Operates trade exchanges.
53	Ipayment Inc		✓	Credit/debit card payment processing services.
54	Itext Corp		✓	Operates business transaction marketplace.
55	Kar Auction Services Inc		✓	Operates auction locations and online marketplace.
56	Kolasco Corp		✓	Insufficient sales data.
57	Lecg Corp		✓	Insufficient sales data.
58	Magellan Health Inc		✓	Healthcare management.
59	Marchex Inc		✓	Mobile and call advertising technology.
60	Market Concepts Intl		✓	Insufficient sales data.
61	Mattersight Corp		✓	Analytics services.
62	Maximus Inc		✓	Business process services for healthcare industry.
63	Mecklermedia Corp		✓	Specialized in 3D printing and bitcoin.
64	Mecox Lane Ltd -Adr		✓	Provides health and beauty products in China.
65	Mint Corp		✓	Prepaid card and payroll services
66	Morneau Shepell Inc		✓	Human resources consulting.
67	Mosaic Group Inc		✓	Insufficient sales data.
68	Mount Real Corp		✓	Insufficient sales data.
69	Multi-Media Tutrial Svcs Inc		✓	Insufficient sales data.
70	National Research Corp		✓	Customer retention analytics for healthcare industry.
71	Navigant Consulting Inc	✓		
72	Oceanic Exploration Co		✓	Insufficient sales data.
73	Paychex Inc		✓	Payroll and human resources services.
74	Pdi Inc		✓	Product commercialization services for healthcare industry.
75	Peer Review Mediation & Arb		✓	Insufficient sales data.
76	People Corp		✓	Earns commissions from the sale of employee benefits.
77	Petroterra Corp		✓	Insufficient sales data.
78	Pharma-Bio Serv Inc		✓	Technical compliance consulting services.
79	Pointer Telocation Ltd		✓	Mobile services for automotive and insurance industries.
80	Prgx Global Inc		✓	Recovery audit services.
81	Pts Inc		✓	Insufficient sales data.
82	Public Co Management Corp		✓	Insufficient sales data.
83	Research Solutions Inc		✓	Research, marketing, and printing solutions.
84	Resources Connection Inc	✓		
85	Ritchie Bros Auctioneers Inc		✓	Operates auction locations and online marketplace.
86	Ritchie Bros Auctioneers Inc		✓	Duplicate company.
87	Root9B Technologies Inc		✓	3 years negative.
88	Song Corp		✓	Insufficient sales data.
89	Sotheby's		✓	Auctioneer.
90	Spar Group Inc		✓	Merchandising services.
91	Spectrum Group Intl Inc		✓	Collectibles and memorabilia.
92	Starinvest Group Inc		✓	Insufficient sales data.
93	Startek Inc		✓	Business process outsourcing services.
94	Teladoc Inc		✓	Provides telehealth services.

**Summary of Potentially Comparable Companies Reviewed  
Corresponding to Taxation Year Ended December 31, 2014**

<b>No.</b>	<b>COMPANY NAME</b>	<b>ACCEPT</b>	<b>REJECT</b>	<b>NOTES</b>
95	Teletech Holdings Inc	✓		
96	Thomas Group Inc		✓	Insufficient sales data.
97	Tigertel Communications Inc		✓	Insufficient sales data.
98	Total System Services Inc		✓	Electronic payment processing services.
99	Towers Watson & Co	✓		
100	Trimin Capital Corp		✓	Insufficient sales data.
101	Tss Inc		✓	Technology and facility management consulting.
102	Ubm Plc -Adr		✓	Communications products and services.
103	Vectrus Inc		✓	Infrastructure asset management and logistics.
104	Viad Corp		✓	Event management services.
105	Videolocity Intl Inc		✓	Insufficient sales data.
106	Viking Investments Grp Inc		✓	Insufficient sales data.
107	West Corp		✓	Real estate.
108	Western Corporate Enterprise		✓	Insufficient sales data.
109	Wizard World Inc		✓	Multimedia conventions.
110	Xa Inc		✓	Insufficient sales data.
		15	95	

*Source: Standard & Poor's Research Insight and publicly available company data.*

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# Appendix F: Business Descriptions of Executive Companies

## F.1 Accenture Plc

Accenture plc provides management consulting, technology, and business process outsourcing services worldwide. The company's Communications, Media & Technology segment offers enterprise and industry-customized services in network engineering and integration, field force enablement, and IP network migration; provides online customer and enterprise relationship management services; and helps customers in developing video-over-IP platforms, and transforming legacy broadcast platforms to digital. This segment also offers services in the areas of strategy, enterprise resource management, customer relationship management, integrated mobility, embedded software, product lifecycle management, sales transformation, digital marketing, supply chain management, and merger/acquisition integration. In addition, this segment provides digital services to manage, access, distribute, sell, and protect content. Its Financial Services segment offers services to help clients enhance cost efficiency, grow their customer base, manage risks, and transform their operations. This segment serves the banking, capital markets, and insurance industries. The company's Health & Public Service segment provides clinical, and health management and administration services; and health information technology systems to healthcare providers, as well as offers various services to governments. Its Products segment provides solutions in the areas of air, freight and travel; automotive; consumer goods and service; industrial equipment; infrastructure and transportation; life sciences; and retail industries. Its Resources segment enables chemical companies to develop and implement new business strategies, manage complex change initiatives, and integrate processes and technologies; and energy clients to optimize production, manage hydrocarbon and non-hydrocarbon supply chains, and streamline marketing operations. It also serves natural resources and utilities sectors. The company is based in Dublin, Ireland.

## F.2 Advisory Board Co.

The Advisory Board Company provides best practices research and insight, performance technology software, consulting and management, and data-and tech-enabled services in the United States and internationally. Its best practices research and insight programs include access to studies, executive education, proprietary databases and online services, executive briefings, and other services. The company's best practices research and insight programs are focused on understanding industry dynamics, identifying best-demonstrated management practices, critically evaluating widely-followed but ineffective practices, and analyzing emerging trends within the health care and education industries. The company also offers cloud-based business intelligence and software applications that allow members to combine insights derived from best practices research with their operational and financial data to identify and assess revenue-maximizing, cost-saving, or performance improvement opportunities; and consulting and management services that provide on-the-ground support for turnaround and performance improvement initiatives, as well as best practice and day-in-day-out professional management of the hospital or medical group areas. In addition, it provides data- and tech-enabled services that optimize hospital and health system supply chain, as well as strategic, data-driven student engagement and enrollment management, financial aid optimization, and alumni fundraising solutions to the higher education industry. The company offers its services through discrete programs to hospitals, health systems, pharmaceutical and biotechnology companies, health care insurers, medical device companies, colleges, universities, and other health care-focused organizations and educational institutions. The Advisory Board Company was founded in 1979 and is headquartered in Washington, District of Columbia.

### **F.3 CBIZ Inc.**

CBIZ, Inc., through its subsidiaries, provides professional business services, products, and solutions in the United States and Canada. It offers its services through three practice groups: Financial Services, Employee Services, and National Practices. The Financial Services practice group offers accounting, tax, government health care consulting, financial advisory, valuation, litigation support, and risk and real estate advisory services. The Employee Services practice group provides employee benefits, property and casualty, retirement plan, payroll, life insurance, human capital, compensation consulting, executive recruiting, and actuarial services. The National Practices practice group offers managed networking and hardware, and health care consulting services. The company provides its services to businesses of various sizes, as well as to individuals, governmental entities, and not-for-profit enterprises. CBIZ, Inc. was founded in 1987 and is headquartered in Cleveland, Ohio.

### **F.4 CEB Inc.**

CEB Inc. provides member-based advisory services to executives and professionals in the United States, Europe, and internationally. It offers data analysis, research, and advisory services to senior executives and their teams to drive corporate performance by identifying and building on the proven best practices of the world's best companies. The company provides its research through various channels, including Web-based resources, interactive workshops, live meetings, and published studies; and creates and maintains benchmarking assets with information, such as organizational structures, costs, and productivity, as well as customer experience and service quality. It also offers performance management services, which include proprietary executive education curriculum supported by e-learning resources for members seeking to enhance skill development for their staff; workforce surveys and employee analytics; and a Web-based solution that provides global talent market intelligence data, software, and decision support to assist executives with key talent planning activities. Further, the company offers talent measurement services comprising cognitive ability assessments, skills and/or knowledge assessments, personality questionnaires, and job/role simulations. It serves human resources; finance, innovation, and strategy; legal, risk, and compliance; marketing and communications; sales and service; and information technology markets. The company was formerly known as The Corporate Executive Board Company and changed its name to CEB Inc. in May 2015. CEB Inc. was founded in 1979 and is headquartered in Arlington, Virginia.

### **F.5 Convergys Corp.**

Convergys Corporation provides customer management services to communications and media, technology, financial services, retail, and healthcare industries in North America and internationally. The company offers solutions across the customer lifecycle, including revenue generation, customer service, technical support, customer retention, and collection services; and solutions in contact center technology comprising multichannel interaction, cross-channel integration framework, real-time decisioning engine, intelligent notification, campaign management, personalized care, personalized selling, agent productivity, and retention solutions. It also offers analytics and consulting solutions, including post-contact surveys, relational loyalty research, segmentation and profiling, repeat call analysis, agent path analysis, customer interaction assessment, chat optimization, and integrated contact center analytics. The company operates approximately 150 contact centers and 89,900 production workstations. Convergys Corporation was founded in 1998 and is headquartered in Cincinnati, Ohio.

## **F.6 CRA International Inc.**

CRA International, Inc. provides economic, financial, and management consulting services worldwide. The company advises clients on economic and financial matters pertaining to litigation and regulatory proceedings; and guides corporations through critical business strategy and performance-related issues. It provides consulting services, including research and analysis, expert testimony, and support in litigation and regulatory proceedings in the areas of finance, accounting, economics, insurance, and forensic accounting and investigations to corporate clients and attorneys. The company also offers services related to class certification, damages analysis, expert reports and testimony, regulatory analysis, strategy development, valuation of tangible and intangible assets, risk management, and transaction support to law firms, businesses, and government agencies. In addition, it provides management consulting services, such as strategy development, performance improvement, corporate strategy and portfolio analysis, estimation of market demand, new product pricing strategies, valuation of intellectual property and other assets, assessment of competitors' actions, and analysis of new sources of supply. The company serves various industries, including agriculture; banking and capital markets; chemicals; communications and media; consumer products; energy; entertainment; financial services; health care; insurance; life sciences; manufacturing; metals, mining, and materials; oil and gas; real estate; retail; sports; telecommunications; transportation; and technology. CRA International, Inc. was founded in 1965 and is headquartered in Boston, Massachusetts.

## **F.7 Exponent Inc.**

Exponent, Inc., together with its subsidiaries, provides engineering and scientific consulting services worldwide. It operates in two segments, Engineering and Other Scientific; and Environmental and Health. The Engineering and Other Scientific segment provides services in the areas of biomechanics, biomedical engineering, buildings and structures, civil engineering, construction consulting, electrical engineering and computer science, engineering management consulting, human factors, industrial structures, materials and corrosion engineering, mechanical engineering, polymer science and materials chemistry, statistical and data sciences, technology development, thermal sciences, and vehicle analysis. The Environmental and Health segment offers services in the areas of chemical regulation and food safety, ecological and biological sciences, environmental and earth sciences, exposure assessment and occupational health, and toxicology and mechanistic biology, as well as epidemiology, biostatistics, and computational biology. The company offers approximately 90 different technical disciplines to solve complicated issues facing industry and government. It serves clients in automotive, aviation, chemical, construction, consumer products, energy, government, health, insurance, manufacturing, technology, and other sectors. The company was formerly known as The Failure Group, Inc. and changed its name to Exponent, Inc. in 1998. Exponent, Inc. was founded in 1967 and is headquartered in Menlo Park, California.

## **F.8 FTI Consulting Inc.**

FTI Consulting, Inc. operates as a business advisory firm enabling organizations to protect enterprise values in complex economic, legal, and regulatory environments worldwide. It operates in five segments: Corporate Finance/Restructuring, Forensic and Litigation Consulting, Economic Consulting, Technology, and Strategic Communications. The Corporate Finance/Restructuring segment provides restructuring and turnaround, bankruptcy support, transaction advisory, private equity, business transformation, interim management, and valuation and financial advisory services. The Forensic and Litigation Consulting segment offers forensic accounting and advisory; global risk and investigations practice; dispute advisory; intellectual property related; civil trial; construction related dispute resolution; financial and data enterprise analysis; and compliance, monitoring, and receivership services, as well as assistance in business insurance claims. The Economic Consulting segment provides financial, economic, and econometric consulting services; business valuation and expert testimony services; intellectual property and international arbitration services; economic and statistical analyses services for labor and employment issues; and offers services related to public policy and regulated industries, as well as securities litigation and risk management services. The Technology segment offers managed review, information governance and compliance, computer forensics and investigations, and e-discovery consulting services, as well as e-discovery software. The Strategic Communications segment provides advice and consulting services relating to financial and corporate communications, public affairs, creative engagement and digital communications, and strategy consulting and research. FTI Consulting, Inc. was founded in 1982 and is headquartered in Washington, District of Columbia.

## **F.9 Hackett Group Inc.**

The Hackett Group, Inc. operates as a strategic advisory and technology consulting firm primarily in the United States and Western Europe. The company offers executive advisory programs, benchmarking, business transformation, and technology consulting services with corresponding offshore support. Its executive advisory programs include advisor inquiry, an inquiry service used by clients for access to fact-based advice on proven approaches and methods to increase the efficiency of selling, general, and administrative processes; best practice research, a research that provides insights into the proven approaches in use at organizations that yield superior business results; peer interaction comprising member-led webcasts, annual best practice conferences, annual member forums, membership performance surveys, and client-submitted content; and best practice intelligence center, an online searchable repository of best practices, performance metrics, conference presentations, and associated research. The company's benchmarking services conduct studies in the areas of selling, general and administrative, finance, human resources, information technology, procurement, enterprise performance management, shared service centers, and working capital management. These services are used by clients to establish priorities, generate organizational consensus, align compensation to establish performance goals, and develop the required business case for business and technology investments. Its business transformation programs help clients to develop coordinated strategy for achieving performance improvements across the enterprise; and enterprise resource planning solutions professionals help clients choose and deploy the software applications that best meet their needs. The company was formerly known as Answerthink, Inc. and changed its name to The Hackett Group, Inc. in 2008. The Hackett Group, Inc. was founded in 1991 and is headquartered in Miami, Florida.

## **F.10 Huron Consulting Group Inc.**

Huron Consulting Group Inc. provides operational and financial consulting services in the United States and internationally. It operates in five segments: Huron Healthcare, Huron Legal, Huron Education and Life Sciences, Huron Business Advisory, and All Other. The Huron Healthcare segment provides consulting services related to healthcare environment, quality enhancement, revenue cycle improvement, clinical performance, workforce expense reduction, and investment optimization, as well as to enhance physician, patient, and employee satisfaction for hospitals, integrated health systems, academic medical centers, and physician practices. The Huron Legal segment provides advisory and business services focusing on strategic and management consulting, cost management, and information governance, including matter management, records management, contract management, document review, and discovery services to assist law departments of corporations and their associated law firms. The Huron Education and Life Sciences segment develops and implements performance improvement, technology, and research enterprise solutions related to financial management, strategy, operational and organizational effectiveness, research administration, and regulatory compliance for higher education, academic medical centers, pharmaceutical and medical device industries, and research industries. The Huron Business Advisory segment offers advisory services related to forensic investigations, transaction, restructuring and turnaround, interim management, capital raising, operational improvement, and valuation; and enterprise performance management and analytics solutions, as well as assists companies that are in transition, creditors, owners, and investors. The All Other segment is involved in public sector consulting practice, and foreign healthcare and strategic consulting operations in the Middle East. The company was founded in 2002 and is headquartered in Chicago, Illinois.

## **F.11 ICF International Inc.**

ICF International, Inc. provides management, technology, and policy consulting and implementation services to government and commercial clients in the United States and internationally. The company researches, collects, and analyses critical policy, industry, and stakeholder issues, trends, and behaviors; offers assessment and advisory services on how to navigate societal, market, business, communication, and technology challenges; and designs, develops, and manages plans, frameworks, programs, and tools that are principal to its clients' business performance. It also identifies, defines, and implements technology systems and business tools through various standard and customized methodologies that are designed to match its clients' business context; and informs and engages its clients' constituents, customers, and employees through marketing, multichannel and strategic communications, and enterprise training programs. It primarily serves energy, environment, and infrastructure; health, social programs, and consumer/financial; and public safety and defense markets. The company was formerly known as ICF Consulting Group Holdings, LLC and changed its name to ICF International, Inc. in 2006. ICF International, Inc. was founded in 1969 and is headquartered in Fairfax, Virginia.

## **F.12 Navigant Consulting Inc.**

Navigant Consulting, Inc. provides professional services to companies, legal counsel, and governmental agencies Worldwide. The company operates through four segments: Disputes, Investigations & Economics; Financial, Risk & Compliance; Healthcare; and Energy. The Disputes, Investigations & Economics segment provides accounting, financial and economic analysis, discovery support, and data management and analytics services on a range of legal and business issues, such as disputes, investigations, and regulatory matters. This segment serves in-house counsel and law firms, as well as accounting firms, corporate boards, and government agencies. The Financial, Risk & Compliance segment provides strategic, operational, valuation, risk management, investigative, and compliance consulting to the regulated financial services industry. This segment also provides anti-corruption solutions and anti-money laundering, valuation and restructuring consulting, and litigation support and tax compliance services to various industries. The Healthcare segment provides strategic, operational, performance improvement, and business process management services, which include solutions to clients across the healthcare landscape, including revenue cycle management, health systems, physician practice groups, health insurance providers, government, and life sciences companies. The Energy segment provides management advisory services on the issues, such as asset investment management, integrated resource planning, renewables, distributed generation, energy efficiency, and outage management and restoration. This segment serves utility, government, and commercial clients. Navigant Consulting, Inc. was founded in 1983 and is headquartered in Chicago, Illinois.

## **F.13 Resources Connection Inc.**

Resources Connection, Inc. provides consulting and business initiative support services in North America, Europe, and the Asia Pacific. Its finance and accounting services include process transformation and improvement; financial reporting and analysis; technical and operational accounting; merger and acquisition due diligence; audit response; implementation of new accounting standards; and remediation support. The company's information management services comprise strategy development, program and project management, business and technology integration, data strategy, and business performance management; and human capital services consist of change management, organization development and effectiveness, and optimization of human resources technology and operations. It also offers corporate advisory, strategic communications, and restructuring services; corporate governance, risk, and compliance management services, including contract and regulatory compliance; enterprise risk management; internal controls management; and operation and IT audits. In addition, the company provides supply chain management services consisting of supply chain strategy development, procurement and supplier management, logistics and materials management, supply chain planning and forecasting, and conflict minerals and unique device identification compliance. Further, it offers legal and regulatory services with projects, secondments or tactical needs, including commercial transactions; compliance initiatives; law department operations; and business strategy and litigation support. Additionally, the company provides policyIQ, a proprietary cloud-based governance, risk, and compliance software application. Resources Connection, Inc. was founded in 1996 and is headquartered in Irvine, California.

#### **F.14 Teletech Holdings Inc.**

TeleTech Holdings, Inc. provides customer engagement management solutions in the United States, the Philippines, Latin America, Europe, the Middle East, Africa, the Asia Pacific, and Canada. It operates through four segments: Customer Management Services, Customer Growth Services, Customer Technology Services, and Customer Strategy Services. The Customer Management Services segment offers customer experience delivery solutions, which integrate technology with customer experience professionals to optimize the customer experience across various channels and stages of the customer lifecycle from an onshore, offshore, or work-from-home environment. The Customer Growth Services segment provides the technology-enabled sales and marketing solutions, including sales advisory, search engine optimization, digital demand generation, and lead qualification services, as well as acquisition sales, growth, and retention services. The Customer Technology Services segment offers operational and design consulting, systems integration, and cloud and on premise managed services, as well as designs, delivers, and maintains multichannel customer engagement platforms. The Customer Strategy Services segment provides the customer experience strategy, customer intelligence analytics, system and operational process optimization, and culture development and knowledge management services. The company serves automotive, communication, financial services, government, healthcare, logistics, media and entertainment, retail, technology, travel, and transportation industries. TeleTech Holdings, Inc. was founded in 1982 and is headquartered in Englewood, Colorado.

#### **F.15 Towers Watson & Co.**

Towers Watson & Co., a professional services company, provides human capital and financial consulting services worldwide. The company's Benefits segment provides benefits consulting and administration services, such as retirement solutions, which provides actuarial and consulting services for large defined benefit and defined contribution plans, including consulting on plan design, funding, and risk management strategies; health and group benefits services, such as plan management consulting across the health and group benefit programs, including health, dental, disability, life, and other coverage. This segment also offers technology and administration solutions to provide pension outsourcing services; and international consulting services, including international human capital management and related benefits, and compensation advice for corporate headquarters and their overseas subsidiaries. Its Risk and Financial Services segment provides risk consulting and financial modeling software solutions primarily to the insurance industry; and investment consulting and solutions on investment strategy, risk assessment, asset allocation, manager selection, and investment execution to institutional investors, primarily pension plans. The company's Talent and Rewards segment provides executive compensation advisory services, reward administration, and talent management technology solutions, as well as data, surveys, and technology services comprising compensation benchmarking, employee opinion surveys, and human resource function metrics. Its Exchange Solutions segment provides primary medical and ancillary benefit exchange services to retirees and pre-65 individuals; delivers group benefit exchanges to the active employees of virtually any employer in the United States; and offers a suite of health and welfare outsourcing services. Towers Watson & Co. was founded in 1865 and is based in Arlington, Virginia.

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# Appendix G: Arm's Length Net Cost Plus Margins of Executive Companies

## G.1 Range of Arm's Length Net Cost Plus Margins

Range of Accounting-Adjusted Arm's Length Net Cost Plus Margins Selected Functionally Comparable Companies Calendar Years December 31, 2012-2014				
	2012	2013	2014	Average*
Accenture Plc	15.0%	15.4%	15.5%	15.3%
Advisory Board Co	12.2%	9.1%	5.7%	9.0%
Cbiz Inc	7.8%	7.6%	8.4%	7.9%
Ceb Inc	24.6%	19.4%	18.7%	20.5%
Convergys Corp	7.7%	8.5%	7.3%	7.7%
Cra International Inc	8.2%	7.1%	8.5%	8.0%
Exponent Inc	24.5%	23.3%	26.4%	24.7%
Fti Consulting Inc	14.2%	13.3%	10.2%	12.5%
Hackett Group Inc	7.6%	7.7%	7.6%	7.6%
Huron Consulting Group Inc	15.9%	17.1%	16.5%	16.5%
Icf International Inc	7.5%	7.3%	7.7%	7.5%
Navigant Consulting Inc	11.3%	13.0%	11.4%	11.9%
Resources Connection Inc	7.6%	7.2%	N/A	7.4%
Teletech Holdings Inc	9.9%	9.9%	8.8%	9.5%
Towers Watson & Co	16.7%	16.2%	16.6%	16.5%
<b>Summary</b>				
Minimum	7.5%	7.1%	5.7%	7.4%
First Quartile	7.7%	7.6%	7.7%	7.7%
Average	12.7%	12.1%	12.1%	12.2%
Median	11.3%	9.9%	9.5%	9.5%
Third Quartile	15.9%	16.2%	16.5%	16.5%
Maximum	24.6%	23.3%	26.4%	24.7%

Source: Research Insight.

Note: \*3-Year Weighted Average.

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# Appendix H: 2014 Summary of Financial Data for Executive Companies

## H.1 Accenture Plc

Accenture Plc's Financial Summary Corresponding to Oakville Hydro's 2012-2014 Taxation Year Ends USD 000,000's				
	2012	2013	2014	2012 - 2014
<b>Income Statement</b>				
Net Sales	29,778.0	30,394.3	31,874.7	92,046.9
Cost of Goods Sold	<u>20,472.3</u>	<u>20,632.2</u>	<u>21,788.1</u>	<u>62,892.6</u>
Gross Profit	9,305.7	9,762.0	10,086.6	29,154.3
Operating Expense excl. Depreciation	5,114.5	5,317.5	5,402.0	15,834.0
Depreciation	<u>318.0</u>	<u>377.9</u>	<u>402.1</u>	<u>1,098.0</u>
Operating Profit	3,873.2	4,066.6	4,282.5	12,222.4
<b>Average Balance Sheet</b>				
Accounts Receivable	4,551.3	4,663.6	5,255.0	14,469.8
Accounts Payable	926.5	932.8	1,013.0	2,872.4
Inventories	-	-	-	-
<b>Results</b>				
Net Cost Plus Margin	15.0%	15.4%	15.5%	15.3%

Source: Research Insight.

Note: \*3-Year Weighted Average. We are assuming the comparable company's interest rate is the same as the Canada's Prime interest rate.

## H.2 Advisory Board Co.

Advisory Board Co's Financial Summary Corresponding to Oakville Hydro's 2012-2014 Taxation Year Ends USD 000,000's				
	2012	2013	2014	2012 - 2014
<b>Income Statement</b>				
Net Sales	450.8	520.6	436.2	1,407.7
Cost of Goods Sold	<u>235.3</u>	<u>276.9</u>	<u>230.8</u>	<u>742.9</u>
Gross Profit	215.6	243.7	205.5	664.7
Operating Expense excl. Depreciation	146.6	169.9	152.1	468.6
Depreciation	<u>19.9</u>	<u>30.4</u>	<u>30.0</u>	<u>80.3</u>
Operating Profit	49.1	43.4	23.3	115.8
<b>Average Balance Sheet</b>				
Accounts Receivable	316.6	399.7	493.5	1,209.8
Accounts Payable	66.3	76.5	79.0	221.8
Inventories	-	-	-	-
<b>Results</b>				
Net Cost Plus Margin	12.2%	9.1%	5.7%	9.0%

Source: Research Insight.

Note: \*3-Year Weighted Average. We are assuming the comparable company's interest rate is the same as the Canada's Prime interest rate.

### H.3 CBIZ Inc.

Cbiz Inc's Financial Summary Corresponding to Oakville Hydro's 2012-2014 Taxation Year Ends USD 000,000's				
	2012	2013	2014	2012 - 2014
<b>Income Statement</b>				
Net Sales	766.1	692.0	719.5	2,177.6
Cost of Goods Sold	<u>659.1</u>	<u>590.2</u>	<u>610.4</u>	<u>1,859.7</u>
Gross Profit	107.0	101.8	109.1	317.9
Operating Expense excl. Depreciation	30.1	34.1	33.8	97.9
Depreciation	<u>21.4</u>	<u>18.9</u>	<u>19.8</u>	<u>60.1</u>
Operating Profit	55.5	48.9	55.5	159.9
<b>Average Balance Sheet</b>				
Accounts Receivable	148.0	149.0	143.1	440.1
Accounts Payable	37.2	38.5	37.2	112.9
Inventories	-	-	-	-
<b>Results</b>				
Net Cost Plus Margin	7.8%	7.6%	8.4%	7.9%

Source: Research Insight.

Note: \*3-Year Weighted Average. We are assuming the comparable company's interest rate is the same as the Canada's Prime interest rate.

## H.4 CEB Inc.

Ceb Inc's Financial Summary Corresponding to Oakville Hydro's 2012-2014 Taxation Year Ends USD 000,000's				
	2012	2013	2014	2012 - 2014
<b>Income Statement</b>				
Net Sales	639.8	830.0	915.0	2,384.7
Cost of Goods Sold	<u>223.8</u>	<u>297.9</u>	<u>323.6</u>	<u>845.3</u>
Gross Profit	416.0	532.1	591.3	1,539.5
Operating Expense excl. Depreciation	251.8	337.3	378.9	968.1
Depreciation	<u>37.9</u>	<u>60.1</u>	<u>68.3</u>	<u>166.2</u>
Operating Profit	126.3	134.7	144.1	405.2
<b>Average Balance Sheet</b>				
Accounts Receivable	196.9	255.4	277.2	729.5
Accounts Payable	8.0	12.1	9.3	29.4
Inventories	-	-	-	-
<b>Results</b>				
Net Cost Plus Margin	24.6%	19.4%	18.7%	20.5%

Source: Research Insight.

Note: \*3-Year Weighted Average. We are assuming the comparable company's interest rate is the same as the Canada's Prime interest rate.

## H.5 Convergys Corp.

Convergys Corp's Financial Summary Corresponding to Oakville Hydro's 2012-2014 Taxation Year Ends USD 000,000's				
	2012	2013	2014	2012 - 2014
<b>Income Statement</b>				
Net Sales	2,005.0	2,046.1	2,855.5	6,906.6
Cost of Goods Sold	<u>1,289.5</u>	<u>1,335.1</u>	<u>1,814.5</u>	<u>4,439.1</u>
Gross Profit	715.5	711.0	1,041.0	2,467.5
Operating Expense excl. Depreciation	483.9	460.1	680.2	1,624.2
Depreciation	<u>88.7</u>	<u>90.8</u>	<u>167.6</u>	<u>347.1</u>
Operating Profit	142.9	160.1	193.2	496.2
<b>Average Balance Sheet</b>				
Accounts Receivable	351.4	319.8	415.4	1,086.6
Accounts Payable	48.3	40.7	35.5	124.6
Inventories	-	-	-	-
<b>Results</b>				
Net Cost Plus Margin	7.7%	8.5%	7.3%	7.7%

Source: Research Insight.

Note: \*3-Year Weighted Average. We are assuming the comparable company's interest rate is the same as the Canada's Prime interest rate.

## H.6 CRA International Inc.

Cra International Inc's Financial Summary Corresponding to Oakville Hydro's 2012-2014 Taxation Year Ends USD 000,000's				
	2012	2013	2014	2012 - 2014
<b>Income Statement</b>				
Net Sales	270.4	278.4	306.4	855.2
Cost of Goods Sold	<u>178.6</u>	<u>189.3</u>	<u>206.8</u>	<u>574.6</u>
Gross Profit	91.8	89.2	99.6	280.6
Operating Expense excl. Depreciation	65.5	64.2	69.1	198.8
Depreciation	<u>5.8</u>	<u>6.4</u>	<u>6.4</u>	<u>18.7</u>
Operating Profit	20.5	18.5	24.0	63.1
<b>Average Balance Sheet</b>				
Accounts Receivable	89.0	88.6	84.3	261.9
Accounts Payable	10.1	11.8	13.7	35.6
Inventories	-	-	-	-
<b>Results</b>				
Net Cost Plus Margin	8.2%	7.1%	8.5%	8.0%

Source: Research Insight.

Note: \*3-Year Weighted Average. We are assuming the comparable company's interest rate is the same as the Canada's Prime interest rate.

## H.7 Exponent Inc.

Exponent Inc's Financial Summary Corresponding to Oakville Hydro's 2012-2014 Taxation Year Ends USD 000,000's				
	2012	2013	2014	2012 - 2014
<b>Income Statement</b>				
Net Sales	292.7	296.2	304.7	893.5
Cost of Goods Sold	<u>216.8</u>	<u>220.6</u>	<u>219.9</u>	<u>657.2</u>
Gross Profit	75.9	75.6	84.8	236.3
Operating Expense excl. Depreciation	13.6	14.7	15.8	44.1
Depreciation	<u>4.7</u>	<u>5.0</u>	<u>5.4</u>	<u>15.1</u>
Operating Profit	57.6	55.9	63.5	177.1
<b>Average Balance Sheet</b>				
Accounts Receivable	79.2	81.2	81.7	242.1
Accounts Payable	5.6	4.9	2.5	13.0
Inventories	1.0	0.2	-	1.2
<b>Results</b>				
Net Cost Plus Margin	24.5%	23.3%	26.4%	24.7%

Source: Research Insight.

Note: \*3-Year Weighted Average. We are assuming the comparable company's interest rate is the same as the Canada's Prime interest rate.

## H.8 FTI Consulting Inc.

Fti Consulting Inc's Financial Summary Corresponding to Oakville Hydro's 2012-2014 Taxation Year Ends USD 000,000's				
	2012	2013	2014	2012 - 2014
<b>Income Statement</b>				
Net Sales	1,576.9	1,652.4	1,756.2	4,985.5
Cost of Goods Sold	<u>946.4</u>	<u>1,009.4</u>	<u>1,109.6</u>	<u>3,065.5</u>
Gross Profit	630.4	643.0	646.6	1,920.0
Operating Expense excl. Depreciation	378.0	392.9	433.8	1,204.7
Depreciation	<u>56.5</u>	<u>55.6</u>	<u>50.6</u>	<u>162.7</u>
Operating Profit	195.9	194.5	162.1	552.5
<b>Average Balance Sheet</b>				
Accounts Receivable	471.2	499.2	528.7	1,499.1
Accounts Payable	12.2	12.3	11.8	36.3
Inventories	-	-	-	-
<b>Results</b>				
Net Cost Plus Margin	14.2%	13.3%	10.2%	12.5%

Source: Research Insight.

Note: \*3-Year Weighted Average. We are assuming the comparable company's interest rate is the same as the Canada's Prime interest rate.

## H.9 Hackett Group Inc.

Hackett Group Inc's Financial Summary Corresponding to Oakville Hydro's 2012-2014 Taxation Year Ends USD 000,000's				
	2012	2013	2014	2012 - 2014
<b>Income Statement</b>				
Net Sales	234.1	223.8	236.7	694.6
Cost of Goods Sold	<u>158.8</u>	<u>153.9</u>	<u>158.7</u>	<u>471.4</u>
Gross Profit	75.3	69.9	78.0	223.2
Operating Expense excl. Depreciation	56.1	51.5	56.7	164.3
Depreciation	<u>2.6</u>	<u>2.5</u>	<u>4.6</u>	<u>9.7</u>
Operating Profit	16.6	15.9	16.7	49.3
<b>Average Balance Sheet</b>				
Accounts Receivable	36.0	35.4	35.7	107.2
Accounts Payable	7.6	7.9	8.0	23.5
Inventories	-	-	-	-
<b>Results</b>				
Net Cost Plus Margin	7.6%	7.7%	7.6%	7.6%

Source: Research Insight.

Note: \*3-Year Weighted Average. We are assuming the comparable company's interest rate is the same as the Canada's Prime interest rate.

## H.10 Huron Consulting Group Inc.

Huron Consulting Group Inc's Financial Summary Corresponding to Oakville Hydro's 2012-2014 Taxation Year Ends USD 000,000's				
	2012	2013	2014	2012 - 2014
<b>Income Statement</b>				
Net Sales	681.7	787.8	889.2	2,358.7
Cost of Goods Sold	<u>440.7</u>	<u>510.9</u>	<u>578.0</u>	<u>1,529.5</u>
Gross Profit	241.1	276.9	311.2	829.2
Operating Expense excl. Depreciation	125.3	138.5	155.4	419.2
Depreciation	<u>22.3</u>	<u>23.6</u>	<u>29.9</u>	<u>75.8</u>
Operating Profit	93.5	114.8	125.8	334.1
<b>Average Balance Sheet</b>				
Accounts Receivable	160.6	161.9	188.7	511.1
Accounts Payable	8.3	8.3	9.6	26.2
Inventories	-	-	-	-
<b>Results</b>				
Net Cost Plus Margin	15.9%	17.1%	16.5%	16.5%

Source: Research Insight.

Note: \*3-Year Weighted Average. We are assuming the comparable company's interest rate is the same as the Canada's Prime interest rate.

## H.11 ICF International Inc.

Icf International Inc's Financial Summary Corresponding to Oakville Hydro's 2012-2014 Taxation Year Ends USD 000,000's				
	2012	2013	2014	2012 - 2014
<b>Income Statement</b>				
Net Sales	937.1	949.3	1,050.1	2,936.6
Cost of Goods Sold	<u>582.9</u>	<u>591.2</u>	<u>654.9</u>	<u>1,829.1</u>
Gross Profit	354.2	358.1	395.2	1,107.5
Operating Expense excl. Depreciation	263.9	272.4	296.0	832.3
Depreciation	<u>24.7</u>	<u>21.0</u>	<u>23.8</u>	<u>69.6</u>
Operating Profit	65.6	64.7	75.4	205.7
<b>Average Balance Sheet</b>				
Accounts Receivable	213.4	212.9	237.8	664.0
Accounts Payable	41.7	45.1	55.6	142.4
Inventories	-	-	-	-
<b>Results</b>				
Net Cost Plus Margin	7.5%	7.3%	7.7%	7.5%

Source: Research Insight.

Note: \*3-Year Weighted Average. We are assuming the comparable company's interest rate is the same as the Canada's Prime interest rate.

## H.12 Navigant Consulting Inc.

<b>Navigant Consulting Inc's Financial Summary</b> <b>Corresponding to Oakville Hydro's 2012-2014 Taxation Year Ends</b> <b>USD 000,000's</b>				
	2012	2013	2014	2012 - 2014
<b>Income Statement</b>				
Net Sales	844.6	835.6	859.6	2,539.8
Cost of Goods Sold	<u>596.2</u>	<u>588.7</u>	<u>611.0</u>	<u>1,795.9</u>
Gross Profit	248.4	246.9	248.6	743.9
Operating Expense excl. Depreciation	141.2	127.1	134.0	402.2
Depreciation	<u>21.8</u>	<u>23.5</u>	<u>26.8</u>	<u>72.0</u>
Operating Profit	85.5	96.4	87.9	269.8
<b>Average Balance Sheet</b>				
Accounts Receivable	196.5	189.2	181.7	567.4
Accounts Payable	17.2	15.7	12.6	45.5
Inventories	-	-	-	-
<b>Results</b>				
Net Cost Plus Margin	11.3%	13.0%	11.4%	11.9%

Source: Research Insight.

Note: \*3-Year Weighted Average. We are assuming the comparable company's interest rate is the same as the Canada's Prime interest rate.

## H.13 Resources Connection Inc.

Resources Connection Inc's Financial Summary Corresponding to Oakville Hydro's 2012-2014 Taxation Year Ends USD 000,000's				
	2012	2013	2014	2012 - 2014
<b>Income Statement</b>				
Net Sales	556.3	567.2	-	1,123.5
Cost of Goods Sold	<u>342.0</u>	<u>351.4</u>	<u>-</u>	<u>693.4</u>
Gross Profit	214.3	215.8	-	430.1
Operating Expense excl. Depreciation	168.9	172.5	-	341.4
Depreciation	<u>6.3</u>	<u>5.3</u>	<u>-</u>	<u>11.6</u>
Operating Profit	39.2	38.0	-	77.1
<b>Average Balance Sheet</b>				
Accounts Receivable	85.4	87.9	-	173.3
Accounts Payable	16.0	14.9	-	30.9
Inventories	-	-	-	-
<b>Results</b>				
Net Cost Plus Margin	7.6%	7.2%	N/A	7.4%

Source: Research Insight.

Note: \*3-Year Weighted Average. We are assuming the comparable company's interest rate is the same as the Canada's Prime interest rate.

## H.14 Teletech Holdings Inc.

Teletech Holdings Inc's Financial Summary Corresponding to Oakville Hydro's 2012-2014 Taxation Year Ends USD 000,000's				
	2012	2013	2014	2012 - 2014
<b>Income Statement</b>				
Net Sales	1,163.0	1,193.2	1,241.8	3,597.9
Cost of Goods Sold	<u>834.8</u>	<u>846.6</u>	<u>886.5</u>	<u>2,567.8</u>
Gross Profit	328.2	346.6	355.3	1,030.1
Operating Expense excl. Depreciation	182.2	193.4	198.6	574.2
Depreciation	<u>41.2</u>	<u>46.1</u>	<u>56.6</u>	<u>143.9</u>
Operating Profit	104.8	107.0	100.2	312.0
<b>Average Balance Sheet</b>				
Accounts Receivable	263.8	256.7	264.1	784.7
Accounts Payable	25.5	27.8	34.5	87.8
Inventories	-	-	-	-
<b>Results</b>				
Net Cost Plus Margin	9.9%	9.9%	8.8%	9.5%

Source: Research Insight.

Note: \*3-Year Weighted Average. We are assuming the comparable company's interest rate is the same as the Canada's Prime interest rate.

## H.15 Towers Watson & Co.

Towers Watson & Co's Financial Summary Corresponding to Oakville Hydro's 2012-2014 Taxation Year Ends USD 000,000's				
	2012	2013	2014	2012 - 2014
<b>Income Statement</b>				
Net Sales	3,417.7	3,596.8	3,481.9	10,496.4
Cost of Goods Sold	<u>2,490.0</u>	<u>2,588.3</u>	<u>2,494.1</u>	<u>7,572.3</u>
Gross Profit	927.7	1,008.5	987.8	2,924.1
Operating Expense excl. Depreciation	285.0	329.5	317.4	931.9
Depreciation	<u>153.7</u>	<u>176.7</u>	<u>174.8</u>	<u>505.3</u>
Operating Profit	489.0	502.4	495.6	1,486.9
<b>Average Balance Sheet</b>				
Accounts Receivable	844.2	867.7	823.5	2,535.5
Accounts Payable	117.9	34.2	26.1	178.1
Inventories	-	-	-	-
<b>Results</b>				
Net Cost Plus Margin	16.7%	16.2%	16.6%	16.5%

Source: Research Insight.

Note: \*3-Year Weighted Average. We are assuming the comparable company's interest rate is the same as the Canada's Prime interest rate.

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# Appendix I: Ronald Coleman's Biography



Building your construction business

SPEAKER • CONSULTANT • AUTHOR  
Ronald Coleman, B.Comm. FCCA, CMC

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***Patrick Ronald Coleman, B. Comm., FCCA, CMC***

Mr. Coleman graduated from the National University of Ireland with a Bachelor of Commerce degree. He then qualified as a member of the Association of Corporate and Certified Accountants, receiving his ACCA designation and subsequently his FCCA designation.

On coming to Canada he completed the program for the Canadian Association of Certified Management Consultants. He also became a Professional Member of the Canadian Association of Professional Speakers (CAPS).

In 1984 he commenced his own business offering accounting and consulting services (primarily) to construction and construction related businesses. Most of his client base consists of owner/managers of trade and specialty contractors.

He has written 12 Gold Seal Programs for the Canadian Construction Association and four professional development programs for the Canadian Home Builders Association (CHBA) British Columbia, one of which is also used in Ontario by CHBA.

He co-wrote three financial management programs for the degree program in Construction Technology for the British Columbia Institute of Technology (BCIT). Over the years he has delivered most of these programs to a variety of construction groups and conferences.

His book ***Becoming Contractor of the Year*** explains the techniques that trade and specialty contractors can use to make more money and have more fun.

His book ***Building Your Legacy*** has more than 40 great ideas for helping trade and specialty contractors *work smarter not harder* and create a Legacy of which you can be very proud.

His newest book ***Exit Ready*** explores the strategies for buying and selling trade and specialty contractors.

He is a regular contributor to Plumbing and HVAC magazine and to a variety of trade journals both in the USA and Canada.

He is a past chair of The Richmond Hospital (\$60 Million budget); Acting chair of the Richmond Health Board, he was a Board member of the BC Safety Council, Inaugural chair of the Spirit of BC, Richmond, a special ambassador to the 2010 Vancouver Olympic and Paralympic Games and ran with the Olympic Torch in Kelowna BC. He is past president of CAPS Vancouver.

He also conducts a financial survey of Canadian HVAC contractors each year and has done some 35 of these for various construction associations (all but one for trade and specialty contractors) both in the USA and Canada.

November 18, 2015



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# Appendix J: Income Statement Excerpts from Ronald Coleman's Submission

## *Profit and Loss Statement*

	2014		2013	
<b>NET SALES</b>	<b>3,680,789</b>	<b>100.0%</b>	<b>3,044,617</b>	<b>100.0%</b>
<b>COST OF SALES</b>				
<i>Materials + Freight In</i>	1,835,624	49.9%	1,506,218	49.5%
<i>Direct Labour</i>	1,017,281	27.6%	871,047	28.6%
<i>Sub-Contracts</i>	0	0.0%	0	0.0%
<i>Other Direct Costs</i>	0	0.0%	0	0.0%
<b>TOTAL COST OF SALES</b>	<b>2,852,905</b>	<b>77.5%</b>	<b>2,377,265</b>	<b>78.1%</b>
<b>GROSS PROFIT</b>	<b>827,884</b>	<b>22.5%</b>	<b>667,352</b>	<b>21.9%</b>
<b>OVERHEAD - Labour</b>				
<i>Engineering, estimating, sales</i>	0	0.0%	0	0.0%
<i>Supervision</i>	0	0.0%	0	0.0%
<i>Office + Clerical</i>	537,650	14.6%	516,925	17.0%
<i>Unapplied Labour</i>	0	0.0%	0	0.0%
<b>LABOUR OVERHEAD</b>	<b>537,650</b>	<b>14.6%</b>	<b>516,925</b>	<b>17.0%</b>
<b>OVERHEAD - General</b>				
<i>Advertising + Promotion</i>	30,536	0.8%	34,222	1.1%
<i>Auto + truck</i>	129,639	3.5%	120,615	4.0%
<i>Bad Debts</i>	7,276	0.2%	-88,608	-2.9%
<i>Communications</i>	20,788	0.6%	20,301	0.7%
<i>Depreciation</i>	111,961	3.0%	103,354	3.4%
<i>Dues + Subscriptions</i>	4,840	0.1%	4,644	0.2%
<i>Equipment Rental</i>	0	0.0%	0	0.0%
<i>Insurances</i>	16,513	0.4%	18,465	0.6%
<i>Interest</i>	19,128	0.5%	17,249	0.6%
<i>Legal + Audit</i>	53,080	1.4%	-9,244	-0.3%
<i>Office Expense</i>	20,291	0.6%	20,418	0.7%
<i>Rent</i>	51,000	1.4%	46,400	1.5%
<i>Repairs + Maintenance</i>	21,159	0.6%	22,931	0.8%
<i>Shop Supplies + Tools</i>	31,102	0.8%	27,558	0.9%
<i>Taxes - Other</i>	0	0.0%	0	0.0%
<i>Travel + Promotion</i>	6,295	0.2%	6,927	0.2%
<i>Unclassified</i>	0	0.0%	0	0.0%
<i>Utilities</i>	3,518	0.1%	2,015	0.1%
<i>Warranty Costs</i>	0	0.0%	0	0.0%
<b>GENERAL OVERHEAD</b>	<b>527,126</b>	<b>14.3%</b>	<b>347,247</b>	<b>11.4%</b>
<b>OVERHEAD - Executive</b>				
<i>Executive Salary</i>	100,000	2.7%	100,000	3.3%
<b>EXECUTIVE OVERHEAD</b>	<b>100,000</b>	<b>2.7%</b>	<b>100,000</b>	<b>3.3%</b>
<b>TOTAL OVERHEAD</b>	<b>1,164,776</b>	<b>31.6%</b>	<b>964,172</b>	<b>31.7%</b>
<b>OPERATING PROFIT</b>	<b>-336,892</b>	<b>-9.2%</b>	<b>-296,820</b>	<b>-9.7%</b>
<i>Other Income</i>	140,868	3.8%	115,953	3.8%
<b>PRE TAX PROFIT</b>	<b>-196,024</b>	<b>-5.3%</b>	<b>-180,867</b>	<b>-5.9%</b>

## J.2

### *Profit and Loss Statement*

	2014		2013	
<b>NET SALES</b>	<b>4,085,266</b>	<b>100.0%</b>	<b>4,131,239</b>	<b>100.0%</b>
<b>COST OF SALES</b>				
<i>Materials + Freight In</i>	1,768,155	43.3%	1,711,320	41.4%
<i>Direct Labour</i>	809,614	19.8%	863,502	20.9%
<i>Sub-Contracts</i>	123,975	3.0%	209,009	5.1%
<i>Other Direct Costs</i>	7,664	0.2%	5,064	0.1%
<b>TOTAL COST OF SALES</b>	<b>2,709,408</b>	<b>66.3%</b>	<b>2,788,895</b>	<b>67.5%</b>
<b>GROSS PROFIT</b>	<b>1,375,858</b>	<b>33.7%</b>	<b>1,342,344</b>	<b>32.5%</b>
<b>OVERHEAD - Labour</b>				
<i>Engineering, estimating, sales</i>	0	0.0%	0	0.0%
<i>Supervision</i>	0	0.0%	0	0.0%
<i>Office + Clerical</i>	305,977	7.5%	299,050	7.2%
<i>Unapplied Labour</i>	173,885	4.3%	191,666	4.6%
<b>LABOUR OVERHEAD</b>	<b>479,862</b>	<b>11.7%</b>	<b>490,717</b>	<b>11.9%</b>
<b>OVERHEAD - General</b>				
<i>Advertising + Promotion</i>	67,751	1.7%	65,969	1.6%
<i>Auto + truck</i>	80,143	2.0%	71,417	1.7%
<i>Bad Debts</i>	5,099	0.1%	7,679	0.2%
<i>Communications</i>	22,529	0.6%	13,630	0.3%
<i>Depreciation</i>	67,414	1.7%	66,323	1.6%
<i>Dues + Subscriptions</i>	17,967	0.4%	7,405	0.2%
<i>Equipment Rental</i>	381	0.0%	29	0.0%
<i>Insurances</i>	26,829	0.7%	24,983	0.6%
<i>Interest</i>	5,451	0.1%	3,447	0.1%
<i>Legal + Audit</i>	16,079	0.4%	12,284	0.3%
<i>Office Expense</i>	22,390	0.5%	25,094	0.6%
<i>Rent</i>	4,500	0.1%	3,300	0.1%
<i>Repairs + Maintenance</i>	11,096	0.3%	10,360	0.3%
<i>Shop Supplies + Tools</i>	25,320	0.6%	27,699	0.7%
<i>Taxes - Other</i>	11,338	0.3%	10,968	0.3%
<i>Travel + Promotion</i>	6,787	0.2%	4,833	0.1%
<i>Unclassified</i>	122,238	3.0%	11,352	0.3%
<i>Utilities</i>	5,624	0.1%	4,481	0.1%
<i>Warranty Costs</i>	0	0.0%	0	0.0%
<b>GENERAL OVERHEAD</b>	<b>518,936</b>	<b>12.7%</b>	<b>371,253</b>	<b>9.0%</b>
<b>OVERHEAD - Executive</b>				
<i>Executive Salary</i>	100,000	2.4%	100,000	2.4%
<b>EXECUTIVE OVERHEAD</b>	<b>100,000</b>	<b>2.4%</b>	<b>100,000</b>	<b>2.4%</b>
<b>TOTAL OVERHEAD</b>	<b>1,098,798</b>	<b>26.9%</b>	<b>961,970</b>	<b>23.3%</b>
<b>OPERATING PROFIT</b>	<b>277,060</b>	<b>6.8%</b>	<b>380,374</b>	<b>9.2%</b>
<i>Other Income</i>	60,261	1.5%	68,234	1.7%
<b>PRE TAX PROFIT</b>	<b>337,321</b>	<b>8.3%</b>	<b>448,608</b>	<b>10.9%</b>

## *Profit and Loss Statement*

	2014		2013	
<b>NET SALES</b>	<b>3,204,123</b>	<b>100.0%</b>	<b>3,179,106</b>	<b>100.0%</b>
<b>COST OF SALES</b>				
<i>Materials + Freight In</i>	1,364,988	42.6%	1,376,520	43.3%
<i>Direct Labour</i>	633,864	19.8%	539,784	17.0%
<i>Sub-Contracts</i>	0	0.0%	0	0.0%
<i>Other Direct Costs</i>	0	0.0%	0	0.0%
<b>TOTAL COST OF SALES</b>	<b>1,998,850</b>	<b>62.4%</b>	<b>1,916,304</b>	<b>60.3%</b>
<b>GROSS PROFIT</b>	<b>1,205,273</b>	<b>37.6%</b>	<b>1,262,802</b>	<b>39.7%</b>
<b>OVERHEAD - Labour</b>				
<i>Engineering, estimating, sales</i>	0	0.0%	0	0.0%
<i>Supervision</i>	0	0.0%	0	0.0%
<i>Office + Clerical</i>	655,959	20.5%	537,032	16.9%
<i>Unapplied Labour</i>	0	0.0%	0	0.0%
<b>LABOUR OVERHEAD</b>	<b>655,959</b>	<b>20.5%</b>	<b>537,032</b>	<b>16.9%</b>
<b>OVERHEAD - General</b>				
<i>Advertising + Promotion</i>	148,003	4.6%	139,058	4.4%
<i>Auto + truck</i>	24,149	0.8%	23,052	0.7%
<i>Bad Debts</i>	2,295	0.1%	1,272	0.0%
<i>Communications</i>	28,378	0.9%	19,979	0.6%
<i>Depreciation</i>	40,568	1.3%	28,231	0.9%
<i>Dues + Subscriptions</i>	17,450	0.5%	8,959	0.3%
<i>Equipment Rental</i>	0	0.0%	0	0.0%
<i>Insurances</i>	22,643	0.7%	21,874	0.7%
<i>Interest</i>	53,020	1.7%	46,456	1.5%
<i>Legal + Audit</i>	13,352	0.4%	7,857	0.2%
<i>Office Expense</i>	37,348	1.2%	31,760	1.0%
<i>Rent</i>	63,549	2.0%	63,370	2.0%
<i>Repairs + Maintenance</i>	15,389	0.5%	20,445	0.6%
<i>Shop Supplies + Tools</i>	28,159	0.9%	35,414	1.1%
<i>Taxes - Other</i>	12,376	0.4%	11,363	0.4%
<i>Travel + Promotion</i>	70,954	2.2%	64,879	2.0%
<i>Unclassified</i>	22,779	0.7%	26,113	0.8%
<i>Utilities</i>	7,551	0.2%	7,206	0.2%
<i>Warranty Costs</i>	0	0.0%	0	0.0%
<b>GENERAL OVERHEAD</b>	<b>607,963</b>	<b>19.0%</b>	<b>557,288</b>	<b>17.5%</b>
<b>OVERHEAD - Executive</b>				
<i>Executive Salary</i>	100,000	3.1%	100,000	3.1%
<b>EXECUTIVE OVERHEAD</b>	<b>100,000</b>	<b>3.1%</b>	<b>100,000</b>	<b>3.1%</b>
<b>TOTAL OVERHEAD</b>	<b>1,363,922</b>	<b>42.6%</b>	<b>1,194,320</b>	<b>37.6%</b>
<b>OPERATING PROFIT</b>	<b>-158,649</b>	<b>-5.0%</b>	<b>68,482</b>	<b>2.2%</b>
<i>Other Income</i>	0	0.0%	0	0.0%
<b>PRE TAX PROFIT</b>	<b>-158,649</b>	<b>-5.0%</b>	<b>68,482</b>	<b>2.2%</b>

## *Profit and Loss Statement*

	2014		2013	
<b>NET SALES</b>	<b>2,531,169</b>	<b>100.0%</b>	<b>2,301,105</b>	<b>100.0%</b>
<b>COST OF SALES</b>				
Materials + Freight In	934,148	36.9%	789,629	34.3%
Direct Labour	555,453	21.9%	587,722	25.5%
Sub-Contracts	80,000	3.2%	151,364	6.6%
Other Direct Costs	62,000	2.4%	0	0.0%
<b>TOTAL COST OF SALES</b>	<b>1,631,599</b>	<b>64.5%</b>	<b>1,528,715</b>	<b>66.4%</b>
<b>GROSS PROFIT</b>	<b>899,570</b>	<b>35.5%</b>	<b>772,390</b>	<b>33.6%</b>
<b>OVERHEAD - Labour</b>				
Engineering, estimating, sales	0	0.0%	0	0.0%
Supervision	0	0.0%	0	0.0%
Office + Clerical	166,831	6.6%	225,184	9.8%
Unapplied Labour	0	0.0%	0	0.0%
<b>LABOUR OVERHEAD</b>	<b>166,831</b>	<b>6.6%</b>	<b>225,184</b>	<b>9.8%</b>
<b>OVERHEAD - General</b>				
Advertising + Promotion	41,503	1.6%	48,739	2.1%
Auto + truck	134,672	5.3%	147,286	6.4%
Bad Debts	0	0.0%	0	0.0%
Communications	25,483	1.0%	19,420	0.8%
Depreciation	49,053	1.9%	55,118	2.4%
Dues + Subscriptions	12,578	0.5%	0	0.0%
Equipment Rental	0	0.0%	0	0.0%
Insurances	33,038	1.3%	48,115	2.1%
Interest	9,959	0.4%	19,798	0.9%
Legal + Audit	8,694	0.3%	14,422	0.6%
Office Expense	13,871	0.5%	19,029	0.8%
Rent	25,553	1.0%	12,000	0.5%
Repairs + Maintenance	446	0.0%	6,887	0.3%
Shop Supplies + Tools	22,495	0.9%	21,265	0.9%
Taxes - Other	11,839	0.5%	13,985	0.6%
Travel + Promotion	2,926	0.1%	0	0.0%
Unclassified	33,575	1.3%	0	0.0%
Utilities	12,024	0.5%	0	0.0%
Warranty Costs	0	0.0%	0	0.0%
<b>GENERAL OVERHEAD</b>	<b>437,709</b>	<b>17.3%</b>	<b>426,064</b>	<b>18.5%</b>
<b>OVERHEAD - Executive</b>				
Executive Salary	100,000	4.0%	100,000	4.3%
<b>EXECUTIVE OVERHEAD</b>	<b>100,000</b>	<b>4.0%</b>	<b>100,000</b>	<b>4.3%</b>
<b>TOTAL OVERHEAD</b>	<b>704,540</b>	<b>27.8%</b>	<b>751,248</b>	<b>32.6%</b>
<b>OPERATING PROFIT</b>	<b>195,030</b>	<b>7.7%</b>	<b>21,142</b>	<b>0.9%</b>
Other Income	0	0.0%	0	0.0%
<b>PRE TAX PROFIT</b>	<b>195,030</b>	<b>7.7%</b>	<b>21,142</b>	<b>0.9%</b>

## *Profit and Loss Statement*

	2014		2013	
<b>NET SALES</b>	<b>2,102,504</b>	<b>100.0%</b>	<b>2,153,385</b>	<b>100.0%</b>
<b>COST OF SALES</b>				
Materials + Freight In	655,509	31.2%	756,670	35.1%
Direct Labour	321,690	15.3%	416,703	19.4%
Sub-Contracts	0	0.0%	29,071	1.4%
Other Direct Costs	151,398	7.2%	0	0.0%
<b>TOTAL COST OF SALES</b>	<b>1,128,597</b>	<b>53.7%</b>	<b>1,202,444</b>	<b>55.8%</b>
<b>GROSS PROFIT</b>	<b>973,907</b>	<b>46.3%</b>	<b>950,941</b>	<b>44.2%</b>
<b>OVERHEAD - Labour</b>				
Engineering, estimating, sales	27,158	1.3%	100,374	4.7%
Supervision	100,071	4.8%	0	0.0%
Office + Clerical	74,074	3.5%	113,939	5.3%
Unapplied Labour	33,715	1.6%	0	0.0%
<b>LABOUR OVERHEAD</b>	<b>235,018</b>	<b>11.2%</b>	<b>214,313</b>	<b>10.0%</b>
<b>OVERHEAD - General</b>				
Advertising + Promotion	24,496	1.2%	27,134	1.3%
Auto + truck	54,980	2.6%	63,636	3.0%
Bad Debts	1,633	0.1%	7,725	0.4%
Communications	15,296	0.7%	15,138	0.7%
Depreciation	43,258	2.1%	44,416	2.1%
Dues + Subscriptions	6,292	0.3%	0	0.0%
Equipment Rental	3,769	0.2%	0	0.0%
Insurances	6,315	0.3%	6,146	0.3%
Interest	1,607	0.1%	4,293	0.2%
Legal + Audit	8,913	0.4%	9,399	0.4%
Office Expense	25,959	1.2%	24,089	1.1%
Rent	4,800	0.2%	21,579	1.0%
Repairs + Maintenance	10,528	0.5%	0	0.0%
Shop Supplies + Tools	10,042	0.5%	12,408	0.6%
Taxes - Other	6,498	0.3%	0	0.0%
Travel + Promotion	4,067	0.2%	4,635	0.2%
Unclassified	5,881	0.3%	3,084	0.1%
Utilities	4,759	0.2%	0	0.0%
Warranty Costs	0	0.0%	0	0.0%
<b>GENERAL OVERHEAD</b>	<b>239,093</b>	<b>11.4%</b>	<b>243,682</b>	<b>11.3%</b>
<b>OVERHEAD - Executive</b>				
Executive Salary	100,000	4.8%	100,000	4.6%
<b>EXECUTIVE OVERHEAD</b>	<b>100,000</b>	<b>4.8%</b>	<b>100,000</b>	<b>4.6%</b>
<b>TOTAL OVERHEAD</b>	<b>574,111</b>	<b>27.3%</b>	<b>557,995</b>	<b>25.9%</b>
<b>OPERATING PROFIT</b>	<b>399,796</b>	<b>19.0%</b>	<b>392,945</b>	<b>18.2%</b>
Other Income	0	0.0%	0	0.0%
<b>PRE TAX PROFIT</b>	<b>399,796</b>	<b>19.0%</b>	<b>392,945</b>	<b>18.2%</b>

## *Profit and Loss Statement*

	2014		2013	
NET SALES	2,385,033	100.0%	2,458,276	100.0%
COST OF SALES				
Materials + Freight In	820,900	34.4%	1,180,054	48.0%
Direct Labour	458,193	19.2%	380,575	15.5%
Sub-Contracts	11,242	0.5%	0	0.0%
Other Direct Costs	5,196	0.2%	0	0.0%
TOTAL COST OF SALES	1,295,531	54.3%	1,560,629	63.5%
GROSS PROFIT	1,089,502	45.7%	897,647	36.5%
OVERHEAD - Labour				
Engineering, estimating, sales	89,247	3.7%	0	0.0%
Supervision	100,842	4.2%	0	0.0%
Office + Clerical	165,292	6.9%	263,110	10.7%
Unapplied Labour	138,310	5.8%	0	0.0%
LABOUR OVERHEAD	493,691	20.7%	263,110	10.7%
OVERHEAD - General				
Advertising + Promotion	25,688	1.1%	80,744	3.3%
Auto + truck	172,316	7.2%	175,361	7.1%
Bad Debts	3,412	0.1%	8,570	0.3%
Communications	30,361	1.3%	26,142	1.1%
Depreciation	0	0.0%	51,000	2.1%
Dues + Subscriptions	11,430	0.5%	5,669	0.2%
Equipment Rental	22,008	0.9%	17,187	0.7%
Insurances	43,785	1.8%	48,117	2.0%
Interest	56,554	2.4%	56,247	2.3%
Legal + Audit	28,056	1.1%	28,432	1.2%
Office Expense	33,177	1.4%	34,595	1.4%
Rent	11,935	0.5%	0	0.0%
Repairs + Maintenance	5,761	0.2%	5,979	0.2%
Shop Supplies + Tools	13,266	0.6%	13,394	0.5%
Taxes - Other	0	0.0%	5,625	0.2%
Travel + Promotion	12,782	0.5%	0	0.0%
Unclassified	5,348	0.2%	15,081	0.6%
Utilities	9,899	0.4%	5,644	0.2%
Warranty Costs	13,518	0.6%	0	0.0%
GENERAL OVERHEAD	497,297	20.9%	577,787	23.5%
OVERHEAD - Executive				
Executive Salary	100,000	4.2%	100,000	4.1%
EXECUTIVE OVERHEAD	100,000	4.2%	100,000	4.1%
TOTAL OVERHEAD	1,090,988	45.7%	940,897	38.3%
OPERATING PROFIT	-1,487	-0.1%	-43,250	-1.8%
Other Income	34,349	1.4%	53,954	2.2%
PRE TAX PROFIT	32,862	1.4%	10,704	0.4%



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