PUC Distribution Inc.
500 Second Line EAST, P.O. Box 9000
SAULT STE. MARIE, ONTARIO, P6A 4K1

September 13, 2018

Kirsten Walli, Board Secretary
Ontario Energy Board
P.O. Box 2319, 27th Floor
2300 Yonge Street
Toronto, ON, M4P 1E4

Attention: Ms. Walli

Re: OEB File No.: EB-2017-0071
PUC Distribution Inc. – 2018 Cost of Service Rate Application
Response to Pre-Settlement Conference Clarification Questions

Please find attached Appendix A - Responses to Pre-ADR VECC Clarification Questions.

In addition to the responses mentioned above, as a part of the settlement process, PUC has agreed to file the Shareholder Agreement between the City of Sault Ste. Marie and PUC Inc. dated July 25, 2000 as amended. This can be found in Appendix B – PUC Inc. Shareholder Agreement as Amended.

As a part of the settlement process, PUC also agreed to provide the 2017 year-end financial statements of PUC Inc. and PUC Services Inc. which are attached as Appendix C – 2017 YE Financial Statements of PUC Inc. and Appendix D – 2017 YE Financial Statements of PUC Services Inc.

In light of the accompanying settlement proposal which includes an agreed upon effective date for rates of October 1, 2018, PUC hereby requests that the rates be declared as interim as of October 1, 2018. PUC's intent is to ensure the Board can give effect to the settlement proposal should it not be possible to issue a final Decision and Rate Order by that date.

Sincerely,

Andrew Belsito

Andrew Belsito, CPA, CMA
Rates and Regulatory Affairs Officer
PUC Distribution Inc.
Sault Ste. Marie Ont.
Email: Andrew.Belsito@ssmpuc.com
Phone: 705-759-3009

Appendix A
Responses to Pre-ADR VECC Clarification Questions

PUC Distribution Inc.
500 Second Line EAST, P.O. Box 9000
SAULT STE. MARIE, ONTARIO, P6A 4K1

REQUESTOR NAME	**VECC**
TO:	**PUC Distribution Inc. (PUC)**
IRs	**Pre-ADR VECC Clarification Questions**
DATE:	**August 17, 2018**
CASE NO:	**EB-2017-0071**
APPLICATION NAME	**2018 COS Application**

(Note: Numbering consecutive to VECC's IRs)

VECC – 44

Reference: 3-VECC-25
3-VECC-18
3-Staff-47
3-Staff-44 a) - Revised Load Forecast Model, Rate Class Customer Model Tab / Exhibit 3, pages 6 & 8

a) Please confirm that:

i. In the original Application (page 8) the historical 2013-2016 customer counts for Street Lights are based on number of devices but the 2017-2018 values are based on number of connections (per page 6).

Response: Confirmed

ii. In VECC18, the quarterly counts shown for Street Lights are based on number of devices.

Response: Confirmed

b) In the Revised Load Forecast Model, Rate Class Customer Model (Staff-44 a)) is the forecast shown for Street Lights (9,317) based on number of devices or number of connections. If based on devices, what is the corresponding forecast for the number of connections?

Response: The forecast of 9,317 is the number of device and the corresponding number of connections is 8,070 which is the value used in cost allocation and rate design.

c) VECC #25 indicated that PUC expected there to be "little change" in the streetlight count in the upcoming years. However, the response to VECC #18 shows an increase in the count during 2017. What was the reason for the increase?

Response: The reason for this increase is explained in 3-VECC-25. "As a part of PUCs conversion to LED streetlights, it was determined that there were 9,317 streetlight devices being used throughout PUCs service territory. This accurate count of streetlights will see little change in the upcoming years, and as such, this same number was used to forecast 2017 and 2018 rather than use the geo mean formula to calculate an inaccurate number based on prior years streetlight counts."

The LED streetlight conversion provided PUC with an opportunity to complete a full audit of the number of streetlights. This had not been done for some time before this.

d) What is the customer/connection count for each customer class for the latest month in 2018 for which data is available? In the case of Street Lights, please provide both the connections and devices counts.

Response: As if June 30, 2018, the customer/connection count for each customer class is as follows:

Residential – 29,774
GS<50 – 3,406
GS>50 – 362
Sentinel – 356
USL – 22
Street Lights – 9,317 Devices
Street Lights – 8070 - Number of Connections

VECC – 45

Reference: 4-Staff 68 - Attachments
3-VECC-22
Exhibit 3, page 13, Table 3-6
http://www.ieso.ca/en/sector-participants/conservation-delivery-and-tools/conservation-targets-and-results

a) The files provided in response to Staff-68 do not appear to include any reports from the IESO/OPA supporting the values used in Table 3-6 for the persisting (i.e., post 2010) impacts of 2006-2010 programs as requested in VECC-22 a). Please provide.

Response: For VECC-22 f), the following files were used and have been attached to this response:

2011 to 2014: PUC persistence 2011-2014
2015 to 2016: Final Verified 2016 Annual LDC CDM Program Results_Report_PUC_20170630

b) VECC has been unable to reconcile the values provided in VECC-22 regarding the initial and persisting impacts of 2011-2013 CDM programs with the values provided in the files submitted in response to Staff-68 (specifically the 2011-2014 Results Report and the 2011-2013 Persistence Report). Please review and provide reconciliation. (Note: The values provided in response to VECC-22 for 2011-2013 programs do not match the values in the LRAMVA Workform – either the original Workform or the one provide with the IR responses).

Response: A review of the 2011-2014 Results Report and the 2011-2013 Persistence Report was conducted. It was discovered in the 2011-2013 Persistence Report under tab 2013 that the year labels were off by one year (i.e 2013 should have been 2012). Once this adjustment was made the information in VECC-22 and Staff-68 reconciled.

c) Please provide an updated response to VECC-22 that includes: i) any corrections arising from the response to part (b); ii) the impact of 2017 CDM programs based on the verified results released earlier this year by the IESO and iii) any adjustments required to pre-2017 results as a reported in the 2017 Verified Results Report.

Response: The updated response to VECC-22 f) is provided below:

	Annualized Results												
Initial Activity Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
2006	3,143,043	3,143,043	3,143,043	3,143,043	545,877	545,877	499,329	499,329	469,196	469,196	443,287	443,287	443,287
2007		2,816,921	2,344,954	2,287,153	2,287,153	1,716,936	1,671,497	1,671,497	1,671,497	656,280	432,009	266,124	266,124
2008			2,275,704	1,993,639	1,993,639	1,993,639	1,840,156	1,839,482	1,680,358	1,561,479	1,164,641	807,894	722,059
2009				1,707,416	1,316,073	1,316,073	1,314,130	1,254,234	1,100,781	1,018,468	1,016,672	901,448	901,448
2010					1,777,038	1,108,655	1,104,364	1,103,684	1,056,916	876,812	860,926	742,899	495,062
2011						4,505,956	4,504,894	4,502,230	4,397,615	4,322,862	4,202,003	3,732,695	3,731,455
2012							2,980,278	3,279,000	3,277,461	3,104,885	3,024,826	2,205,153	2,125,897
2013								- 53,724	3,572,971	3,513,694	3,484,580	3,136,193	2,342,347
2014									3,753,323	3,330,761	3,181,993	2,889,880	2,822,563
2015										5,408,004	5,354,552	5,348,661	5,344,206
2016											10,720,230	10,720,229	10,747,568
Total	3,143,043	5,959,964	7,763,701	9,131,252	7,919,780	11,187,137	13,914,648	14,095,732	20,980,119	24,262,440	33,885,719	31,194,462	29,942,016

Please see below the chart that was updated during the ADR process.

	Annualized Results												
Initial Activity Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
2006	3,143,043	3,143,043	3,143,043	3,143,043	545,877	545,877	499,329	499,329	469,196	469,196	443,287	443,287	443,287
2007		2,816,921	2,344,954	2,287,153	2,287,153	1,716,936	1,671,497	1,671,497	1,671,497	656,280	432,009	266,124	266,124
2008			2,275,704	1,993,639	1,993,639	1,993,639	1,840,156	1,839,482	1,680,358	1,561,479	1,164,641	807,894	722,059
2009				1,707,416	1,316,073	1,316,073	1,314,130	1,254,234	1,100,781	1,018,468	1,016,672	901,448	901,448
2010					1,777,038	1,108,655	1,104,364	1,103,684	1,056,916	876,812	860,926	742,899	495,062
2011						4,505,956	4,504,894	4,502,230	4,397,615	4,322,862	4,202,003	3,732,695	3,731,455
2012							3,282,621	3,279,073	3,277,461	3,104,644	3,024,826	2,193,340	2,113,231
2013								3,574,145	3,513,810	3,488,352	3,162,359	2,344,115	2,281,038
2014									3,753,323	3,330,761	3,181,993	2,889,880	2,822,563
2015										5,408,004	5,354,552	5,348,661	5,344,206
2016											10,720,230	10,720,229	10,747,568
2017												9,582,028	8,354,534
Total	3,143,043	5,959,964	7,763,701	9,131,252	7,919,780	11,187,137	14,216,992	17,723,673	20,920,958	24,236,858	33,563,498	39,972,600	38,222,575

VECC – 46

Reference: 3-VECC-26
Appendix 2-I (Original Application)
Appendix 2-I (Filed with IR Responses)

a) The response to VECC-26 does not provide the basis for the total CDM savings forecast from either 2017 or 2018 CDM programs as used in the manual adjustment to the load forecast. Furthermore, the values used in the Application do not match those in the CDM Plan provided (VECC-26 b)). Please explain how the basis for the total CDM forecasts for 2017 and 2018 CDM programs.

Response: The information in the file "PUC CDM 2017 and 2018 values" was used to determine the 2017 and 2018 manual adjustment in the Original Application Load Forecast Model and reflected the CDM Plan at the time the load forecast was prepared. This information was also used to determine the 2018 adjustment in the Revised Load Forecast Model. However, as a result of preparing this response and reviewing the responses to the interrogatories it has been determined the CDM Plan used in the Original Application and Revised Load Forecast Model has been revised. The revised CDM Plan has been used to respond to b) as well as VECC 47 b) and c).

b) Appendix 2-I does not appear to have been updated to reflect the updated load forecast (per Staff-44). Please provide an update and specifically indicate what the proposed LRAMVA threshold is.

Response: The manual CDM adjustment is for 2018 programs only and is 2,322,600 kWh on a half year basis and the LRAMVA threshold is also only for 2018 which is 4,645,200 on a full year basis.

The updated Appendix 2-I is attached under file named Appendix 2-I - VECC 46 b) and reflects the load forecast provided in VECC 47 b). In the filed named PUC_2018_Settlement_Filing_Requirements_Chp2_App, Appendix 2-I has been revised to reflect the load forecast provided in VECC 47 c) which is the load forecast outlined in the settlement agreement.

VECC – 47
Reference: 3-Staff 44 a) - Revised Load Forecast Model, Purchased Power Model Tab and Purchased Power Model – WN Tab
3-VECC-24
3-Staff-45 b)

a) Please confirm that for the Revised Load Forecast Model:
   i. The regression model itself (per Purchased Power Model Tab) was not re-estimated to include 2017 actual data.

   Response: The Revised Load Forecast Model included 2017 actual data in the regression analysis.

   ii. For the updated forecasts for 2017 and 2018 (per Purchased Power Model WN Tab):
      - The weather normal values for HDD and CDD were calculated using 2008-2017 data. If not, confirmed please clarify what values were used.

        Response: Confirmed

      - The 2017 and 2018 values for the customer counts variable were revised to reflect the updated forecast. If not confirmed, please clarify what values were used.

        Response: Confirmed for 2018. 2017 values are actual.

- The CDM values used for the results from 2006-2016 CDM programs were not revised from those used in the original forecast. If not confirmed, please indicate how the values were adjusted and on what basis.

  Response: Confirmed

- The CDM values used for the results from 2017 CDM programs were not revised from those used in the manual adjustment to the original forecast and do not reflect the actual verified results for 2017 as released by the IESO earlier this year. If not confirmed, please indicate how the values were adjusted and on what basis.

  Response: Confirmed

- The Street Lights adjustment was revised to reflect 2017 usage. If not confirmed, please clarify the basis for the Street Lights adjustment used.

  Response: The Street Lights adjustment was revised to reflect actual 2017 usage.

b) Please provide a revised Load Forecast model where the Purchased Power regression model is estimated using actual data for 2017 and with CDM historical data that reflects the revised response to VECC-22 as requested in VECC 45 c) above.

Response: The requested load forecast is provided in file named 2018 PUC Load Forecast Model Updated to Include 2017 Actuals VECC – 47 b).

The requested load forecast has been updated during the ADR process and is included in the Settlement Agreement.

c) Please re-do the response to VECC-24 but: i) include actual 2017 data in the model estimation and ii) also include a trend variable (per Staff-45 b))

Response: The requested load forecast is provided in file named 2018 PUC Load Forecast Model Updated to Include 2017 Actuals VECC – 47 c).

VECC – 48
Reference: 3-Staff-48

PUC Distribution Inc.
500 Second Line EAST, P.O. Box 9000
SAULT STE. MARIE, ONTARIO, P6A 4K1

a) Was the only change made to the 2018 forecast for Account 4210 due to the Board's direction to increase the pole attachment charge as of September 2018?

Response: This is correct.

VECC – 49
Reference: Updated Cost Allocation Model (filed with IR Responses)
Updated Cost Allocation Model (filed August 17, 2018)
7-Staff-75

a) With respect to Tab I6.2, please reconcile the number of customers shown here for USL (22 per Row 21) with the number (23) shown for the USL primary, line transformer and secondary customer base.

Response: 23 customer should be used in all cases. The corrections causes $31 being additionally allocated to the USL class.

b) With respect to Staff-75, for the Services Weights why is the cost per connection for GS<50 UG less than for GS<50 OH when the opposite is the case for Residential and GS>50?

Response: With respect to the table provided in response to Staff-75, it is noted that there are some variabilities in the cost per service for different classes of customers. The cost per connection differs from one class and type (OH vs. UG) due to the ownership of the service as defined in Appendix C of PUC Distribution Inc.'s Conditions of Service and summarized in the table below. The difference in cost is also attributable to the incremental increased cost of underground infrastructure versus overhead.

Ownership of Services

Customer Class	<750V Overhead	<750V Underground	>750V
Residential	PUC	PUC	Customer
<50kW	PUC	Customer	Customer
>50kW	PUC	Customer	Customer

c) With respect to Tab I8, it appears that the load profiles in the updated models were not updated for the revised load forecast (per Staff-44). Please confirm whether or not this is the case and update the Cost Allocation model as required.

PUC Distribution Inc.
500 Second Line EAST, P.O. Box 9000
SAULT STE. MARIE, ONTARIO, P6A 4K1

Response: PUC Distribution confirms that it did not update Tab I8 of the Cost Allocation model with the updated load profiles but will proceed to do this in the final version of the Models.

Appendix B
PUC Inc. Shareholder Agreement as Amended

(Ontario)

SHAREHOLDER AGREEMENT (FOR HOLDING COMPANY)

THIS AGREEMENT is made as of July 25, 2000,

BETWEEN:

THE CITY OF SAULT STE. MARIE, a corporation incorporated under the laws of Ontario,

OF THE FIRST PART,

- and -

PUC INC., a corporation incorporated under the laws of Ontario,

OF THE SECOND PART.

WHEREAS the *Electricity Act*, 1998 (the "Electricity Act") was passed by the Legislature of Ontario and given Royal Assent on October 30, 1998;

AND WHEREAS section 144 of the *Electricity Act* provides that after November 7, 2000, no municipal corporation shall generate, transmit, distribute or retail electricity (as such terms are defined in the *Electricity Act*) except through one or more corporations incorporated under the Ontario *Business Corporations Act* (the "OBCA");

AND WHEREAS pursuant to Section 142(1) of the *Electricity Act*, a municipal corporation may cause one or more corporations to be incorporated under the OBCA in order to generate, transmit, distribute or retail electricity;

AND WHEREAS the City of Sault Ste. Marie has caused corporations to be incorporated under the OBCA, such corporations comprising a corporation known as PUC Distribution Inc. to distribute electricity to the customers presently served by the Public Utilities Commission of Sault Ste. Marie, a corporation known as PUC Energies Inc. to retail electricity and to engage in competitive business activities, a corporation known as PUC Services Inc. to provide management, operations and maintenance services to PUC Distribution Inc. as well as to the City of Sault Ste. Marie in respect of its water utility and a corporation known as PUC Telecom Inc.

to engage in the provision of telecommunications services (such corporations hereinafter referred to as ASubsidiary Corporations@); the City of Sault Ste. Marie had also caused PUC Inc. to be incorporated to hold shares of the Subsidiary Corporations (holding shares in the Subsidiary Corporations being the business of PUC Inc. (the "Business")) and, in turn, have all its shares held by the City;

AND WHEREAS the City of Sault Ste. Marie is the sole shareholder of PUC Inc.;

AND WHEREAS the City of Sault Ste. Marie and PUC Inc. have agreed to enter into this Agreement as being in their respective best interests and for the purpose of providing for the operation of PUC Inc. and the Subsidiary Corporations;

AND WHEREAS, pursuant to Section 108 of the *Business Corporations Act* (Ontario), the City of Sault Ste. Marie wishes to restrict in part the powers of the directors to manage or supervise the management of the business and affairs of PUC Inc.;

NOW THEREFORE THIS AGREEMENT WITNESSES that in consideration of the premises and the covenants and agreements herein contained the parties hereto agree as follows:

1. To the extent that this Agreement specifies that any matters may only be or shall be dealt with or approved by or shall require action by the City of Sault Ste. Marie, the discretion and powers of the directors of PUC Inc. to manage or supervise the management of the business and affairs of PUC Inc. with respect to such matters are correspondingly restricted.

2. PUC Inc. confirms its knowledge of this Agreement and will carry out and be bound by the provisions of this Agreement to the full extent that it has the capacity and power at law to do so.

3. None of the matters described in Schedule "A" hereto shall be taken by PUC Inc. unless approved by:

(1) a resolution of the City of Sault Ste. Marie passed at a duly called and convened meeting of shareholders; or

(2) a resolution in writing signed by the City of Sault Ste. Marie.

A resolution of the City of Sault Ste. Marie shall, in turn, not be passed or signed unless approved by the Council of the City of Sault Ste. Marie by a resolution or by-law passed at a meeting of Council.

4. This Agreement may be terminated at any time by the City of Sault Ste. Marie.

5. No modification of or amendment to this Agreement is valid or binding unless set forth in writing and duly executed by the parties hereto.

6. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and cancels and supersedes any prior understandings and agreements between the parties hereto with respect thereto.

7. This Agreement is governed by and construed in accordance with the laws of the Province of Ontario.

IN WITNESS WHEREOF the parties have executed this Agreement.

THE CITY OF SAULT STE. MARIE

Per: ______________________
MAYOR - STEPHEN E. BUTLAND

Per: ______________________
CITY CLERK - DONNA P. IRVING

PUC INC.

Per: ______________________

Per: ______________________

Schedule "A"

Matters Requiring the Approval of the Shareholder of PUC Inc.

(a) any change in the articles or by-laws of PUC Inc.;

(b) any change in the authorized or issued capital of PUC Inc.;

(c) the appointment of directors from time to time for PUC Inc.;

(d) the entering into of any agreement or the making of any offer or the granting of any right capable of becoming an agreement to allot or issue any shares of PUC Inc.;

(e) any action which may lead to or result in a material change in the nature of the Business of PUC Inc.;

(f) the entering into of any agreement other than in the ordinary course of PUC Inc.'s Business;

(g) the borrowing of any money, the issuance of any debt, the giving of any security or the making or incurring of any single capital expenditure or acquisition in excess of \$3,000,000 or any capital expenditures which, in the aggregate, are in excess of \$6,000,000 in any financial year of PUC Inc. by PUC Inc. and the Subsidiary Corporations on a consolidated basis;

(h) the taking of any steps to wind-up or terminate the corporate existence of PUC Inc. or any Subsidiary Corporation;

(i) the sale, lease, exchange or disposition of assets of PUC Inc. or any Subsidiary Corporation having a value in excess of \$3,000,000;

(j) the sale, lease, exchange or disposition of any shares of any Subsidiary Corporation;

(k) the taking, holding, subscribing for or agreeing to purchase or acquire shares in the capital of any body corporate other than the Subsidiary Corporations by PUC Inc.;

(l) the entering into of a partnership, strategic alliance, joint venture or of any other arrangement for the sharing of profits, union of interests, or reciprocal concession with any person by PUC Inc.;

(m) the entering into of an amalgamation, merger or consolidation with any other body corporate by PUC Inc.;

(n) the initial capital structure of each Subsidiary Corporation, and any changes thereto prior to December 31, 2001;

(o) the initial capital structure of each Subsidiary Corporation by PUC Inc., and any changes thereto, prior to December 31, 2001; or

(p) a change in the auditors of PUC Inc. and the Subsidiary Corporations.

RESOLUTION OF THE SHAREHOLDER

OF

PUC INC.

INCREASE IN CAPITAL SPENDING AUTHORITY

WHEREAS capital expenditures for PUC Inc. affiliates, particularly for PUC Distribution and PUC Services, have increased significantly over the past two years: in the case of PUC Distribution to replace aging infrastructure and in the case of PUC Services to replace and expand its rolling stock;

WHEREAS clause (g) of Schedule "A" of the Shareholder Agreement for PUC Inc. dated July 25, 2000 requires the approval of the Shareholder of PUC Inc. on:

> "the borrowing of any money, the issuance of any debt, the giving of any security or the making or incurring of any single capital expenditure or acquisition in excess of **$3,000,000** or any capital expenditures which, in aggregate, are in excess of **$6,000,000** in any financial year of PUC Inc. and the Subsidiary Corporations on a consolidated basis.";

WHEREAS the affiliates of PUC Inc. will in aggregate have annual capital expenditures in the future that will exceed $6,000,000 for the replacement of electrical distribution infrastructure, and to replace aging rolling stock and purchase additional equipment for PUC Services;

RESOLVED that approval is given this 27th day of April 2009 to PUC Inc. to amend clause (g) of Schedule "A" of the Shareholder Agreement for PUC Inc. with respect to "matters requiring the approval of the Shareholder of PUC Inc." as follows:

> "the borrowing of any money, the issuance of any debt, the giving of any security or the making or incurring of any single capital expenditure or acquisition in excess of **$5,000,000** or any capital expenditures which, in aggregate, are in excess of **$10,000,000** in any financial year of PUC Inc. and the Subsidiary Corporations on a consolidated basis."

THE CORPORATION OF THE
CITY OF SAULT STE. MARIE

Per: Bryan Hayes
~~John Rowswell, Mayor~~
Bryan Hayes, Acting Mayor

Per: M White
~~Donna Irving, Clerk~~ MALCOLM WHITE
Deputy City Clerk
City of Sault Ste. Marie
District of Algoma

CITY COUNCIL RESOLUTION

Date: March 4, 2013

Agenda Item

MOVED BY Councillor P. Mick

SECONDED BY Councillor ~~L. Turco~~ R Niro

RESOLVED THAT BY-LAW 2013-44 being a by-law to authorize the execution of an amending agreement to the Shareholder Agreement between the City and PUC Inc. be PASSED in open Council this 4th day of March, 2013.

- [x] CARRIED
- [ ] DEFEATED
- [ ] AMENDED
- [ ] DEFERRED
- [ ] REFERRED
- [ ] OFFICIALLY READ NOT DEALT WITH

SIGNATURE

- [ ] C.A.O.
- [x] City Solicitor
- [x] Comm. Finance/Treasurer
- [x] Comm. Eng. & Planning
- [ ] Comm. Human Resources
- [ ] Comm. Community Services
- [ ] Comm. P.W. & Transportation
- [ ] City Clerk
- [ ] Fire Chief
- [ ] Police Chief
- [ ] Mayor
- [ ] Dir. Libraries
- [ ] E.D.C.
- [ ] Cons. Authority
- [x] PUC

AMENDING AGREEMENT

THIS AGREEMENT is made as of the 4th day of March, 2013.

B E T W E E N:

THE CORPORATION OF THE CITY OF SAULT STE. MARIE, a corporation incorporated under the laws of the Province of Ontario

OF THE FIRST PART

- and -

PUC INC., a corporation incorporated under the laws of the Province of Ontario

OF THE SECOND PART

WHEREAS the parties hereto are parties to a Shareholder Agreement dated July 25th, 2000 (the "Agreement");

AND WHEREAS the parties have agreed to amend the Agreement as more particularly set forth herein.

NOW THEREFORE THIS AGREEMENT WITNESSETH that in consideration of the premises and the covenants and agreements herein contained the parties hereto agree as follows:

1. The Agreement is amended by adding to Schedule "A" the following:

"(q) The making of any single donation exceeding the sum of $10,000.00 or donations exceeding $50,000.00 in the aggregate during any one calendar year."

2. The Agreement is further amended by adding to the end of paragraph 2 the following:

"PUC Inc. further confirms that effective as of the date hereof:

(a) Meetings of the Directors of PUC Inc. shall be open to the public save and except meetings that may be held in camera consistent with the rules for in camera meetings set out in Section 239 of the Municipal Act, S.O. 2001, c.25 and amendments thereto;

(b) Notice of the Directors' meetings of PUC Inc. shall be posted on the website for PUC Inc. and in the local press in advance of all meetings;

(c) Promptly following Directors meetings minutes of such meetings shall be delivered to the Clerk for the Corporation of the City of Sault Ste. Marie; and

(d) The Agreement shall be reviewed annually at the annual meeting of the Shareholder or at such other times as may be requested in writing by either of the parties."

3. The Agreement is hereby further amended by deleting paragraph 6.

4. Save and except as amended herein the Agreement shall remain in full force and effect.

5. This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario.

6. This Agreement shall enure to the benefit of and be binding upon the parties hereto and their respective successors and assigns.

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Per: ______________________
Name: Debbie Amaroso
Title: Mayor

Per: ______________________
Name: Malcolm White
Title: City Clerk

(We have authority to bind the Corporation)

APPROVED BY
CITY OF SAULT STE. MARIE

BY-LAW# 2013-44

PUC INC.

Per: ______________________
Name:
Title:

Per: ______________________
Name:
Title:

(We have authority to bind the Corporation)

PUC Distribution Inc.
500 Second Line EAST, P.O. Box 9000
SAULT STE. MARIE, ONTARIO, P6A 4K1

Appendix C
2017 YE Financial Statements of PUC Inc.

Non-Consolidated Financial Statements of

PUC INC.

Year ended December 31, 2017

KPMG LLP
111 Elgin Street, Suite 200
Sault Ste. Marie ON P6A 6L6
Canada
Telephone (705) 949-5811
Fax (705) 949-0911

INDEPENDENT AUDITORS' REPORT

To the Shareholder of PUC Inc.

We have audited the accompanying non-consolidated financial statements of PUC Inc., which comprise the non-consolidated statement of financial position as at December 31, 2017 and the non-consolidated statements of comprehensive income, changes in shareholder's equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Non-Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these non-consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these non-consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the non-consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the non-consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the non-consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the non-consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the non-consolidated financial statements present fairly, in all material respects, the non-consolidated financial position of PUC Inc. as at December 31, 2017, and its non-consolidated financial performance and its non-consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

April 25, 2018
Sault Ste. Marie, Canada

PUC INC.

Non-Consolidated Statement of Financial Position

December 31, 2017, with comparative information for December 31, 2016

		2017		2016
Assets				
Current assets:				
Accounts receivable	$	1,911	$	1,883
Receivable from subsidiary, PUC Services Inc. (note 9)		7,496,036		7,473,658
Payment in lieu of taxes recoverable		24,330		26,619
Total current assets		7,522,277		7,502,160
Non-current assets:				
Investments (note 5)		5,331		5,331
Notes receivable from related company (note 4)		8,310,000		8,310,000
Investments in and notes receivable with subsidiaries, at cost (note 6)		46,596,146		46,596,146
Total non-current assets		54,911,477		54,911,477
Total Assets	$	62,433,754	$	62,413,637
Liabilities and Shareholder's Equity				
Current liabilities:				
Accounts payable and accrued liabilities	$	–	$	4,767
Long-term debt (note 7)		31,720,000		31,720,000
Total liabilities		31,720,000		31,724,767
Shareholder's equity:				
Share capital:				
Authorized:				
Unlimited Special shares, non-voting, non-cumulative, redeemable at $10,000 per share				
100,000 Common shares				
Issued and outstanding:				
1,462 Special shares		14,620,000		14,620,000
21,632 Common shares		14,618,248		14,618,248
Retained earnings		1,475,506		1,450,622
		30,713,754		30,688,870
Total Liabilities and Shareholder's Equity	$	62,433,754	$	62,413,637

See accompanying notes to non-consolidated financial statements.

On behalf of the Board:

Director

Ed Richter Director

PUC INC.

Non-Consolidated Statement of Comprehensive Income

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Revenue:		
Interest	$ 2,151,214	$ 2,151,214
Miscellaneous	88,046	78,860
	2,239,260	2,230,074
Expenses:		
Interest on long-term debt	1,934,920	1,934,920
Administrative	117,071	123,738
Business development	141,634	34,284
	2,193,625	2,092,942
Income before payment in lieu of taxes	45,635	137,132
Payment in lieu of taxes (note 8):		
Current	20,751	36,860
Net income, being total comprehensive income for the year	$ 24,884	$ 100,272

See accompanying notes to non-consolidated financial statements.

PUC INC.

Non-Consolidated Statement of Changes in Shareholders' Equity

Year ended December 31, 2017, with comparative information for 2016

	Share Capital	Retained Earnings	Total
Balance, December 31, 2015	$ 29,238,248	$ 2,570,510	$ 31,808,758
Net income, being total comprehensive income	–	100,272	100,272
Dividends on common shares	–	(1,220,160)	(1,220,160)
Balance, December 31, 2016	29,238,248	1,450,622	30,688,870
Net income, being total comprehensive income	–	24,884	24,884
Balance, December 31, 2017	$ 29,238,248	$ 1,475,506	$30,713,754

See accompanying notes to non-consolidated financial statements.

PUC INC.

Non-Consolidated Statement of Cash Flows

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Cash flows from operating activities:		
Net income, being total comprehensive income	$ 24,884	$ 100,272
Changes in non-cash operating working capital items:		
Accounts receivable	(28)	5,374
Payment in lieu of taxes recoverable	2,289	36,545
Accounts payable and accrued liabilities	(4,767)	2,655
	22,378	144,846
Cash flows from financing activities:		
Dividends on common shares	–	(1,220,160)
Cash flows from investing activities:		
Receivable from subsidiary, PUC Services Inc.	(22,378)	1,075,314
Cash, beginning and end of year	$ –	$ –
Supplemental cash flow information:		
Cash paid during the year for interest	$ 1,934,920	$ 1,934,920
Cash received during the year for interest	2,151,214	2,151,214

See accompanying notes to non-consolidated financial statements.

1. Reporting entity:

PUC Inc. (the “Company”), is incorporated under the under the Ontario Business Corporations Act and a successor of the former City of Sault Ste. Marie Public Utilities Commission Electric Utility. The Company’s head office is located at 500 Second Line East Sault Ste. Marie, Ontario.

2. Basis of preparation:

(a) Statement of compliance:

The non-consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

These non-consolidated financial statements have been authorized for issue by the Board of Directors on April 25, 2018.

(b) Basis of measurement:

The non-consolidated financial statements have been prepared on the historical cost basis, except for the following:

- Derivative instruments, if any, are measured at fair value.

(c) Functional and presentation currency:

These non-consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company.

(d) Use of estimates and judgments:

The preparation of the non-consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgement in applying the Company’s accounting policies.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next fiscal year are included in note 13.

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these non-consolidated financial statements.

(a) Payment in lieu of taxes:

As a municipally owned corporation holding an investment in a municipal utility, the Company is exempt from corporate income and capital taxes. However, under the Electricity Act, 1998, the Company is required to make payments in lieu of corporate income and capital taxes to Ontario Electricity Financial Corporation ("OEFC"). These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) as modified by the Electricity Act, 1998, and related regulations.

The Company uses the asset and liability method of accounting for payment in lieu of income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

(b) Interest income and expense:

Interest income and expense are recognized in the non-consolidated statement of comprehensive income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to its fair value at inception. The effective interest rate is established on initial recognition of the financial asset or liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees paid or received and transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

(c) Investment in subsidiaries:

The investment in subsidiaries, which are non-marketable equity investments and not traded on an active market, are classified as available for sale for financial instrument purposes and are recorded at cost.

(d) Investments:

Investments are recorded at fair value unless the investment is designated as Loans and Receivables. Any gains and losses on disposal of investments are recorded in the year they occur and are included in other investment income in the Non-Consolidated Statement of Comprehensive Income.

3. Significant accounting policies (continued):

(e) Financial instruments:

i) Financial assets and liabilities:

All financial assets are classified as loans and receivables and all financial liabilities are classified as other liabilities. These financial instruments are recognized initially at fair value plus any directly attributable transactions costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets. The Company does not enter into derivative instruments.

ii) Share capital

Common shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

Special shares

Special shares are classified as equity. Incremental costs directly attributable to the issue of special shares are recognized as a deduction from equity, net of any tax effects.

(f) The following new standards and interpretations are not yet effective but are considered to be relevant to the Company's non-consolidated financial statements:

i) IFRS 9 Financial Instruments ("IFRS 9"(2015))

In July 2015, the IASB issued a new standard, IFRS 9 Financial Instruments, which will replace IAS 39 Financial Instruments: Recognition and Measurement. The replacement of IAS 39 is a multiphase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 is part of the first phase of this project. IFRS 9 is effective for periods beginning on or after January 1, 2018 and must be applied retrospectively. The Company is assessing the impact of IFRS 9 on its results of operations, financial position, and disclosures.

4. Notes receivable from related company:

	2017	2016
Note receivable from PUC Services Inc., unsecured, bears interest at 7.62% per annum and is receivable one year after demand	$ 6,990,000	$ 6,990,000
Note receivable from PUC Services Inc., unsecured and without interest and is receivable one year after demand	1,320,000	1,320,000
	$ 8,310,000	$ 8,310,000

5. Investments:

On January 9, 2016, the Company purchased 1 Class A share and 33,058 Class B shares of Customer First Inc, an incorporated entity in Ontario, representing 21% equity interest. The investment is carried at cost.

6. Investment in and notes receivable with subsidiary:

	2017			2016
	Notes Receivable	Common Shares	Total	Total
PUC Distribution	$ 26,534,040	$ 20,062,106	$ 46,596,146	$ 46,596,146

The note receivable from PUC Distribution Inc. bears interest at 6.1%, is unsecured and is repayable on the year after demand. In 2017, the Company received interest income on this note receivable from PUC Distribution in the amount of $1,618,575 (2016 - $1,618,575).

7. Long-term debt:

	2017	2016
Note payable to shareholder. The Corporation of the City of Sault Ste. Marie, unsecured, with 6.1% (2016 - 6.1%) interest payable quarterly and principal payable one year after demand	$ 6,720,000	$ 6,720,000
Note payable to shareholder. The Corporation of the City of Sault Ste. Marie, unsecured, with interest payable quarterly at rates periodically negotiated and principal payable one year after demand, rate for 2017 was 6.1% (2016 – 6.1%)	25,000,000	25,000,000
	$ 31,720,000	$ 31,720,000

8. Payment in lieu of taxes:

Payment in lieu of taxes differs from the amount that would be computed by applying the federal and provincial statutory tax rates of 26.5% (2016 - 26.5%) to earnings before income taxes. The reasons for the differences and related tax effects are as follows:

	2017	2016
Earnings before payment in lieu of taxes	$ 45,635	$ 137,132
Tax at applicable tax rate	$ 12,093	$ 36,340
Other	8,658	520
Payment in lieu of taxes - current	$ 20,751	$ 36,860

9. Related party transactions:

The following entities are related parties to the Company:

- The Corporation of the City of Sault Ste. Marie (City) - 100% shareholder of PUC Inc.
- PUC Distribution Inc. (Distribution) - 100% owned by PUC Inc.
- PUC Services Inc. (Services) - 100% owned by the Corporation of the City of Sault Ste. Marie.
- Public Utilities Commission of the City of Sault Ste. Marie (Utility) - 100% owned by the Corporation of the City of Sault Ste. Marie.

The Company has a management, operations and maintenance agreement with Services until November 30, 2022 under which PUC Services Inc. manages, controls, administers and operates the business of the Corporation.

The Company receives interest income on its receivable balance from Services at the Ontario Energy Board Deemed Rate on its average monthly balance. Interest of $88,046 (2016 - $78,860) was received during the year. The Company receives interest income on its notes receivable from Services. Interest of $532,638 (2016 - $532,638) was received during the year.

The Company receives interest income on its note receivable balance from Distribution which bears interest at a rate of 6.1% (2016 - 6.1%). Interest of $1,618,576 (2016 - $1,618,575) was received during the year. The note is unsecured and is repayable one year after demand. There has been no demand on the note at December 31, 2017.

The Company has purchased services relating to business development costs from Services in the amount of $141,634 (2016 - $34,284). The Company incurred interest of $1,934,920 (2016 - $1,934,920) payable to its shareholder. The Company paid a dividend of $Nil (2016 - $1,220,160) to its shareholder.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration agreed to by the related parties.

10. Contingency:

In 2007, the Ontario Provincial Government proposed amendments affecting the calculation of payments-in-lieu (PILs) for municipal electricity utilities. The Company has determined the proposed amendments are not substantively enacted. The proposed amendments will limit the allowable interest based on the regulatory deemed debt rate and debt to equity ratio. Interest paid to municipalities, after March 27, 2007, in excess of the allowable amounts will not be deductible in calculating PILs. The Company has determined these proposed amendments will result in incremental PILs totaling approximately $180,000 for the period from March 28, 2007 to December 31, 2008. The incremental PILs, if any, will be recorded in the period the proposed amendments become enacted.

11. Fair value of financial instruments:

The carrying value of accounts receivable approximate fair value because of the short maturity of these instruments.

It is not practicable to determine the fair values of the investment in subsidiaries, notes receivable from related company, receivable from subsidiaries and notes payable as the companies are not publicly traded and the notes payable have no principal repayment terms.

12. Capital disclosures:

The Company's objective with respect to its capital structure is to maintain effective access to capital on an ongoing basis at reasonable rates while achieving appropriate rates of financial return for its shareholder.

The Company considers its capital structure to consist of shareholder's equity and notes payable held by the Company's shareholder which has been outlined below.

	2017	2016
Note payable to shareholder - 6.1% (2016 - 6.1%)	$ 6,720,000	$ 6,720,000
Note payable to shareholder - 6.1% (2016 - 6.1%)	25,000,000	25,000,000
Special shares	14,620,000	14,620,000
Common shares	14,618,248	14,618,248
Retained earnings	1,475,506	1,450,622
	$ 62,433,754	$ 62,408,870

The Company is subject to a shareholder's agreement which has restrictive covenants typically associated with such an agreement. At December 31, 2017, the Company is in compliance with all of the restrictive covenants and restrictions.

13. Financial risk management:

Overview

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- market risk

This note presents information about the Company's risk management framework, its operational risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

Risk management framework

Management has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk management

Credit risk is the risk of financial loss to the Company if a customer fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates, will affect the Company's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Appendix D
2017 YE Financial Statements of PUC Services Inc.

Financial Statements of

PUC SERVICES INC.

Year ended December 31, 2017

KPMG LLP
111 Elgin Street, Suite 200
Sault Ste. Marie ON P6A 6L6
Canada
Telephone (705) 949-5811
Fax (705) 949-0911

INDEPENDENT AUDITORS' REPORT

To the Shareholder of PUC Services Inc.

We have audited the accompanying financial statements of PUC Services Inc., which comprise the statement of financial position as at December 31, 2017 and the statements of income and comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of PUC Services Inc. as at December 31, 2017, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Sault Ste. Marie, Canada
April 25, 2018

PUC SERVICES INC.

Statement of Financial Position

As at December 31, 2017, with comparative information for 2016

		2017	2016
Assets			
Current assets:			
Cash	$	9,877,709	7,586,260
Accounts receivable (note 5)		4,558,241	5,742,568
Due from related party (note 18)		1,629,153	2,622,934
Inventories (note 6)		323,255	319,214
Prepaid expenses		692,679	18,712
Payment in lieu of taxes recoverable		9,862	-
Total current assets		17,090,899	16,289,688
Non-current assets:			
Deferred taxes (note 9)		768,000	650,000
Property, plant and equipment (note 7)		16,146,449	17,410,836
Intangible assets (note 8)		294,868	547,906
Total non-current assets		17,209,317	18,608,742
Total assets	$	34,300,216	34,898,430
Liabilities and Shareholder's Equity			
Current liabilities:			
Accounts payable and accrued liabilities	$	3,563,353	4,103,555
Payment in lieu of taxes		-	29,199
Due to related parties (note 18)		7,688,682	7,573,859
Current portion of long-term debt (note 10)		85,656	85,656
Total current liabilities		11,337,691	11,792,269
Non-current liabilities:			
Long-term debt (note 10)		9,314,842	9,400,498
Deferred revenue		10,732,985	10,716,759
Employee future benefit obligations (note 11)		2,240,410	2,002,450
Total non-current liabilities		22,288,237	22,119,707
Total liabilities		33,625,928	33,911,976
Shareholder's equity:			
Share capital (note 14)		1,943,300	1,943,300
Accumulated other comprehensive income		(6,005)	87,835
Deficit		(1,263,007)	(1,044,681)
Total shareholder's equity		674,288	986,454
Commitments and contingences (note 17)			
Total liabilities and shareholder's equity	$	34,300,216	34,898,430

See accompanying notes to financial statements.

Approved on behalf of the Board:

_______________ Director _______________ Director

PUC SERVICES INC.

Statement of Income and Comprehensive Income

Year ended December 31, 2017, with comparative information for 2016

		2017	2016
Revenue:			
Management fees	$	10,210,843	9,886,496
Contract services		5,079,096	5,132,802
Other operating revenue (note 15)		1,445,208	1,744,898
		16,735,147	16,764,196
Expenses:			
Contract service		4,402,896	4,580,946
Administrative		3,833,640	3,827,729
Facilities		2,675,390	2,793,312
Depreciation and amortization		2,314,797	2,229,024
Billing and collection		1,698,311	1,195,654
Customer service		987,698	973,830
Street lights		315,643	370,600
Other business and maintenance		154,785	125,759
New business development		141,634	34,284
		16,524,794	16,131,138
Income from operating activities		210,353	633,058
Other (income) expense:			
Finance income (note 16)		(45,265)	(5,857)
Finance charges (note 16)		579,013	594,096
Net finance costs		533,748	588,239
Income (loss) before provision for payment in lieu of taxes		(323,395)	44,819
Payment in lieu of taxes (note 9)			
Current (recovery)		(20,903)	1,864
Deferred (recovery)		(84,166)	(94,789)
		(105,069)	(92,925)
Income (loss) for the year		(218,326)	137,744
Other comprehensive income (loss): items that will not be classified to profit or loss, net of income tax:			
Remeasurement of employee future benefits (note 11)		(127,674)	(42,305)
Income tax recovery on other comprehensive income (note 9)		33,834	11,211
Other comprehensive income (loss) for the year, net of income tax		(93,840)	(31,094)
Net income (loss) and comprehensive income (loss) for the year	$	(312,166)	106,650

See accompanying notes to financial statements.

PUC SERVICES INC.

Statement of Changes in Shareholders' Equity

Year ended December 31, 2017, with comparative information for 2016

		Share Capital	Acc. other comprehensive income (loss)	Deficit		Total
Balance, January 1, 2016	$	1,943,300	118,929	(1,182,425)	$	879,804
Net income for the year		-	-	137,744		137,744
Remeasurement of employee future benefit obligation		-	(31,094)	-		(31,094)
Balance, December 31, 2016		1,943,300	87,835	(1,044,681)		986,454
Loss for the year		-	-	(218,326)		(218,326)
Remeasurement of employee future benefit obligation		-	(93,840)	-		(93,840)
Balance, December 31, 2017	$	1,943,300	(6,005)	(1,263,007)	$	674,288

See accompanying notes to financial statements.

PUC SERVICES INC.

Statement of Cash Flows

Year ended December 31, 2017, with comparative information for 2016

		2017	2016
Cash flows from operating activities:			
Net income (loss) and comprehensive income (loss)	$	(312,166)	106,650
Item not involving cash:			
Depreciation and amortization		2,314,797	2,229,024
Amortization of deferred revenue		(408,615)	(525,255)
Gain on disposal of property, plant and equipment		(15,929)	(177,696)
Net finance costs		533,748	588,239
Income tax expense (recovery)		(105,069)	(92,925)
		2,006,766	2,128,037
Changes in non-cash working capital:			
Decrease in accounts receivables		1,184,327	493,692
Decrease (increase) in balances with related entities		1,153,869	(1,183,880)
Increase in inventories		(4,041)	(20,578)
Increase in prepaid expenses		(673,967)	(18,712)
Decrease in accounts payable and accrued liabilities		(540,202)	(361,363)
Increase in employee future benefit obligation		204,126	195,152
Income tax paid		(18,158)	124,391
Net cash from operating activities		3,312,720	1,356,739
Cash flows from financing activities:			
Principal payments on long-term debt		(85,656)	(85,657)
Contributions relating to property, plant and equipment		518,742	6,347,786
Interest paid		(579,013)	(594,096)
Net cash from financing activities		(145,927)	5,668,033
Cash flows from investing activities:			
Proceeds from disposal of property, plant and equipment		16,148	51,615
Purchase of property, plant and equipment		(879,130)	(7,581,952)
Purchase of intangible assets		(12,362)	(96,123)
		(875,344)	(7,626,460)
Increase (decrease) in cash		2,291,449	(601,688)
Cash, beginning of year		7,586,260	8,187,948
Cash, end of year	$	9,877,709	7,586,260

See accompanying notes to financial statements.

1. Reporting entity:

PUC Services Inc. (the “Company”), is incorporated under the Ontario Business Corporations Act and provides management, operations and maintenance services related to water, waste water and electrical services to its related entities and other organizations. The Company’s head office is located at 500 Second Line East Sault Ste. Marie, Ontario.

The Company is wholly owned by The Corporation of the City of Sault Ste. Marie.

2. Basis of preparation:

(a) Statement of compliance:

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

(b) Approval of the financial statements:

The financial statements have been approved and authorized for issue by the Board of Directors on April 25, 2018.

(c) Basis of measurement:

The financial statements have been prepared on the historical cost basis, unless otherwise stated.

(d) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the functional currency of the Company. All financial information is presented in Canadian dollars.

(e) Use of estimates and judgments:

The preparation of the financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next fiscal year are included in the following note:

(i) Note 7 – Property, plant and equipment: estimation of useful lives
(ii) Note 11 – Employee future benefits: key actuarial assumptions
(iii) Note 17 – Commitments and contingencies

3. Significant accounting policies:

The accounting policies set out below have been applied consistently in all years presented in these financial statements unless otherwise indicated.

(a) Financial instruments:

All financial assets are classified as loans and receivables and all financial liabilities are classified as other liabilities. These financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets as described in note 3(f). The Company does not enter into derivative instruments.

Hedge accounting has not been used in the preparation of these financial statements.

Cash equivalents include short-term investments with maturities of three months or less when purchased.

(b) Revenue recognition:

Management fee revenue:

The Company provides management services to related parties and recognizes revenues as services are rendered.

Streetlight revenue:

The Company is contracted by the City of Sault Ste. Marie to provide electricity for street lights to the city and provide maintenance services on the lights. Revenue is recognized in the period the billing services are rendered and as services are provided.

Contract revenue:

The Company is contracted by the City of Sault Ste. Marie to operate the water and wastewater plants. Revenue is recognized as services are rendered. *CDM Revenue:*

Performance incentive payments under CDM programs are recognized by the Company when there is reasonable assurance that the program conditions have been satisfied and the incentive payments will be received.

(c) Inventory:

Inventories consist of parts, supplies and materials held for the future capital expansion and operations and are valued at the lower of cost and net realizable value, with cost being determined on an average cost basis, and includes expenditures incurred in acquiring the material and supplies and other costs incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated selling expenses.

3. Significant accounting policies (continued):

(d) Property, plant and equipment:

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour, and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Borrowing costs on qualifying assets are capitalized as part of the cost of the asset based upon the weighted average cost of debt incurred on the Company's borrowings. Qualifying assets are considered to be those that take a substantial period of time to construct.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on the disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal, if any, with the carrying amount of the item of property, plant and equipment and are recognized net within other income in profit or loss.

Major spare parts and standby equipment are recognized as items of property, plant and equipment.

The cost of replacing a part of an item of property, plant and equipment is recognized in the net book value of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. In this event, the replaced part of property, plant and equipment is written-off, and the related gain or loss is included in profit or loss. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Depreciation is calculated over the depreciable amount and is recognized in profit or loss on a straight-line basis over the estimated useful life of each part or component of an item of property, plant and equipment. The depreciable amount is cost. Land is not depreciated. Construction-in-progress assets are not depreciated until the project is complete and in service.

The estimated useful lives are as follows:

Buildings	25 – 50 years
Plant and equipment	4 – 40 years

Depreciation methods, useful lives, and residual values are reviewed at each reporting date and adjusted prospectively if appropriate.

3. Significant accounting policies (continued):

(e) Intangible assets:

(i) Computer software:

Computer software that is acquired or developed by the Company, including software that is not integral to the functionality of equipment purchased which has finite useful lives, is measured at cost less accumulated depreciation and accumulated impairment losses.

(ii) Amortization:

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use. The estimated useful lives are:

Computer software	2 – 5 years

Amortization methods and useful lives of all intangible assets are reviewed at each reporting date and adjusted prospectively if appropriate.

(f) Impairment:

(i) Financial assets:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its current carrying amount (using prevailing interest rates), and the present value of the estimated future cash flows discounted at the original effective interest rate. Interest on the impaired assets continues to be recognized through the unwinding of the discount.

All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

(ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

3. Significant accounting policies (continued):

(f) Impairment (continued):

(ii) Non-financial assets (continued):

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(g) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(h) Deferred revenue and assets transferred from customers:

Certain customers and developers are required to contribute towards the capital cost of construction in order to provide ongoing service. When an asset is received as a capital contribution, the asset is initially recognized at its fair value, with the corresponding amount recognized as deferred revenue. Deferred revenue represents the Company's obligation to continue to provide customers services related to the supply of electricity, and is amortized to income on a straight-line basis over the economic useful life of the acquired or contributed asset, which represents the period of ongoing service to the customer.

(i) Employee future benefits:

(i) Pension plan:

The Company provides a pension plan for all its full-time employees through Ontario Municipal Employees Retirement System (“OMERS”). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund (“the Fund”), and provides pensions for employees of Ontario municipalities, local boards and public utilities. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. To the extent that the Fund finds itself in an under-funded position, additional contribution rates may be assessed to participating employers and members.

3. Significant accounting policies (continued):

(h) Employee future benefits (continued):

(i) Pension plan (continued):

OMERS is a defined benefit plan. However, as OMERS does not segregate its pension asset and liability information by individual employers, there is insufficient information available to enable the Company to directly account for the plan. Consequently, the plan has been accounted for as a defined contribution plan. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in net income when they are due.

(ii) Post-employment benefits, other than pension:

The Company provides some of its retired employees with life insurance and medical benefits beyond those provided by government sponsored plans.

The cost of these benefits is expensed as earned by employees through employment service. The accrued benefit obligations and the current service costs are actuarially determined by applying the projected unit credit method and reflect management's best estimate of certain underlying assumptions. Actuarial gains and losses arising from defined benefit plans are recognized immediately in other comprehensive income and reported in retained earnings. When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in net income on a straight-line basis over the average period until the benefits become vested. In circumstances where the benefits vest immediately, the expense is recognized immediately in net income.

(i) Finance income and finance charges:

Finance income is recognized as it accrues in profit or loss, using the effective interest method. Finance income comprises interest earned on cash and cash equivalents and on regulatory assets.

Finance charges comprise interest expense on borrowings. Finance charges are recognized as an expense unless they are capitalized as part of the cost of qualifying assets.

(j) Payment in lieu of taxes:

The Company is currently exempt from taxes under the Income Tax Act (Canada) and the Ontario Corporations' Tax Act (collectively the "Tax Acts"). Under the *Electricity Act*, 1998, the Company makes payments in lieu of corporate taxes to the Ontario Electricity Financial Company ("OEFC"). These payments are calculated in accordance with the rules for computing taxable income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Company's Tax Act (Ontario) as modified by the Electricity Act, 1998, and related regulations. Prior to October 1, 2001, the Company was not subject to income or capital taxes.

PILs comprises current and deferred payments in lieu of income tax. PILs are recognized in income and loss except to the extent that it relates to items recognized directly in either comprehensive income or equity, in which case, it is recognized in comprehensive income or in equity.

3. Significant accounting policies (continued):

(j) Payment in lieu of taxes (continued):

Current PILS is the expected amount of tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred PILs comprise the net tax effects of temporary differences between the tax basis of assets and liabilities and their respective carrying amounts for accounting purposes, as well as for tax losses available to be carried forward to future years that are likely to be realized. Deferred PILs assets and liabilities are measured using enacted or substantively enacted tax rates, at the reporting date, expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred PILs assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

A deferred PILs asset is recognized to the extent that it is probable that future taxable income will be available against which the temporary difference can be utilized. Deferred PILs assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(k) Changes in accounting policies:

Effective January 1, 2017, the Company has adopted amendments to IAS 7, Financial Statement Disclosure. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both, cash and non-cash changes. Refer to note 10 for the reconciliation between the opening and closing balances for liabilities from financing activities related to long term debt.

(l) New standards and interpretations not yet effective:

The following new standards and interpretations are not yet effective but are considered to be relevant to the Company's financial statements:

i) IFRS 15 *Revenue from Contracts with Customers*

The IASB has issued IFRS 15 Revenue from Contracts with Customers ("IFRS 15"). IFRS 15 replaces IAS 11 Construction Contracts, IAS 18 Revenue and various interpretations and establishes principles regarding the nature, amount, timing and uncertainty of revenue arising from contracts with customers. The standard requires entities to recognize revenue for the transfer of goods or services to customers measured at the amounts an entity expects to be entitled to in exchange for those goods or services. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Company is assessing the impact of IFRS 15 on its results of operations, financial position and disclosures.

ii) IFRS 9 *Financial Instruments ("IFRS 9" (2014))*

In July 2014, the IASB issued a new standard, IFRS 9 Financial Instruments, which will replace IAS 39 Financial Instruments: Recognition and Measurement. The replacement of IAS 39 is a multiphase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 is part of the first phase of

3. Significant accounting policies (continued):

(l) New standards and interpretations not yet effective (continued):

ii) IFRS 9 *Financial Instruments ("IFRS 9" (2014)) (continued)*

this project. IFRS 9 is effective for periods beginning on or after January 1, 2018 and must be applied retrospectively. The Company is assessing the impact of IFRS 9 on its results of operations, financial position, and disclosures.

(II) IFRS 16 *Leases*:

In January 2016, the IASB issued IFRS 16 to establish principles for the recognition, measurement, presentation and disclosures of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 replaces IAS17 and it is effective for annual periods beginning on or after January 1, 2019. The Company is assessing the impact of IFRS 16 on its results of operations, financial position and disclosures.

4. Critical accounting estimates and judgments:

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Fair value of financial instruments:

The Company determines the fair value of financial instruments that are not quoted in an active market, using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realized immediately.

The methods, and assumptions applied, and the valuation techniques used, for financial instruments that are not quoted in an active market are disclosed in note 19.

Payment in lieu of taxes:

The Company periodically assesses its liabilities and contingencies related to PILs for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current PILs provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the PILs liabilities.

4. Critical accounting estimates and judgments (continued):

Useful lives of depreciable assets:

Management reviews the useful lives of depreciable assets at each reporting date. At December 31, 2017, management assesses that the useful lives represent the expected utility of the assets to the Company. The carrying amounts are analyzed in notes 7 and 8. Actual results, however, may vary due to technical obsolescence, particularly for software and electronic equipment.

Impairment:

An impairment loss is recognized for the amount by which an asset's carrying amount exceeds its recoverable amount, which is the higher of fair value less cost to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each asset or cash generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors. In the process of measuring expected future cash flows management makes assumptions about future operating results. These assumptions relate to future events and circumstances.

Employee retirement benefits:

The Company estimates the present value of employee retirement benefits, which depends on a number of assumptions including discount rates, expected salary and other cost increases, and mortality rates. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Refer to note 11 for information relating to these estimates.

5. Accounts receivable:

	2017	2016
Trade receivables	$ 4,053,587	$ 4,868,291
Other receivables	504,654	874,277
	$ 4,558,241	$ 5,742,568

6. Inventories:

	2017	2016
Stores	$ 84,167	$ 105,041
Fuel	39,361	28,193
Street lights	199,727	185,980
	$ 323,255	$ 319,214

The amount of inventories consumed by the Company and recognized as an expense during 2017 was $120,313 (2016 - $156,210).

7. Property, plant and equipment:

(a) Cost:

	Land	Building	Plant and equipment	Construction -in- Progress	Total
Balance at January 1, 2017	$ –	$ 262,704	$38,960,317	$ 26,883	$39,249,904
Additions	–	–	905,794	–	905,794
Disposals/retirements	–	–	(1,261,231)	(26,883)	(1,288,114)
Balance at December 31, 2017	$ –	$ 262,704	$38,604,880	$ –	$38,867,584

	Land	Building	Plant and equipment	Construction -in- Progress	Total
Balance at January 1, 2016	$ 70,368	$1,666,669	$31,967,841	$ 36,244	$33,741,122
Additions	–	–	7,581,952	–	7,581,952
Disposals/retirements	(70,368)	(1,403,965)	(589,476)	(9,361)	(2,073,170)
Balance at December 31, 2016	$ –	$ 262,704	$38,960,317	$ 26,883	$39,249,904

7. Property, plant and equipment (continued):

(b) Accumulated depreciation:

		Land	Buildings	Plant and equipment		Construction -in- Progress	Total
Balance at January 1, 2017	$	–	$107,878	$21,731,190	$	–	$21,839,068
Depreciation charge		–	5,254	2,044,142		–	2,049,396
Disposals/retirements		–	–	(1,167,329)		–	(1,167,329)
Balance at December 31, 2017	$	–	$113,132	$22,608,003	$	–	$22,721,135

		Land		Buildings	Plant and equipment		Construction -in- Progress	Total
Balance at January 1, 2016	$	–	$	933,647	$20,416,113	$	–	$21,349,760
Depreciation charge		–		5,254	1,904,553		–	1,909,807
Disposals/retirements		–		(831,023)	(589,476)		–	(1,420,499)
Balance at December 31, 2016	$	–	$	107,878	$21,731,190	$	–	$21,839,068

(c) Carrying amounts:

		Land		Buildings	Plant and equipment		Construction -in- Progress	Total
December 31, 2017	$	–	$	149,572	$15,996,877	$	–	$16,146,449
December 31, 2016	$	–	$	154,826	$17,229,036	$	26,974	$17,410,836

(d) Security:

At December 31, 2017, properties with a carrying amount of $16,146,449 (2016 - $17,410,836) are subject to a general security agreement.

8. Intangible assets:

(a) Cost:

	Computer software
Balance at January 1, 2017	$ 2,049,578
Additions	12,362
Balance at December 31, 2017	$ 2,061,940
Balance at January 1, 2016	$ 1,953,455
Additions	96,123
Balance at December 31, 2016	$ 2,049,578

(b) Accumulated amortization:

	Computer software
Balance at January 1, 2017	$ 1,501,672
Amortization charges in 2017	265,400
Balance at December 31, 2017	$ 1,767,072
Balance at January 1, 2016	$ 1,182,454
Amortization charges in 2016	319,218
Balance at December 31, 2016	$ 1,501,672

(c) Carrying amounts:

	Computer software
December 31, 2017	$ 294,868
December 31, 2016	$ 547,906

9. Payments in lieu of income taxes:

Payment in lieu of taxes:

	2017	2016
Current (recovery)	$ (20,903)	$ 1,864
Deferred (recovery)	(84,166)	(94,789)
Income tax expense	$ (105,069)	$ (92,925)

Reconciliation of effective tax rate:

	2017	2016
Earnings before payments in lieu of income taxes	$ (323,395)	$ 44,819
Statutory rate	26.5%	26.5%
Income tax	(85,700)	11,877
Increase (decrease) resulting from:		
Permanent difference	3,258	2,505
Adjustment of prior years		(68,933)
Other comprehensive income adjustment	(33,834)	(11,211)
Investment tax credits	3,073	(31,562)
Other	8,134	4,399
	$ (105,069)	$ (92,925)

Significant components of the Company's deferred tax balances are as follows:

	2017	2016
Deferred tax assets (liabilities):		
Plant and equipment	$ (2,669,000)	$ (2,720,000)
Employee benefits	594,000	531,000
Deferred revenue – contributed capital	2,843,000	2,839,000
	$ 768,000	$ 650,000

10. Long-term debt:

	2017	2016
Notes payable:		
(i) PUC Inc.	$ 6,990,000	$ 6,990,000
(ii) PUC Inc.	1,320,000	1,320,000
(iii) Ontario Infrastructure and Lands Corporation	573,333	626,667
(iv) Federation of Canadian Municipalities	517,165	549,487
	9,400,498	9,486,154
Less: current portion of long-term debt	85,656	85,656
	$ 9,314,842	$ 9,400,498

I. Note payable to related company, PUC Inc., unsecured, bears interest at 7.62% per annum and is payable one year after demand. Interest of $532,638 (2016 - $532,638) was paid and expensed during the year.

II. Note payable to related company, PUC Inc., unsecured and without interest and is payable one year after demand.

III. Note payable to Ontario Infrastructure and Lands Corporation (OILC), bears interest at 4.22% per annum and is payable in monthly principal payments of $4,444, due September 16, 2028. Interest of $25,412 (2016 - $27,741) was paid and expensed during the year.

IV. Note payable to Federation of Canadian Municipalities (FCM), unsecured, bears interest at 4.21% per annum and is payable in semi-annual principal payments of $16,161, due October 30, 2033. Interest of $20,683 (2016 - $23,921) was paid and expensed during the year.

Principal payments on the long-term debt are as follows:

2018	$ 85,656
2019	85,656
2020	85,656
2021	85,656
2022	85,656
2023 - 2033	8,972,218
	9,400,498
Less: current portion	(85,656)
Long-term portion	$ 9,314,842

10. Long-term debt (continued):

Reconciliation of movements of liabilities to cash flows arising from financing activities:

	2017	2016
Long term debt - beginning	$ 9,486,154	$ 9,571,810
Less: cash outflows for principal repayments	85,656	85,656
	$ 9,400,498	$ 9,486,154

11. Employee future benefits:

The Company pays certain medical and life insurance benefits on behalf of some of its retired employees. The Company recognizes these post-retirement costs in the period in which employees' services were rendered. The accrued benefit liability at December 31, 2017 of $2,240,410 was based on an actuarial valuation completed in 2017 using a discount rate of 3.40%.

Changes in the present value of the defined benefit unfunded obligation and the accrued benefit liability:

	2017	2016
Defined benefit obligation, beginning of year	$ 2,002,450	$ 1,846,728
Current service cost	107,382	103,800
Interest cost	76,658	74,388
Benefits paid during the year	(73,754)	(64,771)
Actuarial gains recognized in other comprehensive income	127,674	42,305
Accrued benefit liability, end of year	$ 2,240,410	$ 2,002,450

Components of net benefit expense recognized are as follows:

	2017	2016
Current service cost	$ 107,382	$ 103,800
Interest cost	76,658	74,388
Net benefit expense recognized	$ 184,040	$ 178,188

11. Employee future benefits (continued):

The significant actuarial assumptions used in the valuation are as follows (weighted average):

	2017	2016
Accrued benefit obligation:		
Discount rate	3.40%	3.90%
Benefit cost for the year:		
Withdrawal rate	0.50%	0.50%
Assumed health care cost trend rates:		
Cost trend rate estimated to decline to 4.5% over 8 years.	6.25%	6.50%

The approximate effect on the accrued benefit obligation of the entire plan and the estimated net benefit expense of the entire plan if the health care trend rate assumption was increased or decreased by 1%, and all other assumptions were held constant, is as follows:

	Defined Benefit Obligation	Periodic Benefit Cost
1% increase in health care trend rate	$ 257,000	$ 82,700
1% decrease in health care trend rate	216,200	66,700

The main actuarial assumptions utilized for the valuation are as follows:

General inflation - future general inflation levels, as measured by the changes in the Consumer Price Index, were assumed at 2% in 2017, and thereafter (2016; 2%).

12. Pension agreement:

The Company provides a pension plan for its employees through OMERS. The plan is a multi-employer, contributory defined pension plan with equal contributions by the employer and its employees. In 2017, the Company made employer contributions of $1,642,869 to OMERS (2016 - $1,633,366). The Company's net benefit expense has been charged to income.

13. Employee benefits:

	2017	2016
Salaries, wages and benefits	$ 15,710,848	$ 16,240,016
CPP and EI remittances	659,238	714,383
Contributions to OMERS	1,602,409	1,633,366
	$ 17,972,495	$ 18,587,765

14. Share capital:

	2017	2016
Authorized:		
Unlimited special shares, non-voting, non-cumulative, redeemable at $10,000 per share		
10,000 Common shares		
Issued and outstanding:		
105 special shares	$ 1,050,000	$ 1,050,000
4,000 common shares	893,300	893,300
	$ 1,943,300	$ 1,943,300

15. Other operating revenue:

	2017	2016
Streetlights	$ 487,261	$ 566,428
Miscellaneous	359,324	479,118
Amortization of deferred revenue	408,615	525,255
Generation revenue	190,008	174,097
Total other income	$ 1,445,208	$ 1,744,898

16. Finance income and finance charges:

	2017	2016
Interest income	$ 45,265	$ 5,857
Interest expense on amounts due to related party	532,638	532,638
Interest expense on long-term debt	46,375	61,458
	579,013	594,096
Net finance costs recognized in comprehensive income	$ 533,748	$ 588,239

17. Commitments and contingencies:

General:

From time to time, the Company is involved in various litigation matters arising in the ordinary course of its business. The Company has no reason to believe that the disposition of any such current matter could reasonably be expected to have a materially adverse impact on the Company's financial position, results of operations or its ability to carry on any of its business activities.

General Liability Insurance:

The Company is a member of the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE). MEARIE is a pooling of public liability insurance risks of many of the LDCs in Ontario. All members of the pool are subjected to assessment for losses experienced by the pool for the years in which they were members, on a pro-rata basis based on the total of their respective service revenues. As at December 31, 2017, no assessments have been made.

18. Related party transactions:

(a) Parent, ultimate controlling party, and other related parties:

The sole shareholder of the Company is the Corporation of the City of Sault Ste. Marie (the "City"). The City produces financial statements that are available for public use. Other related parties include; PUC Inc. also owned 100% by the City and PUC Distribution Inc. owned 100% by PUC Inc.; and the Public Utilities Commission of the City of Sault Ste. Marie (Water Utility).

(b) The key management personnel of the Company have been defined as members of its board of directors and executive management team members, and is summarized below.

	2017	2016
Directors' fees	$ 30,288	$ 23,562
Salaries and other short-term benefits	790,196	747,367
Post-employment benefits	10,837	10,601
	$ 831,321	$ 781,530

(c) Transactions with ultimate parent (the City):

In the year, the Company had the following significant transactions with its ultimate parent, a government entity:

The Company provides streetlight services and water and waste water services to the City. The amount charged to the City for streetlight maintenance is $487,261 (2016 - $566,428) and water and waste water services is $3,067,824 (2016 - $3,391,263).

18. Related party transactions (continued):

(d) Transactions with other related parties:

The Company has agreements which expire November 30, 2022 with the Utility, and with its other related entities, to manage, control, administer and operate the business of these entities. The Company charged the following management fees to the related parties:

	2017	2016
PUC Distribution Inc.	$ 4,795,852	$ 4,718,888
Public Utilities Commission of the City of Sault Ste. Marie	5,200,945	5,133,324
PUC Inc.	214,046	34,284
	$ 10,210,843	$ 9,886,496

The Company pays interest on payable balances at the Ontario Energy Board Deemed Rate on the average payable balance for the month. Interest was paid to PUC Inc., PUC Distribution Inc, and the Public Utilities Commission of the City of Sault Ste. Marie of $88,046, $18,693 and $10,112 (2016 - $78,860, $31,981, and $19,901 respectively).

The Company paid interest on its long-term debt to PUC Inc. of $532,638 (2016 - $532,638).

New business development costs of $141,634 (2016 - $34,284) were charged to PUC Inc.

19. Financial instruments and risk management:

Fair value disclosure

Cash is measured at fair value. The carrying values of receivables, and accounts payable and accrued charges approximate fair value because of the short maturity of these instruments. The carrying value of the customer deposits approximates fair value because the amounts are payable on demand.

Financial risks

The Company understands the risks inherent in its business and defines them broadly as anything that could impact its ability to achieve its strategic objectives. The Company's exposure to a variety of risks such as credit risk, interest rate risk, and liquidity risk, as well as related mitigation strategies are discussed below.

(a) Credit risk:

Financial assets carry credit risk that a counterparty will fail to discharge an obligation which could result in a financial loss. Financial assets held by the Company, such as accounts receivable, expose it to credit risk. The Company earns in excess of 90% of its revenue from related parties and other municipal corporations.

19. Financial instruments and risk management (continued):

(b) Liquidity risk:

The Company monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Company's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure.

The majority of accounts payable, as reported on the balance sheet, are due within 30 days.

(c) Capital disclosures:

The Company's definition of capital includes shareholder's equity and long-term debt. As at December 31, 2017, shareholder's equity amounts to $674,288 (2016 - $986,454) and long-term debt amounts to $9,314,842 (2016 - $9,400,498).

20. Comparative information:

Certain 2016 comparative information has been reclassified to conform with the financial statement presentation adopted for 2017. The changes made do not have an impact on the statement of comprehensive income.