

2024 Cost of Service

EXHIBIT 4: OPERATING EXPENSES



Exhibit 4: Table of Contents

2.4	Exhibit 4: Operating Expenses	3
2.4.1	Overview	3
2.4.1.1	Operations	6
2.4.1.2	Maintenance	6
2.4.1.3	Billing and Collecting	7
2.4.1.4	Administration and General	7
2.4.1.5	Inflation Factor	8
2.4.2	OM&A Summary and Cost Driver Tables	9
2.4.2.1	OM&A Summary	9
2.4.2.2	Cost Driver Tables	11
2.4.2.3	Recoverable OM&A Cost per Customer and per FTE	19
2.4.3	OM&A Variance Analysis	24
2.4.3.1	Workforce Planning & Employee Compensation	37
2.4.3.2	Shared Services and Corporate Cost Allocation	43
2.4.3.3	Purchases of Non-Affiliate Services	44
2.4.3.4	One-time Costs	46
2.4.3.5	Regulatory Costs	46
2.4.3.6	Low-Income Energy Assistance Program (LEAP)	48
2.4.3.7	Charitable and Political Donations	49
2.4.3.8	Property Taxes	49
2.4.4	Conservation and Demand Management	50
2.4.5	Appendices	51
	Appendix 4 (A) 2020 Master Service Agreement	52
	Appendix 4 (B) Aird and Berlis Memorandum	53
	Appendix 4 (C) BDR – Study of Affiliate Service Costs and Cost Allocation	54
	Appendix 4 (D) Purchasing and Procurement Policy	55

1 **2.4 Exhibit 4: Operating Expenses**

3 **2.4.1 Overview**

4
5 The following section of the application covers the approach taken to determine Wasaga Distribution
6 Inc.'s (WDI) Operating, Maintenance, and Administrative (OM&A) expenses. OM&A expenses are
7 included in the calculation of WDI's revenue requirement and are determined to be reasonable in
8 amount and necessary for and related to the provision of utility service and provide a benefit to its
9 customers.

10
11 The OM&A work program activities being proposed for the 2024 Test Year reflect the execution of
12 WDI's Strategic, Business, and Distribution System Plans and will address the following areas:

- 14 • Aging infrastructure
- 15 • Ensuring the safety and reliability of the system
- 16 • Address customer expectations
- 17 • Responding to customer growth
- 18 • Succession planning and employee retention

19
20 The OM&A expenditures in the 2024 Test Year will enable WDI to provide reliable, safe service to its
21 customers while maintaining the financial and physical health of the Utility's assets going forward.

22 WDI management prepares annual budgets prior to the year commencing, completes a detailed review,
23 looking at five-year historical data, accounting for expected inflationary increases, employee salary
24 adjustments, any items that require attention in market conditions including to support the growth of the
25 utility and regulatory requirements, and ensures that continuous improvement and productivity are
26 accounted for in the budget. Following internal review and revision, the budget is then presented to
27 WDI's Audit and Finance Committee for review and recommendation and then to the Board of Directors
28 for approval. Additional information can be found in Exhibit 1 section 2.1.8.11.

29



1 OM&A costs in this application represent WDI’s integrated set of asset maintenance and customer
2 activity needs to meet public and employee safety objectives, to comply with the Distribution System
3 Code (DSC), environmental requirements and Government direction, and to maintain distribution
4 business service quality and reliability at targeted performance levels. These costs represent the
5 reasonably incurred cost to provide services to customers connect to WDI’s distribution system, and to
6 meet the service levels stipulated in the Standard Supply Service Code and the Retailer Settlement
7 Code.

8
9 WDI’s affiliate Wasaga Resource Services Inc. (WRSI), functions as a vital service provider, responsible
10 for supplying the workforce necessary for the efficient operation of WDI’s distribution system. The
11 associated expenses incurred for these services are transferred to WDI at a fully allocated cost
12 methodology, outlined in the Master Service Agreement (MSA), as detailed in Appendix 4 (A).

13
14 The MSA was restated in January 2013 and adhered to the original computation methodology charging
15 on a fixed fee basis, adjusted annually for market conditions. Notably, in 2019, the Boards of Directors
16 for WDI and WRSI determined that a comprehensive review of the MSA was warranted to ensure
17 whether the MSA is compliant with the Affiliate Relationship Code (ARC), as well as the Account
18 Procedures Handbook for Electricity Distributors (APH). WDI also indicated concerns about how the
19 pricing provisions of the MSA limit WRSI’s ability to obtain more resources to better serve WDI.

20
21 In light of this review, in 2019, WDI engaged services of a consultant to appraise its approach to the
22 cost apportionment from WRSI, ensuring alignment with the ARC guidelines. The endeavor brought
23 about modifications subsequent to WDI’s 2016 Cost of Service (COS) Application. The pivotal change
24 in this context pertains to the transition of the MSA towards a comprehensive cost allocation
25 methodology. Over the course of WDI’s progression and escalating reliance on WRSI’s resources, the
26 incremental annual adjustments to the MSA ceased to adequately recuperate the expenses incurred
27 on the WRSI side. It was decided that a fully allocated cost methodology was the right approach, which
28 was implemented for January 1, 2020. For additional information on the ARC and cost allocation review,
29 refer to Aird and Berlis memorandum filed in Appendix 4 (B) and BDR – Study of Affiliate Service Costs
30 and Cost Allocation in Appendix 4 (C).

1 As shown in Table 4.1 below, WDI’s increase in OM&A spending from its 2016 COS Application to the
 2 2024 Test Year amounts to \$975,563 or 32.48% over the last 8 years, a compound annual growth rate
 3 of 4.06% per year.

4

5

Table 4.1: 2024 Test Year Compared to 2016 Board Approved

	2016 Board Approved	2024 Test Year	Variance
Operations	77,011	63,011	(14,000)
Maintenance	795,181	1,017,951	222,770
Billing and Collecting	1,027,236	1,207,141	179,905
Community Relations	17,803	19,885	2,082
Administrative and General (incl. LEAP)	1,086,558	1,671,364	584,806
Total OM&A Expenses	3,003,789	3,979,352	975,563
Percent Change (year over year)			32.48%

6

7 The increase can be attributed to the following:

8

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- Growth experienced at WDI – customers/connections increasing 1,736 from 2016 Board Approved to 2022, with the anticipation of an additional 702 customers/connections over the 2023 Bridge Year and 2024 Test Year.
- Additional staff – WDI hired net 5.63 additional FTE between its last COS Application to the 2024 Test Year to adequately maintain and sustain the Utility’s operations.
- Inflationary impacts – As shown in Table 4.3, totalling 28.63% from 2016 to 2024.
- Increased cost of materials due to lack of supply since the COVID-19 pandemic.

17

18

19

As shown in Table 4.2 below, over the past eight years OM&A cost per customer has increased \$33 or 14.38%, a compound annual growth rate of 1.79%, which is below the Ontario CPI increases as shown in Table 4.3. The customer count is based on year-end count.

1 **Table 4.2: Total OM&A per Customer – Test Year Compared to Last Board Approved**

	2016 OEB Approved	2024 Test Year	Variance \$	Variance %
OM&A cost per customer				
O&M per customer	\$65	\$70	\$5	7.65%
Admin per customer	\$160	\$188	\$28	17.52%
Total OM&A per customer	\$225	\$258	\$33	14.38%

2
 3 Table 4.3 below outlines the Ontario Consumer Price Index (CPI) over the period 2016 to 2022, with
 4 estimates for 2023-2024. (Statistics Canada. Table 18-10-004-01 Consumer Price Index, monthly, not
 5 seasonally adjusted.)

6
 7 **Table 4.3: Ontario CPI from 2016-2024**

	2016	2017	2018	2019	2020	2021	2022	2023	2024
Ontario CPI	2.35%	1.83%	1.50%	2.07%	1.09%	5.66%	5.63%	3.70%	4.80%
Compounded Growth Rate	2.35%	4.22%	5.79%	7.98%	9.15%	15.33%	21.82%	26.33%	32.40%

8
 9 As part of its OM&A variance explanations, WDI will be referring, from time to time, to the impact of
 10 inflation on costs over the period 2016 to 2024. The 2023 and 2024 budget development were based
 11 on the OEB’s inflationary increase for 2023 and 2024.

12
 13 **2.4.1.1 Operations**

14 Decrease of \$14K related to the alignment to APH with other utilities to ensure benchmarking practises
 15 are consistent.

16
 17 **2.4.1.2 Maintenance**

18 Maintenance expenses increased \$223K primarily related as part of the 2019 revision of the MSA and
 19 Cost Allocation Methodology, there was also an evaluation completed assessing the relationship of
 20 work that employees were doing. As a result, there was a shift in how the Engineering Department was
 21 allocating their time indirectly to capital as opposed to direct costs for work completed.



1 In addition, previous practise for installation of WDI’s underground plant was to direct bury conductor.
2 As the infrastructure ages and cable faults increase, the cost to repair the faults is more expensive as
3 crews are having to dig in and change the cable and repair the customers property, as opposed to
4 pulling new cable through a trench. It is anticipated the future maintenance costs will be reduced based
5 on this change in practice; however, until all of the old infrastructure ages and is replaced, maintenance
6 costs will continue.

7

8 **2.4.1.3 Billing and Collecting**

9 Billing and collecting has increased in cost of \$179K over the last eight years. This is largely attributed
10 to a new position in 2024 and customer growth. WDI is currently assessing which need is greater to
11 sustain the growth of the organization, a Human Resources, or an Information Technology professional,
12 therefore, the cost currently budgeted may be slightly under for the fully burdened position. In addition,
13 in 2023 a retirement position was repurposed to create a supervisor role within the Customer Service
14 area, helping facilitate the succession plan, retention, and growth opportunities in the department to
15 better align WDI with customer needs and better support business continuity.

16

17 Moreover, WDI is part of Utility Collaborative Services (UCS), a conglomerate of utilities that have
18 synergy savings through joint resources to host and assist with their Customer Information Systems
19 (CIS) and billing systems. Three members have left UCS since 2020, increasing costs for the remaining
20 members, though still creating savings as opposed to going alone.

21

22 **2.4.1.4 Administration and General**

23 Administration and General expenses increased \$585K, or 54% since the 2016 Cost of Service
24 application. This is primarily related to the segregation of the Board of Directors from the Organization
25 by hiring a President/CEO in 2019, a position vacant since 1999.

26

27 Additionally, with the retirement of the Vice President of Engineering and Operations in 2022, this
28 position was split in two to ensure full, knowledgeable, coverage of both the Engineering and Operations
29 departments.

30



1 Moreover, third-party services increased \$75K due to the change in MSA methodology. Previously,
2 under the 2019 and prior MSA agreement, WRSI was responsible for all the consulting expenditures.

3

4 **2.4.1.5 Inflation Factor**

5 For 2024, Management used an inflation rate of 4.1% for labour and 4.8% for all other inflationary
6 impacted expenses, unless better information was available at the time of budget creation. 4.8% is the
7 inflationary rate available from the OEB for the 2024 rate year.

8



1 **2.4.2 OM&A Summary and Cost Driver Tables**

2

3 **2.4.2.1 OM&A Summary**

4 The table below provides a summary of WDI's OM&A costs as shown in the OEB's Appendix 2-JA.

1 **Table 4.4: Appendix 2-JA – Summary of Recoverable OM&A Expenses**

	2016 OEB Approved	2016 Actuals	2017 Actuals	2018 Actuals	2019 Actuals
Operations	\$ 77,011	\$ 97,379	\$ 86,785	\$ 50,487	\$ 38,450
Maintenance	\$ 795,181	\$ 732,972	\$ 755,902	\$ 838,684	\$ 855,276
Subtotal	\$ 872,192	\$ 830,351	\$ 842,687	\$ 889,171	\$ 893,726
%Change (year over year)		-4.8%	1.5%	5.5%	0.5%
Billing and Collecting	\$ 1,027,236	\$ 1,028,994	\$ 1,068,056	\$ 1,057,714	\$ 1,138,326
Community Relations	\$ 17,803	\$ 13,129	\$ 16,346	\$ 10,553	\$ 11,307
Administrative and General	\$ 1,086,558	\$ 1,150,549	\$ 1,197,274	\$ 1,241,718	\$ 1,425,536
Subtotal	\$ 2,131,597	\$ 2,192,672	\$ 2,281,677	\$ 2,309,985	\$ 2,575,169
%Change (year over year)		2.9%	4.1%	1.2%	11.5%
Total	\$ 3,003,789	\$ 3,023,023	\$ 3,124,363	\$ 3,199,156	\$ 3,468,896
%Change (year over year)		0.6%	3.4%	2.4%	8.4%
	2020 Actuals	2021 Actuals	2022 Actuals	2023 Bridge Year	2024 Test Year
Operations	\$ 50,770	\$ 35,697	\$ 42,891	\$ 75,896	\$ 63,011
Maintenance	\$ 715,452	\$ 766,679	\$ 837,727	\$ 973,216	\$ 1,017,951
Subtotal	\$ 766,222	\$ 802,376	\$ 880,618	\$ 1,049,122	\$ 1,080,963
%Change (year over year)	-14.3%	4.7%	9.8%	19.1%	3.0%
%Change (Test Year vs Last Rebasing Year - Actual)					30.2%
Billing and Collecting	\$ 922,939	\$ 931,888	\$ 981,134	\$ 1,134,646	\$ 1,207,141
Community Relations	\$ 17,399	\$ 9,487	\$ 15,636	\$ 22,172	\$ 19,885
Administrative and General	\$ 1,795,947	\$ 1,278,040	\$ 1,441,337	\$ 1,424,413	\$ 1,671,364
Subtotal	\$ 2,736,285	\$ 2,219,414	\$ 2,438,106	\$ 2,581,231	\$ 2,898,390
%Change (year over year)	6.3%	-18.9%	9.9%	5.9%	12.3%
%Change (Test Year vs Last Rebasing Year - Actual)					32.2%
Total	\$ 3,502,508	\$ 3,021,791	\$ 3,318,725	\$ 3,630,342	\$ 3,979,353
%Change (year over year)	1.0%	-13.7%	9.8%	9.4%	9.6%

2



1 **2.4.2.2 Cost Driver Tables**

2 The table below provides a summary of the drivers of WDI's OM&A Cost Drivers over the 2016 to 2024
3 period, as per Appendix 2-JB. Detailed explanations are presented in section 4.3 Year-over-year OM&A
4 Variance Analysis.



1 **Table 4.5: Appendix 2-JB – Recoverable OM&A Cost Driver Table**

OM&A	2016 Actuals	2017 Actuals	2018 Actuals	2019 Actuals	2020 Actuals
Opening Balance	\$3,003,789	\$3,023,023	\$3,124,363	\$3,199,156	\$3,468,896
Master Service Agreement: Contractual Agreement		93,438	108,134	110,819	
Master Service Agreement: Fully Allocated Costing Method					97,039
Master Service Agreement: Planning/Operation Maintenance					(131,310)
Master Service Agreement: Administrative Services					341,489
Management and Administrative Salaries and Expenses		35,136			(126,976)
Executive Salaries and Expenses				120,897	(120,897)
Collection Expenses/Bad Debt/Bank Fees		(25,188)	(11,927)		(44,676)
Third-party Service Providers			(27,395)	35,550	31,650
Regulatory Requirements					(25,153)
Other	19,234	(2,046)	5,980	2,474	12,447
Closing Balance	\$3,023,023	\$3,124,363	\$3,199,155	\$3,468,896	\$3,502,509

OM&A	2021 Actuals	2022 Actuals	2023 Bridge Year	2024 Test Year
Opening Balance	\$3,502,508	\$3,021,790	\$3,318,724	\$3,630,342
Master Service Agreement: Contractual Agreement				
Master Service Agreement: Fully Allocated Costing Method				
Master Service Agreement: Planning/Operation Maintenance	28,473	84,877	165,072	36,591
Master Service Agreement: Administrative Services	(490,224)	136,154	93,655	263,297
Management and Administrative Salaries and Expenses				
Executive Salaries and Expenses				
Collection Expenses/Bad Debt/Bank Fees	20,782	33,909		
Third-party Service Providers	(46,380)	12,326	22,065	
Regulatory Requirements				37,533
Other	6,632	29,668	30,826	11,589
Closing Balance	\$3,021,790	\$3,318,724	\$3,630,342	\$3,979,353



1 **2016 Cost Drivers compare to 2016 Board Approved**

2 OM&A Reduction per 2016 Settlement: WDI's initial application incorporated \$80K OM&A costs, as part
3 of the 2016 COS Settlement Agreement the OM&A budget was subsequently diminished by \$80K.
4 Despite successfully reducing its initially budgeted expenditures by \$60K in 2016, WDI encountered
5 constraints in fully realizing the reductions, primarily due to contractual commitments, inflationary
6 influences, and other related factors beyond its control.

7

8 **2017 Cost Drivers**

9 Master Service Agreement: increase of \$93K based on an additional 249 customers, \$134K additional
10 Distribution Revenue, and a CPI increase of 1%.

11

12 Management and Administrative Salaries and Expenses: \$35K increase related to additional time spent
13 on regulatory related tasks.

14

15 Collections Expense/Bad Debt: the decrease of \$25K in bad debt expenses was because of an
16 adjustment to the provisions determined based off outstanding arrears at year-end.

17

18 **2018 Cost Drivers**

19 Master Service Agreement: increase of \$108K based on an additional 198 customers, \$277K additional
20 Distribution Revenue, and a CPI increase of 2%.

21

22 Collections Expense/Bad Debt: the decrease of \$12K in bad debt expenses was because of an
23 adjustment to the provisions determined based off outstanding arrears at year-end.

24

25 Third-party Service Providers: lower third-party expenses of \$27K was a result of professional services
26 secured in 2017 to perform a 1588 and 1589 audit, that did not reoccur in 2018.

27

28 **2019 Cost Drivers**

29 Master Service Agreement: increase of \$111K based on an additional 229 customers, \$33K additional
30 Distribution Revenue, and a CPI increase of 2%.



1 Executive Salaries and Expenses: \$121K increase in cost as a result of hiring a President/CEO, a
2 vacant position since 1999. WDI costs were allocated based on actual hours worked for WDI.

3
4 Third-party Service Providers: the increase in third-party expenses of \$36K was due to the hiring of
5 legal counsel and consultants to assist with the MSA and Cost Allocation Methodology review.

6

7 **2020 Cost Drivers**

8 Master Service Agreement: Fully Allocated Costing Method: as explained in section 4.1 of this Exhibit,
9 the MSA underwent a review in 2019 resulting in a change from percentage increases per year to a
10 fully allocated costing methodology. This resulted in an increase in 2020 of \$97K, which was related to
11 a full-year President/CEO position.

12

13 Master Service Agreement: Planning/Operation Maintenance: a reduction of Planning/Operation
14 Maintenance of \$131K occurred in 2020 over 2019 because in 2020 there was less focus on O&M as
15 the focus was on completing capital projects. There were three Engineers and two Linepersons hired
16 throughout 2020 to support the growth of the organization as well as to support succession planning.

17

18 The mix between capital work and operating work by the line crews, the technical engineers, and
19 management varies from year to year, depending on customer requirements and the nature of the
20 ongoing projects. WDI strives to minimize this variation so that over the time between COS filings the
21 impact is largely zero. However, on a year-over-year basis the impact can be considerable.

22

23 Master Service Agreement: Administrative Services: the increase of \$341K is a result of absorbing the
24 non-MSA expenses into the MSA such as *Management and Administrative Salaries and Expenses*
25 (reduction of \$127K) and *Executive Salaries and Expenses* (reduction of \$121K). In addition, there was
26 an increase of \$170K for additional legal fees for HR issues, Strategic Planning Consultation, Pay
27 Equity review, and compensation review.

28

29 WDI cooperates with a number of other LDCs to cost effectively manage their CIS and customer billing
30 system. Three members have left UCS since 2020, increasing the cost for the remaining members.
31 However, the UCS solution is still much more cost-effective than trying to manage the system internally.



1 Collection Expenses/Bad Debt: 2020 saw a reduction of \$45K to bad debt expenses because of an
2 adjustment to the provisions that was determined based off outstanding arrears at 2019 year-end.

3
4 Third-party Service Providers: the \$32K increase in third-party service providers in 2020 was a direct
5 result of hiring a consulting firm to assist WDI in creating a strategic plan.

6
7 Regulatory Requirement: the reduction of \$25K is a result of deferring the COS application a year; thus,
8 splitting the last fifth of the 2016 COS expenditures over two years.

9

10 **2021 Cost Drivers**

11 There was a significant reduction in OM&A expenses in 2021 as a result of the COVID-19 pandemic.
12 Employees were unable to attend conferences and training courses, and all meetings were either
13 cancelled or went virtual.

14

15 Master Service Agreement: Administrative Services: as a result of the two employees leaving at the
16 end of 2020, positions were slowly backfilled in 2021, at lower pay rates than the previous positions.
17 Moreover, the President/CEO position was filled with an internal candidate, whose position was Director
18 of Energy Services, this position was not backfilled in 2021. There was also a reduction of \$170K of
19 legal and consulting costs in 2021 as WDI's HR/consulting/legal returned to normal levels.

20

21 Collections Expense/Bad Debt: the escalation of bad debt expenses by \$21K can be attributed to the
22 impact of the COVID-19 pandemic as a result of an adjustment to the provisions determined based on
23 outstanding arrears at year-end.

24

25 Third-party Service Providers: the decrease in third-party expenses of \$46K were due to the strategy
26 plan being completed in 2020 and no other consulting activities required in 2021.

27

28 **2022 Cost Drivers**

29 Master Service Agreement: Planning/Operation Maintenance: the \$85K increase in 2022 is largely a
30 result of a storm that affected WDI service territory right before Christmas, resulting in overtime for the
31 line crews to restore power. In addition, there were vacancies in the Engineering department (from late



1 2021) that were filled. Also, part way through the year there was an outside lineman that was
2 repurposed, due to a non-work-related accident, to the Engineering department. This resulted in a slight
3 increase to O&M, though it is difficult to quantify due to a lineman’s unpredictability of capital vs. O&M
4 work in a given year.

5
6 The above-mentioned increases were offset \$50K due to the inability to secure a forestry contractor in
7 2022 to complete the cyclical portion of the vegetation management in WDI’s territory.

8
9 Master Service Agreement: Administrative Services: in 2022, WDI experienced two senior leadership
10 retirements, including the President/CEO and the VP of Engineering & Operations. These departures
11 required the allocation of resources to fill these key roles, along with the VP of Finance & Regulatory,
12 who had succeeded in the President/CEO position. To address the vacancy left by the VP of
13 Engineering & Operations, the position was divided into two distinct roles: Manager of Engineering and
14 Manager of Operations, also effectively repurposing/filling the Director position vacancy from 2021.
15 Furthermore, the VP of Finance & Regulatory role was restructured to a manager-level position. Thus,
16 despite the associated increased costs in 2022, the organization implemented strategic measures to
17 mitigate the extent of these increases.

18
19 The majority of the \$136K increase in this area was related to hiring head-hunters, position overlaps,
20 vacation payouts, and retaining the retiree’s services for six months.

21
22 Collections Expense/Bad Debt: the rise of \$34K in bad debt expenditures can be attributed to the
23 enduring aftermath of the COVID-19 pandemic and the rising increase in customer arrears.

24
25 Third-party Service Providers: the \$12K increase in expenses related to third-party service providers is
26 directly linked to WDI’s achievement of strategic objectives. This was accomplished by enlisting a
27 consulting firm to design and aid in the implementation of an Enterprise Risk Management (ERM)
28 framework within the organization.

29

1 **2023 Cost Drivers**

2 Cost drivers affecting multiple areas of the business are 1) Union Contract renewal August 2023 – in
3 following market conditions and other settled union agreements, labour was budgeted at a 3% increase
4 for August 2023. Settled rates ended up at 4.75%; 2) Inflationary impacts – costs have increased on
5 materials, supplies, CIS, IT, CIS hosting, etc. In some areas WDI is experiencing cost increases that
6 are greater than 5%, higher than the 3.7% inflationary increase received for the 2023 IRM.

7
8 Master Service Agreement: Planning/Operation Maintenance: several items are creating the increase
9 in 2023 over 2022 of \$165K, such as the following:

- 10
11 • Vegetation Management – WDI experienced difficulties in securing a forestry contractor in 2022 to
12 conduct its annual tree trimming program. Thus, 2023 was increased by \$25K to include 2023's
13 scheduled portion of tree trimming along with 1/3 of 2022's portion as an attempt to get back on
14 the cyclical schedule. In addition, another \$20K was allocated to back-yard tree trimming as some
15 dead trees threaten the overhead lines.
16 • Maintenance Supervision & Engineering – an increase of \$55K is related to having a full year with
17 two Engineer Technicians (who started in 2022 and received progression increases) as well as a
18 process change in how the Engineering department was coding their time. In 2022 it was
19 determined that too much time was being allocated to burdened engineering work and not enough
20 being directly charged to O&M. These findings were corrected in 2023.
21 • Distribution Stations – a new program was put in place for 2023 to undertake regularly scheduled
22 maintenance of two distribution stations per year, every three years. As a result, expenses
23 increased by \$23K in 2023 over 2022.

24
25 Master Service Agreement: Administrative Services: the increase of \$93K in 2023 over 2022 is a result
26 of the following:

- 27
28 • 2024 Rate Application – an additional \$40K in external resources was budgeted for the completion
29 of the COS.



- 1 • Billing/Customer Service Supervisor Position – in order to streamline succession planning and
2 proper coverage of the customer service area, the collections position (retiring in 2023) was
3 repurposed to a supervisory role, increasing costs by \$22K. In addition, as the new position was
4 budgeted for January 1, 2023, an overlap of \$35K in costs cross-training and four months of help
5 through the summer was added into the budget.
6

7 Third-party Service Providers: aligned with its 2023-2025 Business Plan, WDI has prioritized
8 succession planning by committing resources to develop existing personnel. A key initiative for 2023 is
9 enhancing employee engagement. This entails conducting an employee satisfaction survey and focus
10 groups to establish a comprehensive strategy, thereby fostering contentment and retention among staff.
11 Furthermore, in response to evolving cyber security RRR filing mandates from the OEB, WDI will enlist
12 the services of a consultant to assess the integrity of its Cyber Security Framework (CSF). The objective
13 is to formulate a strategic roadmap that rectifies disparities and guarantees robust security measures
14 moving forward.
15

16 It is anticipated that the cost of the above will create an increase of \$18K in 2023 over 2022.
17

18 2024 Cost Drivers

19 Cost drivers affecting multiple areas of the business are 1) Union Contract renewal August 2023 – in
20 following market conditions and other settled union agreements, rates ended up at a 4.75% increase.
21 non-management staff received this increase in August 2023 and management staff will receive this
22 increase January 1, 2024. Further, non-management staff will receive a 3.0% increase August 2024;
23 2) with the change over in staffing since 2022, many employees are still on progression increases.
24 Overall, COLA and progression increases account for \$206K increase in 2024. 3) Inflationary impacts
25 – costs have increased on materials, supplies, CIS, IT, CIS hosting, etc. In some areas WDI is
26 experiencing cost increases that are greater than 5%, higher than the 4.8% inflationary increase
27 budgeted for the 2024 Test Year.
28

29 Master Service Agreement: Planning/Operation Maintenance: the \$36K is inflationary impacts on labour
30 and materials, as well as maintenance added for the ESRI software.



1 Moreover, Planning/Operation Maintenance is planning to support the maintenance and capital
2 programs through the potential hire of a new body to help get the work completed. Since capital versus
3 maintenance requirements change over time, it is unsure from year to year how much work will end up
4 being in maintenance and capital; thus, this result may differ from the plan.

5
6 Master Service Agreement: Administrative Services: a portion of the \$263K increase in 2024 is related
7 to a fully burdened new position. WDI is currently assessing which need is greater to sustain the growth
8 of the organization, a Human Resources Manager or an Information Technology professional, so the
9 cost may be slightly higher for the fully burdened position, as it was budgeted originally at a CSR rate.

10

11 **2.4.2.3 Recoverable OM&A Cost per Customer and per FTE**

12 The table below depicts WDI's OM&A costs shown on a per Customer basis and a per FTE basis, as
13 shown in Appendix 2-L. Customer count is based off year-end count.

1 **Table 4.6: OEB Appendix 2-L – Recoverable OM&A Cost per Customer and per FTE**

	2016 OEB Approved	2016 Actuals	2017 Actuals	2018 Actuals	2019 Actuals
OM&A Costs					
O&M	\$872,192	\$830,351	\$842,687	\$889,171	\$893,726
Admin Expenses	\$2,131,597	\$2,192,672	\$2,281,677	\$2,309,985	\$2,575,169
Total Recoverable OM&A from Appendix 2-JB	\$3,003,789	\$3,023,023	\$3,124,363	\$3,199,156	\$3,468,896
Number of Customers	13,339	13,296	13,502	13,824	14,038
Number of FTEs	18.0	18.0	18.0	18.5	18.5
Customers/FTEs	741	739	750	747	759
OM&A cost per customer					
O&M per customer	\$65	\$62	\$62	\$64	\$64
Admin per customer	\$160	\$165	\$169	\$167	\$183
Total OM&A per customer	\$225	\$227	\$231	\$231	\$247
OM&A cost per FTE					
O&M per FTE	\$48,455	\$46,131	\$46,816	\$48,063	\$48,310
Admin per FTE	\$118,422	\$121,815	\$126,760	\$124,864	\$139,198
Total OM&A per FTE	\$166,877	\$167,946	\$173,576	\$172,927	\$187,508

	2020 Actuals	2021 Actuals	2022 Actuals	2023 Bridge Year	2024 Test Year
OM&A Costs					
O&M	\$766,222	\$802,376	\$880,618	\$1,049,112	\$1,080,963
Admin Expenses	\$2,736,285	\$2,219,414	\$2,438,106	\$2,581,231	\$2,898,390
Total Recoverable OM&A from Appendix 2-JB	\$3,502,508	\$3,021,791	\$3,318,725	\$3,630,342	\$3,979,353
Number of Customers	14,273	14,525	14,908	15,269	15,431
Number of FTEs	21.4	21.6	23.3	23.3	23.7
Customers/FTEs	666	672	639	656	652
OM&A cost per customer					
O&M per customer	\$54	\$55	\$59	\$69	\$70
Admin per customer	\$192	\$153	\$164	\$169	\$188
Total OM&A per customer	\$245	\$208	\$223	\$238	\$258
OM&A cost per FTE					
O&M per FTE	\$35,755	\$37,130	\$37,746	\$45,104	\$45,649
Admin per FTE	\$127,685	\$102,703	\$104,505	\$110,973	\$122,398
Total OM&A per FTE	\$163,439	\$139,833	\$142,251	\$156,077	\$168,047



1 **OM&A per Customer**

2 WDI's cost per customer has increased by \$32, or 14.26%, over the past eight years. OM&A per
3 customer is driven by a number of factors:

- 4
- 5 • WDI's customer base is growing with the many residential developments in the Town of Wasaga
6 Beach.
 - 7 • Inflation increases the OM&A per customer.
 - 8 • Adhering to customer needs/wants by enhancing online services as more customers want to
9 view outages and outage restoration times, see their usage, pay their bills, etc.
- 10

11 **OM&A per FTE**

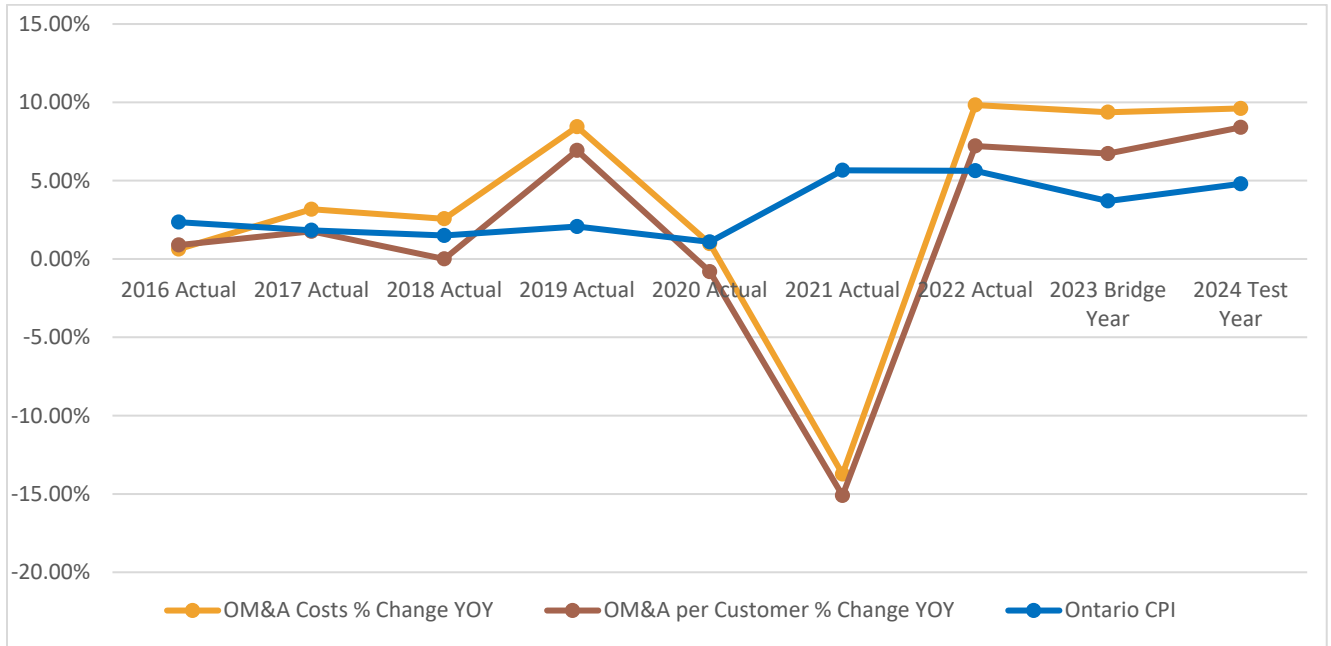
12 WDI's OM&A cost per FTE increased by \$1,170, about 0.7%, in the 2024 Test Year over the 2016
13 Board Approved despite FTE's increasing 5.7. In part, because four of these new positions
14 predominately support the construction of capital assets, WDI continues striving to keep costs low for
15 customers and keeps a lean, though highly skilled, and efficient work force. Work is completed in-house,
16 where possible, and WDI has collaborative memberships in Cornerstone Hydro Electric Concepts
17 (CHEC), Utility Collaborative Services (UCS), and Utility Standards Forum (USF) which helps facilitate
18 efficiencies in billing, regulatory updates, purchasing groups, etc. A more detailed explanation of these
19 collaborations can be found in Exhibit 1, section 2.1.9.

20

21 Figure 4.1 below illustrates the percentage change in OM&A costs and OM&A per Customer year-over-
22 year (YOY) from the 2016 Board Approved, 2016-2022 Actuals, 2023 Bridge Year, and 2024 Test Year
23 compared to Ontario CPI increases per year.

24

1 **Figure 4.1: YOY Percentage Change to OM&A Costs and OM&A per Customer**



2
3

4 WDI continues to prudently manage its OM&A costs and has performed well when assessed by the
 5 2022 PEG Benchmarking Update. WDI has consistently placed in Cohort 1, most recently with predicted
 6 costs -49.7% lower than actual costs. Based on this update, WDI is ranked as 3rd lowest out of 57
 7 utilities.

8

9 In the 2021 Yearbook for Electricity Distributors (issued September 29, 2022), WDI's OM&A per
 10 customer unit cost of \$210 ranked 1st in the province and is approximately 38.6% lower than the
 11 provincial average OM&A per customer cost of \$342.

12

13 Comparatively, in 2016 WDI's OM&A per customer unit cost of \$228 ranked 7th in the province and was
 14 approximately 29.32% lower than the provincial average OM&A per customer cost of \$323.

15

16 This improvement illustrates WDI's commitment to continuous improvement and the reasonableness of
 17 WDI's OM&A request for approval for its 2024 COS Application.



- 1 More details on how WDI compares against other utilities can be found in Exhibit 1, 2.1.6 Performance
- 2 Measurement.

1 **2.4.3 OM&A Variance Analysis**

2 Table 4.7 shows the year-over-year variances of OM&A expenses from the 2016 Board Approved to
 3 the 2024 Test Year. Detailed explanations of the year-over-year variances are outlined below. WDI is
 4 a distributor with fewer than 30,000 customers with a distribution base revenue requirement of less than
 5 \$10M; therefore, the materiality threshold of \$10,000 will be adhered to in the variance explanations
 6 (as per the December 15, 2022, OEB Filing Requirements Chapter 2).

7

8

Table 4.7: Summary of Recoverable OM&A Expenses 2016-2024

	2016 OEB Approved	2016 Actuals	2017 Actuals	2018 Actuals	2019 Actuals
Operations	\$77,011	\$97,379	\$86,785	\$50,487	\$38,450
Maintenance	\$795,181	\$732,972	\$755,902	\$838,684	\$855,276
Billing and Collecting	\$1,027,236	\$1,028,994	\$1,068,056	\$1,057,714	\$1,138,326
Community Relations	\$17,803	\$13,129	\$16,346	\$10,553	\$11,307
Administrative and General	\$1,086,558	\$1,150,549	\$1,197,274	\$1,241,718	\$1,425,536
Total	\$3,003,789	\$3,023,023	\$3,124,363	\$3,199,156	\$3,468,896
%Change (year over year)		0.6%	3.4%	2.4%	8.4%

	2020 Actuals	2021 Actuals	2022 Actuals	2023 Bridge Year	2024 Test Year
Operations	\$50,770	\$35,697	\$42,891	\$75,896	\$63,011
Maintenance	\$715,452	\$766,679	\$837,727	\$973,216	\$1,017,951
Billing and Collecting	\$922,939	\$931,888	\$981,134	\$1,134,646	\$1,207,141
Community Relations	\$17,399	\$9,487	\$15,636	\$22,172	\$19,885
Administrative and General	\$1,795,947	\$1,278,040	\$1,441,337	\$1,424,413	\$1,671,364
Total	\$3,502,508	\$3,021,791	\$3,318,725	\$3,630,343	\$3,979,353
%Change (year over year)	1.0%	(13.7%)	9.8%	9.4%	9.6%

9

10 WDI has filed its OM&A Program expenses by USoA. Appendix 2-JD is shown in Table 4.8 below. For
 11 the purpose of the variance analysis, WDI will use the major OM&A categories as per Appendix 2-JA
 12 as provided in Table 4.7 above.

1

Table 4.8: OEB Appendix 2-JD – OMA Programs

USoA	USoA Account Name	2016 OEB-Approved	2016 Actuals	2017 Actuals	2018 Actuals	2019 Actuals
5010	Load Dispatching	8,600	11,805	976	10,319	7,812
5016	Distribution Station Equipment - Operation Labour	16,208	13,674	17,637	13,557	13,927
5017	Distribution Station Equipment - Operation Supplies & Expenses	3,049	2,442	5,521	5,780	6,078
5070	Customer Premises - Operation Labour	48,806	69,019	62,353	20,790	10,615
5075	Customer Premises - Materials & Expenses	348	439	299	40	18
5105	Maintenance Supervision and Engineering	1,742	2,089	1,781	1,238	2,561
5120	Maintenance of Poles, Towers and Fixtures	17,241	33,464	25,339	13,236	9,793
5125	Maintenance of Overhead Conductors and Devices	248,267	165,240	196,985	220,745	157,460
5130	Maintenance of Overhead Services	55,159	47,788	47,343	62,226	75,219
5135	Overhead Distribution Lines and Feeders - Right of Way	192,933	171,998	167,862	180,976	181,054
5145	Maintenance of Underground Conduit	-	-	-	-	-
5150	Maintenance of Underground Conductors and Devices	141,433	173,462	155,730	163,399	237,593
5155	Maintenance of Underground Services	70,912	66,722	96,851	93,443	105,367
5160	Maintenance of Line Transformers	29,445	24,859	21,613	28,568	16,067
5175	Maintenance of Meters	38,049	47,349	42,397	74,853	70,162
5310	Meter Reading Expense	138,254	137,127	140,235	150,064	162,079
5315	Customer Billing	515,497	517,710	563,999	553,784	595,424
5320	Collecting	333,427	333,888	325,375	311,204	332,771
5325	Collecting - Cash Over/Short	58	-	-	-	13
5330	Collection Charges	-	270	284	162	1,039
5335	Bad Debt Expense	40,000	40,000	38,163	42,500	47,000
5410	Community Relations	17,803	13,129	16,346	10,553	11,307
5415	Energy Conservation	-	-	-	-	-
5605	Executive Salaries and Expenses	51,841	65,752	60,338	66,462	178,190
5610	Management Salaries and Expenses	372,231	371,931	398,266	419,723	494,556
5615	General Administrative Salaries and Expenses	253,366	275,721	284,727	309,537	285,469
5620	Office Supplies and Expenses	54,213	57,598	72,961	81,169	84,674
5625	Administrative Expense Transferred/Credit	49,387	55,767	58,142	60,719	62,918

USoA	USoA Account Name	2016 OEB-Approved	2016 Actuals	2017 Actuals	2018 Actuals	2019 Actuals
5630	Outside Services Employed	53,074	59,948	71,216	43,821	61,634
5635	Property Insurance	16,193	18,273	16,434	12,727	13,781
5655	Regulatory Expenses	75,084	76,090	76,847	76,104	77,028
5660	General Advertising Expenses	-	-	-	-	722
5665	Miscellaneous General Expenses	105,282	110,727	110,452	114,130	115,048
5675	Maintenance of General Plant	44,419	47,383	42,920	46,186	42,284
5680	Electrical Safety Authority Fees	6,381	6,573	-	6,915	6,415
5685	Independent Market Operator Fees	112	-	-	-	-
6205	Donations	-	-	-	-	-
6205	Sub-account LEAP Funding	4,976	4,785	4,971	4,227	2,841
6105	Property Taxes	28,000	31,858	31,232	31,306	31,380
Total		3,031,790	3,054,881	3,155,596	3,230,462	3,500,301

USoA	USoA Account Name	2020 Actuals	2021 Actuals	2022 Actuals	2023 Bridge Year	2024 Test Year
5010	Load Dispatching	13,829	10,706	13,292	16,000	16,845
5016	Distribution Station Equipment - Operation Labour	21,197	12,112	16,755	20,250	12,920
5017	Distribution Station Equipment - Operation Supplies & Expenses	5,496	7,068	4,301	27,352	21,748
5070	Customer Premises - Operation Labour	9,824	5,811	8,293	12,026	8,219
5075	Customer Premises - Materials & Expenses	424	-	250	268	3,279
5105	Maintenance Supervision and Engineering	88,358	76,701	61,018	168,383	180,683
5120	Maintenance of Poles, Towers and Fixtures	6,917	5,354	55,184	48,769	52,940
5125	Maintenance of Overhead Conductors and Devices	105,911	109,430	103,439	96,180	121,442
5130	Maintenance of Overhead Services	51,032	53,482	59,328	50,058	43,109
5135	Overhead Distribution Lines and Feeders - Right of Way	117,439	151,741	173,021	217,116	221,312
5145	Maintenance of Underground Conduit	133	678	1,731	12	-
5150	Maintenance of Underground Conductors and Devices	190,748	204,802	181,544	164,225	189,063
5155	Maintenance of Underground Services	107,941	102,037	115,314	132,046	142,592
5160	Maintenance of Line Transformers	13,427	23,260	35,491	37,894	32,427
5175	Maintenance of Meters	33,547	39,195	51,656	58,533	34,385



USoA	USoA Account Name	2020 Actuals	2021 Actuals	2022 Actuals	2023 Bridge Year	2024 Test Year
5310	Meter Reading Expense	137,943	136,971	148,202	166,067	170,487
5315	Customer Billing	500,107	483,204	478,054	558,457	647,154
5320	Collecting	279,638	282,544	294,250	367,812	345,160
5325	Collecting - Cash Over/Short	-	-	-	-	-
5330	Collection Charges	953	668	618	830	869
5335	Bad Debt Expense	4,298	28,500	60,011	41,480	43,471
5410	Community Relations	16,479	9,487	15,636	22,172	19,885
5415	Energy Conservation	920	-	-	-	-
5605	Executive Salaries and Expenses	426,785	263,761	292,440	342,144	347,831
5610	Management Salaries and Expenses	493,975	352,196	377,070	334,792	455,597
5615	General Administrative Salaries and Expenses	258,706	235,654	275,696	263,333	264,620
5620	Office Supplies and Expenses	65,325	42,168	62,501	49,197	62,861
5625	Administrative Expense Transferred/Credit	58,546	59,963	62,169	64,297	67,924
5630	Outside Services Employed	267,927	93,774	135,697	108,901	128,460
5635	Property Insurance	13,782	17,776	-	27,980	26,192
5655	Regulatory Expenses	51,875	54,780	60,143	74,838	111,995
5660	General Advertising Expenses	-	-	-	-	-
5665	Miscellaneous General Expenses	118,537	121,370	126,408	133,831	142,918
5675	Maintenance of General Plant	28,172	22,815	37,488	13,229	48,612
5680	Electrical Safety Authority Fees	6,313	6,423	6,577	6,716	7,185
5685	Independent Market Operator Fees	-	-	-	-	-
6205	Donations	25	575	25	-	-
6205	Sub-account LEAP Funding	5,500	6,784	5,124	5,155	7,170
6105	Property Taxes	31,571	31,780	32,206	34,061	35,696
Total		3,533,601	3,053,570	3,350,932	3,664,403	4,015,049

- 1
- 2 These aggregate to the summary categories of Appendix 2-JA with the addition of Property Taxes.

1 2016 Actual Compared to 2016 Board Approved

2
3

Table 4.9: 2016 Actual OM&A Compared to 2016 Board Approved

	2016 OEB Approved	2016 Actual	Variance from OEB Approved
Operations	77,011	97,379	20,368
Maintenance	733,181	732,972	(209)
Billing and Collecting	1,027,236	1,028,994	1,758
Community Relations	14,303	13,129	(1,174)
Administrative and General	1,152,058	1,150,549	(1,509)
Total	3,003,789	3,023,023	19,234
%Change (year over year)		0.6%	

4

5 The 2016 Decision included a reduction in the requested OM&A of \$80,000. The Parties acknowledged
 6 that the ultimate determination of the areas of OM&A in which reductions would be made was at the
 7 discretion of WDI; thus, WDI arbitrarily reduced Maintenance by \$62K, Community Relations by \$3.5K,
 8 and Administrative and General by \$14.5K. WDI’s actual 2016 OM&A was approximately \$20K higher
 9 than that of the 2016 OEB Board Approved.

10

11 This \$20K is a result of Operations having an influx of work required at Customer Premises.

12

13 2017 Actual Compared to 2016 Actual

14

15

Table 4.10: 2017 Actual OM&A Compared to 2016 Actual

	2016 Actual	2017 Actuals	Variance
Operations	97,379	86,785	(10,594)
Maintenance	732,972	755,902	22,930
Billing and Collecting	1,028,994	1,068,056	39,062
Community Relations	13,129	16,346	3,217
Administrative and General	1,150,549	1,197,274	46,725
Total	3,023,023	3,124,363	101,340
%Change (year over year)		3.4%	

1 Approximately \$93K, or 96.9%, of the 2017 increase was directly attributed to annual contractual
2 increases in the MSA agreement, causing the increases to Maintenance, Billing and Collecting,
3 Community Relations, and Administrative and General.

4
5 **Operations:** 2017 Operations had a decrease of \$11K over 2016 primarily related to lower
6 SCADA/TOPO Maintenance subscription fees during 2017.

7
8 **Maintenance:** 2017's Maintenance increase was due to more underground faults than the prior year.
9 In addition, there was also a decrease in transformer maintenance required, mainly offset by an
10 increase in overhead primary/secondary lines.

11
12 **Billing and Collecting:** the \$39K, 3.8%, increase in billing and collecting are related to labour. In
13 September of 2017 a meter technician apprentice was hired in-house, as opposed to outsourcing, to
14 aid in succession planning and have additional internal support for locates and service layouts.

15
16 **Administrative and General:** an increase of \$48K occurred in 2017 over 2016 related to \$12K
17 progression and COLA increases in labour, \$10K in auditor's fees that were over accrued in 2017
18 (adjusted for in 2018); increase costs for computer software, internet fees, and additional computer
19 supplies amounting to an increase of \$15K.

20
21 **2018 Actual Compared to 2017 Actual**

22
23 **Table 4.11: 2018 Actual OM&A Compared to 2017 Actual**

	2017 Actuals	2018 Actuals	Variance
Operations	86,785	50,487	(36,298)
Maintenance	755,902	838,684	82,782
Billing and Collecting	1,068,056	1,057,714	(10,342)
Community Relations	16,346	10,553	(5,793)
Administrative and General	1,197,274	1,241,718	44,444
Total	3,124,363	3,199,156	74,793
%Change (year over year)		2.4%	

1 MSA annual contractual increases in 2018 were \$108K over 2017. There were union contract
 2 negotiations in 2018, increasing wages by 4.0% as of August 16, 2018.

3
 4 **Operations:** the \$36K decrease in Operations is largely attributable to lower work required at customer
 5 premises. A review of work being completed and charged here was undertaken in 2018 and a change
 6 to how time was coded was implemented.

7
 8 **Maintenance:** maintenance activities increased by \$82K in 2018 over 2017. This was partially a result
 9 of the review to how customer premises work was being allocated. In addition, increases in meter
 10 maintenance required (\$32K), higher maintenance for overhead primary/secondary lines and switches
 11 (\$24K), higher maintenance required on overhead service lines (\$15K), and additional vegetation
 12 management (\$13K).

13
 14 **Billing and Collecting:** the \$10K reduction in Olameter fees was related to hiring a meter technician
 15 in-house, as opposed to outsourcing, to aid in succession planning and have additional internal support
 16 for locates and service layouts.

17
 18 **Administrative and General:** a \$44K increase in Administrative and General is largely a result of
 19 labour increases due to the union contract negotiations, which was offset by lower audit fees that were
 20 over-accrued in 2017.

21
 22 **2019 Actual Compared to 2018 Actual**

23
 24

Table 4.12: 2019 Actual OM&A Compared to 2018 Actual

	2018 Actuals	2019 Actuals	Variance
Operations	50,487	38,450	(12,037)
Maintenance	838,684	855,276	16,593
Billing and Collecting	1,057,714	1,138,326	80,612
Community Relations	10,553	11,307	754
Administrative and General	1,241,718	1,425,536	183,818
Total	3,199,156	3,468,896	269,740
%Change (year over year)		8.4%	

1 MSA contractual agreement increases were \$111K in 2019 over 2018. The union contract agreement
 2 from August 16, 2018, saw increases of 4.0% in wages and a further increase of 3.25% on August 16,
 3 2019.

4
 5 **Operations:** the reduction of \$12K was a result of the process change in 2018.

6
 7 **Maintenance:** the increase of \$17K is directly related to inflationary and cost of living increase impacts.

8
 9 **Billing and Collecting:** billing and collecting increased by \$81K in 2019 over 2018. This is related to
 10 annual wage increases and increased costs for billing/collecting contracts such as Doculinks (bill print
 11 and mailing), Harris Northstar (CIS), FileNexus (document storage), and Utilismart (meter data
 12 management).

13
 14 **Administrative and General:** the majority of the \$184K increase is a result of hiring a President/CEO
 15 to aid in creating succession within WDI and separating the Board of Directors from the day-to-day
 16 operations.

17
 18 **2020 Actual Compared to 2019 Actual**

19
 20 **Table 4.13: 2020 Actual OM&A Compared to 2019 Actual**

	2019 Actuals	2020 Actuals	Variance
Operations	38,450	50,770	12,320
Maintenance	855,276	715,452	(139,824)
Billing and Collecting	1,138,326	922,939	(215,387)
Community Relations	11,307	17,399	6,093
Administrative and General	1,425,536	1,795,947	370,411
Total	3,468,896	3,502,508	33,612
%Change (year over year)		1.0%	

21
 22 2020 was the first year of the new MSA terms, moving away from charging on a fixed fee basis to
 23 allocating costs on a fully cost-allocated methodology. This resulted in a net increase of \$97K. There

1 were five new hires in 2020, three in Engineering and two in Lines in order to support the growth in the
2 organization as well as to support succession planning.

3

4 **Operations:** slight increase of \$12K related to the new hires.

5

6 **Maintenance:** as mentioned previously in the Cost Drivers section, O&M work and capital work are
7 often a trade-off and balanced on an annual basis. 2020 saw a decrease of \$139K in required
8 maintenance work during 2020.

9

10 **Billing and Collecting:** the activities and level of exceptional customer service remained the same in
11 2020, however, labour is allocated depending on organisational requirements and strategies; thus,
12 there was less time coded to billing and collecting in 2020 and more to administrative and general.
13 Moreover, there was a \$45K reduction of bad debt expenses because of an adjustment to the provisions
14 that was determined based off outstanding arrears at 2019 year-end.

15

16 **Administrative and General:** in addition to the above, costs increased due to the President/CEO full
17 year salary.

18

19 **2021 Actual Compared to 2020 Actual**

20

21

Table 4.14: 2021 Actual OM&A Compared to 2020 Actual

	2020 Actuals	2021 Actuals	Variance
Operations	50,770	35,697	(15,073)
Maintenance	715,452	766,679	51,227
Billing and Collecting	922,939	931,888	8,948
Community Relations	17,399	9,487	(7,912)
Administrative and General	1,795,947	1,278,040	(517,907)
Total	3,502,508	3,021,791	(480,717)
%Change (year over year)		-13.7%	

22

23 2021 and 2020 saw a large reduction in expenses due to the COVID-19 pandemic. Employees were
24 unable to attend conferences and training courses and all meetings went virtual or were cancelled. In

1 addition, three recently hired staff from the Engineering department left the organisation.
 2 Finance/Regulatory filled its vacant position from 2020.

3
 4 **Operations:** the \$15K decrease in Operations is mainly related to less substation and customer
 5 premises work required during the year.

6
 7 **Maintenance:** the increase in maintenance of \$51K is mainly attributed to higher vegetation
 8 management than the prior year.

9
 10 **Administrative and General:** the decrease in administrative and general expenses in 2021 over 2020
 11 was largely due to the President/CEO and Director of Finance and Regulatory that left the organization
 12 at the end of 2020. The President/CEO position was filled internally, and their original position remained
 13 vacant during 2021 as the tasks were spread amongst employees. The new President/CEO, the new
 14 Manager/VP of Finance & Regulatory (also filled internally), and the new Finance & Regulatory Analyst
 15 all started lower in the pay band than their predecessors.

16
 17 Furthermore, legal and consulting costs in 2021 returned to normal levels as there was a reduction in
 18 required HR/consulting/legal services.

19

20 **2022 Actual Compared to 2021 Actual**

21

22

Table 4.15: 2022 Actual OM&A Compared to 2021 Actual

	2021 Actuals	2022 Actuals	Variance
Operations	35,697	42,891	7,194
Maintenance	766,679	837,727	71,048
Billing and Collecting	931,888	981,134	49,246
Community Relations	9,487	15,636	6,149
Administrative and General	1,278,040	1,441,337	163,297
Total	3,021,791	3,318,725	296,934
%Change (year over year)		9.8%	



1 2022 was another transition year at WDI. The President/CEO and the VP of Engineering & Operations
2 retired. The President/CEO position was filled by the Manager/VP of Finance & Regulatory, creating
3 another vacancy, and the VP of Engineering & Operations position was restructured to create resiliency
4 and additional succession and support within the organization by splitting the Engineering and
5 Operation into two distinct departments. Both vice president positions were backfilled with managers.
6 In addition, two of the vacancies in the Engineering Department were also filled. Spend levels were
7 back to pre-pandemic levels.

8
9 **Maintenance:** a severe storm blew through WDI's territory late 2022, creating the majority of the \$71K
10 variance due to overtime required to restore power. Moreover, the cost of materials and contracted
11 work increased significantly throughout 2022, due to inflation.

12
13 **Billing and Collecting:** roughly 60% of the \$49K increase in billing and collecting were contractual
14 cost increases from third-party service providers that are typically billed at rates greater than CPI and
15 adjusted for an increase in costs from growth. As CPI started increasing in 2022, annual contract
16 increases started escalating as well, some in upwards of 5.0%. The remainder of the increase is annual
17 wage increases, about 2.0% over 2021.

18
19 **Administrative and General:** cost increases of \$163K are attributed to head-hunting funds to backfill
20 the President/CEO and both VP positions. In addition, there was an overlap of positions due to training
21 purposes.

22

1 2023 Bridge Year Compared to 2022 Actual

2
3

Table 4.16: 2023 Bridge Year OM&A Compared to 2022 Actual

	2022 Actuals	2023 Bridge Year	Variance
Operations	42,891	75,896	33,005
Maintenance	837,727	973,216	135,489
Billing and Collecting	981,134	1,134,646	153,512
Community Relations	15,636	22,172	6,536
Administrative and General	1,441,337	1,424,413	(16,924)
Total	3,318,725	3,630,343	311,618
%Change (year over year)		9.4%	

4

5 The Metering area had a retirement at the end of 2022, which was backfilled in February of 2023.
 6 Customer Service was anticipating a retirement at the end of March 2023, which, for succession
 7 planning and longevity of the department, the position was repurposed as a supervisor position. Union
 8 negotiations commenced over the summer of 2023 as the contract expired on August 15, 2023. The
 9 settled contract is for a 4.75% wage increase commencing August 16, 2023 for non-management staff.

10

11 **Operations:** a new process was implemented in 2023, to complete critical preventative maintenance
 12 at two substations per year. Thus, the costs will increase in 2023 by \$33K.

13

14 **Maintenance:** at the end of 2022 there was a review of how the Engineering department was coding
 15 their time between O&M and Capital. It was determined that too much time was being coded to
 16 burdened engineering work and not being directly allocated to O&M. The shift in proper allocation of
 17 hours has resulted in an increase in costs in 2023. Moreover, WDI was unable to secure a vegetation
 18 management contractor in 2022 and is therefore behind on its preventative tree trimming program and
 19 will do 1.33 of the territory in 2023 to catch up.

20

21 **Billing and Collecting:** the increase of \$153K is a result of repurposing the Collection Representative
 22 position to a supervisor role and annual inflationary increases (significantly higher than prior years, 5+
 23 %) for Sensus, Doculinks, CIS, CIS hosting and basic stationary expenses. The supervisor position was

1 an internal hire, which required back-filling of the billing coordinator position, which also required a back-
 2 fill, which was hired externally. Costs increased for cross-training and posting of the positions to seek
 3 candidates.

4
 5 **Administrative and General:** the decrease in expenses of \$17K in 2023 over 2022 is related to
 6 reallocation of staff to support customer service during the transition in staff.

7
 8 **2024 Test Year Compared to 2023 Bridge Year**

10 **Table 4.17: 2024 Test Year OM&A Compared to 2023 Bridge Year**

	2023 Bridge Year	2024 Test Year	Variance
Operations	75,896	63,011	(12,885)
Maintenance	973,216	1,017,951	44,735
Billing and Collecting	1,134,646	1,207,141	72,495
Community Relations	22,172	19,885	(2,286)
Administrative and General	1,424,413	1,671,364	246,951
Total	3,630,343	3,979,353	349,010
%Change (year over year)		9.6%	

11
 12 Other than the introduction of a net new position in 2024, there are no major changes over 2023.
 13 Management staff will receive the August 16, 2023 COLA on January 1, 2024. Non-management's
 14 increase August 16, 2024 was negotiated at 3.0%.

15
 16 **Maintenance:** as mentioned in the Cost Driver section above, there has been discussion of requiring
 17 an additional lineman, as with the aging work force, advanced preparation is required. It is undecided
 18 at this time if the hire will be in 2024 or 2025 and if the hire will be a full lineman or apprentice. In
 19 addition, the mix of time between O&M and Capital will be driven by the projects occurring in that year.
 20 In 2022, when the lineman was repurposed to the Engineering department, the position was never
 21 backfilled. With the significant increase in construction activities over in 2022, 2023, and anticipated in
 22 2024, the need for an additional lineman would help alleviate the additional pressures.

1 **Billing and Collecting:** most of the increase of \$72K is related to an additional position. WDI is
2 currently assessing which need is greater to sustain the growth of the organization, a Human Resources
3 Manager or an Information Technology professional; therefore, the cost may be slightly higher for the
4 fully burdened position, as it was budgeted originally at a CSR rate.

5
6 **Administrative and General:** the increase of \$247K is largely related to wage progressions, COLA,
7 and inflationary impacts on annual contracts. In addition, WDI invested in its employees through the
8 introduction of a wellness program, conducting an employee satisfaction survey, and following that up
9 with a focus group. Moreover, as the OEB implements additional cyber security regulations, WDI is
10 investing in cyber security measures to ensure that it meets requirements and has the proper
11 infrastructure and processes in place to remain compliant going forward.

12
13 **2.4.3.1 Workforce Planning & Employee Compensation**
14 WDI's overall compensation philosophy and package for all employees is designed to be competitive
15 and equitable to attract and retain qualified personnel in an industry that is facing an aging workforce
16 and is very competitive for skilled resources. The compensation package includes a base wage and
17 benefits package. WDI's workforce is comprised of both unionized and non-unionized employees.

18
19 **Compensation – Union:**
20 Compensation for unionized employees is negotiated through the collective bargaining process. When
21 negotiating wage levels, consideration is given to the skill sets required to work within our distribution
22 system, as well as the competitive wage levels of its geographic market. They are represented by the
23 International Brotherhood of Electrical Workers (IBEW) Local 636.

24
25 WDI's Collective Agreement with unionized staff provides for annual pay increases and employee step
26 progressions. Labour rates and benefits are adjusted annually based on negotiated percentages are
27 per the collective agreement. The current collective agreement commenced on August 16, 2023, and
28 will expire on August 15, 2028. WDI negotiated annual wage increases for 2023 to 2027 are 4.75%,
29 3.0%, 2.25%, 2.0%, and 2.0%, respectively.

30



1 **Compensation – Non-Union:**

2 Annual pay increases for non-union employees are based on negotiated settlements for the unionized
3 staff. In 2020, WRSI contracted with Levack Management Consulting Inc. to conduct a pay equity review
4 to evaluate non-union and management positions and this system of pay grids has been kept in place.
5 Pay equity will occur again in 2024.

6

7 Management staff does not receive an incentive or bonus pay.

8

9 The utility annually participates in the MEARIE Management and Board Salary Survey and
10 management compensation studies.

11

12 **Pension**

13 The employees of all LDCs are required to participate in the OMERS retirement plan. Therefore, the
14 pension benefits provided to the employees of WDI are consistent with the pension benefits provided
15 to employees of other LDCs.

16

17 **Benefits**

18 A comprehensive and competitive benefits package exists which includes health and dental insurance,
19 life insurance, vacation and leave policies. The plans are designed to address the health and wellness
20 needs of the employees.

21

22 All benefit plans for each employee group are essentially the same. The unionized benefit plans,
23 negotiated through collective bargaining, drive the plan for non-unionized employees. The benefit
24 packages are common across all employee groups.

25

26 OEB Appendix 2-K presented below details WDI's employee compensation.

27

28 In accordance with Board policy which states that: "Where there are three, or fewer, full-time equivalents
29 (FTEs) in any category, WDI may aggregate this category with the category to which it is most closely
30 related. This higher level of aggregation may be continued, if required, to ensure that no category

1 contains three, or fewer, FTEs,” WDI has separated out its three management employees in the FTE’s
 2 but has lumped them in with the non-union employees salaries for 2016-2018 in OEB Appendix 2-K.

3
 4

Table 4.18: OEB Appendix 2-K – Employee Compensation

	2016 OEB Approved	2016 Actuals	2017 Actuals	2018 Actuals	2019 Actuals
Number of Employees (FTEs including Part-Time)					
Management (including executive)	3.00	3.00	3.00	3.00	3.67
Non-Management (union and non-union)	15.00	15.00	15.00	15.50	14.83
Total	18.00	18.00	18.00	18.50	18.50
Total Salary and Wages including overtime and incentive pay					
Management (including executive)	-	-	-	-	\$534,908
Non-Management (union and non-union)	\$1,548,464	\$1,521,603	\$1,593,070	\$1,628,163	\$1,305,262
Total	\$1,548,464	\$1,521,603	\$1,593,070	\$1,628,163	\$1,840,170
Total Benefits (Current + Accrued)					
Management (including executive)	-	-	-	-	\$114,190
Non-Management (union and non-union)	\$383,502	\$379,246	\$410,736	\$414,982	\$333,307
Total	\$383,502	\$379,246	\$410,736	\$414,982	\$447,497
Total Compensation (Salary, Wages, & Benefits)					
Management (including executive)	-	-	-	-	\$649,098
Non-Management (union and non-union)	\$1,931,966	\$1,900,849	\$2,003,806	\$2,043,145	\$1,638,569
Total	\$1,931,966	\$1,900,849	\$2,003,806	\$2,043,145	\$2,287,667
Total Compensation Breakdown (Capital, OM&A)					
OM&A		\$647,279	\$1,699,795	\$1,760,210	\$1,956,360
Capital		\$253,570	\$304,011	\$282,935	\$331,307
Total	-	\$1,900,849	\$2,003,806	\$2,043,145	\$2,287,667

	2020 Actuals	2021 Actuals	2022 Actuals	2023 Bridge Year	2024 Test Year
Number of Employees (FTEs including Part-Time)					
Management (including executive)	4.90	4.01	4.34	4.00	4.00
Non-Management (union and non-union)	16.53	17.60	18.99	19.26	19.68
Total	21.43	21.61	23.33	23.26	23.68

Total Salary and Wages including overtime and incentive pay					
Management (including executive)	\$924,796	\$616,163	\$631,935	\$553,176	\$595,109
Non-Management (union and non-union)	\$1,483,476	\$1,630,176	\$1,657,097	\$1,681,715	\$1,855,272
Total	\$2,408,272	\$2,246,339	\$2,289,032	\$2,234,891	\$2,450,381
Total Benefits (Current + Accrued)					
Management (including executive)	\$150,562	\$128,416	\$156,452	\$135,494	\$143,450
Non-Management (union and non-union)	\$374,387	\$412,506	\$418,883	\$437,350	\$474,441
Total	\$524,949	\$540,922	\$575,335	\$572,843	\$617,891
Total Compensation (Salary, Wages, & Benefits)					
Management (including executive)	\$1,075,359	\$744,579	\$788,387	\$688,670	\$738,559
Non-Management (union and non-union)	\$1,857,862	\$2,042,682	\$2,075,980	\$2,119,065	\$2,329,714
Total	\$2,933,221	\$2,787,261	\$2,864,367	\$2,807,734	\$3,068,272
Total Compensation Breakdown (Capital, OM&A)					
OM&A	\$2,187,061	\$1,934,337	\$2,082,177	\$2,013,976	\$2,274,514
Capital	\$746,160	\$852,924	\$782,190	\$793,758	\$793,758
Total	\$2,933,221	\$2,787,261	\$2,864,367	\$2,807,734	\$3,068,272

1

2 **Staffing and Compensation:**

3 The number of employees is based on the compensation of the number of FTE positions throughout
4 each of the fiscal years. A position that was added in a particular calendar year is counted as a portion
5 of an FTE in the calendar year based on the start date of the position.

6

7 The salaries and wage amounts include all salaries and wages paid, inclusive of overtime, vacations,
8 float holidays, sick leave, bereavement leave, union meetings and other miscellaneous paid leave. The
9 benefit amounts include the employer's portion of statutory benefits (CPP and EI) employer
10 contributions to EHT, WSIB, OMERS and WDI's costs for providing extended health care, dental, long-
11 term disability, life insurance, and the Employee Assistance Program.

12

13 **Employee Staffing Levels:**

14 Management staffing levels have increased by one since WDI's last COS Application with the creation
15 of the President/CEO position. In 2022 the count is up by 0.50 due to overlap in training/retirements.

1 Union and Non-union had two new lineman and three new engineering positions commence in 2020.
2 The three new engineers did not stay with the organization though the positions were all backfilled. One
3 lineman was required to retrain and took one of the vacant engineering positions.

4
5 There is one new position planned for 2024 that fully affects OM&A, a HR or IT professional, and
6 potentially a second that will be split between capital and OM&A.

7
8 **Annual Wages:**

9 A summary of annual wage increases is presented in Table 4.15 below.

10

11

Table 4.19: Summary of Wage Increases by Year

Union & Non-Union			Management		
Year	% Increase	Cumulative	Year	% Increase	Cumulative
16-Aug-16	2.00%	2.00%	01-Jan-16	2.00%	2.00%
16-Aug-17	2.00%	4.00%	01-Jan-17	2.00%	4.00%
16-Aug-18	4.00%	8.00%	01-Jan-18	2.00%	6.00%
16-Aug-19	3.25%	11.25%	01-Jan-19	4.00%	10.00%
16-Aug-20	2.00%	13.25%	01-Jan-20	3.25%	13.25%
16-Aug-21	2.00%	15.25%	01-Jan-21	2.00%	15.25%
16-Aug-22	2.00%	17.25%	01-Jan-22	2.00%	17.25%
16-Aug-23	4.75%	22.00%	01-Jan-23	2.00%	19.25%
16-Aug-24	3.00%	25.00%	01-Jan-24	4.75%	24.00%

12

13 **Benefit Program Costs:**

14 A detailed summary of the benefit program costs is presented in table 4.19.

15

16 Statutory deductions have increased 60.9% between 2016 Actual and the 2024 Test Year as a result
17 of statutory rate increases, wage increases, and an increase in FTE.

18

19 Company benefits have increased 66.3% over the same time period mainly as a result of OMERS
20 increases. Health and dental benefits have remained relatively stable with the increases mainly due to
21 additional FTEs and staff changeovers.

1 WDI does not pay Employee Future Benefits; WRSI is completely responsible for this expense. WRSI's
 2 is also responsible for the Actuarial Reports/Information.

3
 4

Table 4.20: Benefit Expenses

Benefit	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Bridge	2024 Test
Statutory									
CPP	43,787	44,484	47,500	54,271	69,828	79,060	89,869	83,718	89,513
EI	22,251	19,549	20,409	21,555	25,313	27,076	29,742	27,674	29,254
EHT	30,933	32,045	32,995	37,545	46,693	47,733	46,632	44,602	46,710
WSIB	15,126	16,306	16,985	18,178	18,704	20,007	16,839	14,695	15,400
Total Statutory	112,097	112,385	117,889	131,550	160,539	173,875	183,082	170,690	180,877
Company									
OMERS	147,598	162,281	163,449	170,941	211,541	233,950	231,782	236,080	265,221
Health	55,756	69,386	67,224	70,915	82,129	79,590	83,585	80,282	85,100
Dental	37,138	37,443	36,138	37,259	41,925	40,093	45,910	43,734	45,809
Life Insurance	1,139	11,134	10,336	10,898	11,889	12,158	14,358	9,604	10,828
LTD	21,146	23,017	22,405	20,754	23,062	24,277	24,560	27,619	28,543
EAP	1,783	1,683	1,179	1,967	984	1,008	1,339	1,449	1,512
Total Company	264,559	304,943	300,732	312,733	371,530	391,077	401,534	398,769	437,013
Total Benefit Costs	376,656	417,328	418,621	444,282	532,068	564,952	584,615	569,459	617,890

5
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 14

OMERS Pension Plan:

WDI employees are members of the Ontario Municipal Employees Retirement System (OMERS). OMERS is a multi-employer pension plan that most LDCs participate in; therefore, the pension benefit provided to WDI's employees is consistent with that of other LDCs. The plan is a contributory defined benefit pension plan which is financed by equal contributions from the employer and employee based on the employee's contributory earnings. WDI's pension premium information for 2016 – 2022 Actual, 2023 Bridge Year, and 2024 Test Year is detailed in Table 4.17 below. For the 2023 and 2024 Test Year, WDI assumed OMERS rates of 9.0% on earnings up to CPP earnings limit and 14.6% on earnings over the CPP earnings limit.

1 **Table 4.21: OMERS Pension Expense**

Benefit	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Bridge	2024 Test
OMERS	147,598	162,281	163,449	170,941	211,541	233,950	231,782	236,080	265,221

2
 3 The increase in OMERS premiums from 2016 through 2024 are explained by increases in pension
 4 contribution rates and incremental increases in staff and staff wages.

5
 6 **2.4.3.2 Shared Services and Corporate Cost Allocation**

7 **Services to Affiliates**

8 WDI has an executed Land Lease with the Town of Wasaga Beach for the lease of the land on the
 9 Administration Building site for a Fire Hall that was built in 2012. The value of the land was appraised
 10 in 2021. The lease is paid quarterly, and each year a CPI adjustment is made to the lease price. OEB
 11 Appendix 2-N shows the costs collected from the Town of Wasaga Beach to WDI.

12
 13 WDI also has an agreement with WRSI to lease/rent the Administration Building. In 2021 the lease
 14 agreement between WDI and WRSI was amended based on a revaluation of the Administrative Building
 15 and the Services Building. The appraisal was completed by HG Appraisers Inc. in September 2021.
 16 The annual fee paid by WRSI is \$164,200.

17
 18 **Services from Affiliates**

19 As WDI is a virtual utility, all resources are provided by WRSI through the MSA. The MSA was rewritten
 20 in 2019 as the old structure was restricting WRSI in the work they could complete because if it expanded
 21 to complete additional projects for WDI it was not being recuperated. Consultants were hired in 2019 to
 22 review the MSA and the cost allocation methodology along with ARC compliance. It was agreed that a
 23 fully allocated cost methodology was the right approach, which was implemented for January 1, 2020.
 24 Further detail was explained above in section 2.4.1. WRSI factors in Board of Director expenses in its
 25 overhead rates that are billed through in the MSA. The total billed through for corporate overhead
 26 allocation, specific to Board Expenses, is \$62,815 for OM&A and \$29,898 for Capital in the 2024 Test
 27 Year.

1 A summary of the Master Service Agreement Expenses from 2016 to 2024 are shown in Table 4.22
 2 below.

3 **Table 4.22: Master Service Agreement Expenses**

Item	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Bridge	2024 Test
MSA	2,399,717	2,493,155	2,601,290	2,712,109	3,225,002	2,567,461	2,766,715	3,053,344	3,353,232
Variance		93,438	108,135	110,819	512,893	(657,541)	199,254	286,629	299,888

4
 5 **Variance Analysis**

6
 7 **Table 4.23: 2024 Test Year Compared to 2016 Board Approved Shared Services**

Name of Company		Service Offered	2016 Pricing Methodology	2019-2024 Pricing Methodology	2016 Price for Service \$	2024 Price for Service \$	Variance \$	Variance %
From	To							
WRSI	WDI	MSA	Cost Plus	Fully Allocated Cost	\$2,399,717	\$3,353,232	\$953,515	39.73%
WDI	WRSI	Rent	Market Based	Market Based	\$152,130	\$164,200	\$12,070	7.93%
WDI	Town of Wasaga Beach	Land Lease	Market Based	Market Based	\$24,472	\$33,428	\$8,956	36.60%

8
 9 The increase in the MSA is related to the change in methodology of cost allocation, as described
 10 above in the document Overview as well as cost drivers and year-over-year explanations.
 11 Also mentioned above in Services to and from Affiliates, the rent and land lease were appraised in
 12 2021; hence the reason for the increases from last Board Approved.

13
 14 **Table 4.24: 2024 Test Year Compared to 2022 Actual Shared Services**

Name of Company		Service Offered	2019-2024 Pricing Methodology	2022 Price for the Service \$	2024 Price for the Service \$	Variance \$	Variance %
From	To						
WRSI	WDI	MSA	Fully Allocated Cost	\$2,766,715	\$3,353,232	\$586,517	21.20%
WDI	WRSI	Rent	Market Based	\$164,200	\$164,200	\$0	0.00%
WDI	Town of Wasaga Beach	Land Lease	Market Based	\$32,136	\$33,428	\$1,292	4.02%

15
 16 The increase in the MSA is largely a result of inflation, COLA, change over in staffing. More details
 17 are provided above in the cost drivers and year-over-year explanations.

18

1 **2.4.3.3 Purchases of Non-Affiliate Services**

2 The Utility purchases equipment, materials, and services in a cost-effective manner with full
3 consideration given to price as well as product quality, the ability to deliver on time, reliability,
4 compliance with engineering specifications and quality of service. In making purchase decisions, the
5 Utility also considers the “total acquisition cost” (i.e., value for money) rather than the lowest bid, and
6 this includes, but is not limited to such factors as repairs, staff training, compatibility, warranty, trade-in
7 values, recycling, and safe environmental disposal.

8
9 Vendors are screened to ensure knowledge, reputation, and the capability to meet WDI’s needs. The
10 procurement of goods and/or services is carried out with the highest ethical standards and consideration
11 to the public nature of the expenditures. WDI has a Purchasing and Procurement Policy that the
12 company adheres to, and a copy of this policy is attached as Appendix 4 I. No material transactions
13 were undertaken during the historical period that were not in compliance with the policy.

14
15 **Purchase authorization:** through the budgeting process, the Board of Directors approves all budgeted
16 expenditures; however, the parent board must approve all unbudgeted purchases over \$50K. Managers
17 are authorized to approve budgeted items up to \$20K and the President/CEO has approval beyond
18 \$20K. Unbudgeted items are up to \$1K for Managers and up to \$15K for the President/CEO or \$50K
19 along with the Board Chair.

20
21 **Tendering:** when goods or services are tendered, a tender/request for a proposal for a quote will be
22 issued to a minimum of three vendors if availability permits. The appropriate Manager(s) shall authorize
23 the acceptance of the proposals. Sole sourcing a resource is only permitted in special circumstances,
24 such as emergency situations or only one person/firm can perform the request.

25
26 WDI’s 2022 Vendor list of over \$50K is presented in Table 4.25 below.

1 **Table 4.25: Products and Services from Non-Affiliates 2022**

Supplier Name	Service Product	Procurement Method	Document Amount
IESO	Electricity	Single Source	13,763,487
Hydro One Networks	Distributor	Single Source	3,234,356
Black & McDonald Limited	Substation Work	Tender	1,737,612
Ontario Electricity Financial Corp	Debt Retirement	Regulated	390,143
Northern Transformer Corporation	Substation Work	Tender	333,324
ABB Inc.	Substation Work	Tender	275,267
Meter Services Peterborough	PME Meter Reading	Single Source	78,558
OEB	Regulatory	Regulated	71,449
NBM Engineering	Substation Design	Tender	70,600
MEARIE	Insurance	Single Source	61,883
Cornerstone Hydro Electric Concepts	Collaborative Association	Membership/Surveys	58,307

2
 3 For the 2023 Bridge Year and 2024 Test Year, WDI anticipates that many of the same vendors will be
 4 used as in prior years. It should be noted that WDI will continually search for new suppliers and materials
 5 to maintain cost efficiency, address supply chain issues, and maintain quality standards.

6
 7 **2.4.3.4 One-time Costs**

8 The only noteworthy one-time cost included in the 2024 Test Year OM&A is the regulatory costs of this
 9 application. WDI is proposing to spread these costs over the five years of the application period.
 10 Regulatory costs are discussed in the next section.

11
 12 **2.4.3.5 Regulatory Costs**

13 WDI has assumed \$202K in regulatory costs for this application. These costs are incremental to the
 14 regular annual regulatory costs such as the annual OEB assessment and awarded costs on generic
 15 hearings allocated to all LDCs. For the 2016 COS WDI incurred one-time regulatory costs of \$241K.
 16 The breakdown of expected costs is provided in Table 4.26 below.

17
 18 All regulatory costs listed below are tracked in account 5655 Regulatory Expenses. Sub-accounts are
 19 used to track OEB Assessments and Cost Assessments from the OEB and the COS Application. The
 20 costs associated with this application reflect a similar procedure as the 2016 COS which was essentially

1 concluded by a settlement conference. WDI did include a forecast for hearing if the conditions are not
 2 valid to proceed.

3 **Table 4.26: Breakdown of Regulatory Costs**

Regulatory Cost Category		UsaA Account	2016 OEB Approved	2016 Actual	Actuals 2022	2023 Bridge Year	Annual % Change	2024 Test Year	Annual % Change
(A)		(B)	(D)	I	(F)	(G)	(H)=[(G)-(F)]/(F)	(I)	(J) = [(I)-(G)]/(G)
Regulatory Costs (Ongoing)									
1	OEB Annual Assessment	5655	26,238	26,238	27,038	33,187	22.74%	70,721	113.10%
2	OEB Section 30 Costs (OEB-initiated)	5655	700	1,537	6,105	1,651	(72.96%)	1,712	3.69%
Regulatory Costs (One-Time)									
1	Expert Witness costs	5655							
2	Legal costs	5655	25,000	25,000				35,000	
3	Consultants' costs	5655	48,500	48,500				6,500	
4	Incremental operating expenses associated with staff resources allocated to this application.	5655							
			94,000	94,000				25,000	
5	Incremental operating expenses associated with other resources allocated to this application. ¹	5655							
			6,000	6,000				2,500	
6	Intervenor costs (2016 includes OEB)	5655	67,230	67,230				43,630	
7	OEB Section 30 Costs (application-related)	5655						26,088	
8	Asset Condition Assessment for DSP	5655			27,000				
9	DSP Review	5655						10,000	
10	Hearing (if applicable)	5655						30,000	
11	Asset Impact/Load Growth Study	5655						24,000	
1	Sub-total – Ongoing Costs ²		\$26,938	\$ 27,775	33,143	\$34,838	5.1%	\$72,433	107.91%
2	Sub-total – One-time Costs ³		\$240,730	\$240,730	27,000	-	(100.0%)	\$202,718	
3	Total		\$75,084	\$75,921	60,143	\$34,838	(42.07%)	\$112,976	221.42%

Application-Related One-Time Costs	Total
Total One-Time Costs Related to Application to be Amortized over IRM Period	\$ 202,718
1/5 of Total One-Time Costs	\$ 40,544

4

1 WDI tries to manage these costs, on behalf of its customers, by minimising the use of third parties in
2 the preparation of the COS Application. Models and written documentation are being completed in-
3 house. Michael R. Buonaguro Barrister and Solicitor has been procured for legal support and Greg Van
4 Dusen Utility Consulting Inc. has been procured for review. The Distribution System Plan (DSP) has
5 been created in-house, with an Asset Condition Assessment completed by Kinetrics, and the DSP being
6 reviewed by Kinetrics.

7
8 WDI proposes that costs directly associated with the COS Application are amortized over a five-year
9 period; thus, \$41K per year.

10

11 **2.4.3.6 Low-Income Energy Assistance Program (LEAP)**

12 WDI has included \$7,170 of expense for the LEAP under Deductions – Donations Expense (UsoA
13 6205). This amount is based on the Board’s determination that the greater of 0.12% of a distributor’s
14 Board-approved distribution revenue requirement, or \$2,000 should be included in the utility’s cost.

15 WDI has partnered with Empower Simcoe to assist in the LEAP program intended to provide emergency
16 relief to eligible low-income customers who may be experiencing difficulty paying arrears to WDI.

17 In compliance with OEB policy, WDI

18

- 19 • Collects money from ratepayers for LEAP EFA in the amount approved by the OEB;
- 20 • Determines funding allocations within their service territory by geography;
- 21 • Establishes partnerships, contracts, and operational procedures with its social agency;
- 22 • Receives, records, and takes appropriate action upon notification from a Social Agency that an
23 assessment of eligibility is being undertaken;
- 24 • Receives, records, and takes appropriate action upon notification from a Social Agency of
25 decisions on applications;
- 26 • Confirms customer and account information used in determining program eligibility, including
27 information on payment history; and
- 28 • Reports to the OEB in accordance with OEB reporting requirements through filings 2.1.16.

29

1 **2.4.3.7 Charitable and Political Donations**

2 WDI does not contribute to political causes.

3

4 WDI does not typically donate to charities, other than LEAP, of which \$7,170 has been included in
 5 OM&A expenses for 2024.

6

7 A few minor donations were paid in 2020-2022, \$25, \$575, \$25, respectively, which was part of a
 8 magazine promotion to support the community around the holiday season. In 2021, a \$500 donation
 9 was made to the Twin Pad community centre in memory of a former WDI Board Member and former
 10 Mayor of Wasaga Beach.

11

12 **2.4.3.8 Property Taxes**

13 Property taxes are paid to the Town of Wasaga Beach four times per year based on the assessed value
 14 of WDI’s head office located at 950 River Road West, the Operations Centre, and six municipal stations
 15 with the associated municipal tax rates. The amounts budgeted for the proposed 2024 Test Year have
 16 been forecasted based on the known current assessment values and the rate of inflation discussed
 17 previously.

18

19 Property taxes for 2016-2024 are shown in Table 4.27 below. WDI has included the Property Taxes
 20 expenses in App.2-JD OMA Programs; however, they are not included in the App.2-JA OM&A Summary
 21 Analysis.

22

23 **Table 4.27: Property Taxes 2016-2014**

UsoA Account	UsoA Account Name	2016 OEB Approved	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Bridge	2024 Test
6105	Property Taxes	28,000	31,858	31,232	31,306	31,380	31,571	31,780	32,206	34,061	35,696

24



1 **2.4.4 Conservation and Demand Management**

- 2 WDI confirms no costs associated with IESO 2021-2024 CDM Framework or Local Initiative Programs
3 are included in OM&A Expenses.



1 **2.4.5 Appendices**

- 2 Appendix 4 (A) 2020 Master Service Agreement
- 3 Appendix 4 (B) Aird and Berlis Memorandum
- 4 Appendix 4 (C) BDR – Study of Affiliate Service Costs and Cost Allocation
- 5 Appendix 4 (D) Purchasing and Procurement Policy



Wasaga Distribution Inc.
EB-2023-0055
Exhibit 4 – Operating Expenses
Appendices
Filed: October 20, 2023

1 **Appendix 4 (A) 2020 Master Service Agreement**

WASAGA DISTRIBUTION INC.

- and -

WASAGA RESOURCE SERVICES INC.

SERVICES AGREEMENT

January 1, 2020

THIS AGREEMENT made as of this 1st day of January, 2020

B E T W E N:

WASAGA DISTRIBUTION INC., a corporation
incorporated pursuant to the laws of the Province of
Ontario

(hereinafter referred to as “**WIRESKO**”)

- and -

WASAGA RESOURCE SERVICES INC., a corporation
incorporated pursuant to the laws of the Province of
Ontario

(hereinafter referred to as “**SERVCO**”)

RECITALS

1. The Corporation of the Town of Wasaga Beach pursuant to Section 142 of the *Electricity Act, 1998* caused each of WIRESCO and SERVCO to be incorporated on May 11, 2000.
2. SERVCO agrees to provide operational, engineering, finance, administrative services and other services to WIRESCO on the terms as set forth in this Agreement, and SERVCO shall provide such other products and services as may be agreed to by the Parties from time to time.
3. This agreement shall not limit the activities of SERVCO, with the exception of those activities within the exclusive statutory and licensed jurisdictions of WIRESCO including the items specifically identified in this Agreement.
4. The relationship between WIRESCO and SERVCO is subject to the OEB’s Affiliate Relationships Code for Electricity Distributors and Transmitters (the “**Code**”).

NOW THEREFORE in consideration of the mutual covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereto hereby agree as follows:

1. Definitions

- 1.1** Unless the context otherwise specifies or requires, for the purposes of this Agreement all capitalized terms herein shall have the meanings set forth below:

“**Act**” means the *Ontario Energy Board Act, 1998*;

“**Affiliate,**” with respect to a corporation, shall have the same meaning as is ascribed to such term in the *Business Corporations Act* (Ontario);

“**Agent**” means a person acting on behalf of a Person and includes persons contracted to provide services on behalf of a Person;

“**Business Day**” means any day other than a Saturday or Sunday or a statutory or bank holiday in the Province of Ontario;

“**Code**” has the meaning ascribed to such term in the Recitals;

“**Confidential Information**” means information WIRESCO has obtained relating to a specific consumer, retailer or generator in the process of providing current or prospective distribution service;

“**Default**” has the meaning ascribed to such term in Section 12.1;

“**Defaulting Party**” has the meaning ascribed to such term in Section 12.1;

“**Event of Default**” has the meaning ascribed to such term in Section 12.1;

“**Force Majeure Event**” has the meaning ascribed to such term in Section 10.1;

“**Fully Allocated Cost**” means the sum of direct costs plus a proportional share of Indirect Costs;

“**Good Engineering and Operating Practices**” means any of the practices, methods and activities adopted by a significant portion of the North American electric utility industry as good practices applicable to the design, building, and operation of electricity distribution and related facilities of similar type, size and capacity or any of the practices, methods or activities which, in the exercise of skill, diligence, prudence, foresight and reasonable judgement by a prudent distributor of electricity in light of the facts known at the time the decision was made, could reasonably have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety, expedition and Laws and Regulations. Good Engineering and Operating Practices are not intended to be limited to the optimum practices, methods or acts to the exclusion of all others, but rather are intended to delineate acceptable practices, methods, or acts generally accepted in the North American electric utility industry;

“**Governmental Authority**” means any federal, provincial, or municipal government, parliament or legislature, or any regulatory authority, agency, tribunal, commission, board or department of any such government, parliament or legislature, or any court or other law, regulation or rule-making entity, having jurisdiction in the relevant circumstances, including the IESO, the OEB, the Electrical Safety Authority, and any Person acting under the authority of any Governmental Authority;

“**IESO**” means the Independent Electricity System Operator of Ontario established under Part II of the *Electricity Act, 1998*;

“**Indirect Costs**” means costs that cannot be identified with a specific unit of product or service or with a specific operation or cost centre, and include but are not limited to overhead costs, administrative and general expenses, and taxes;

“**Laws and Regulations**” means:

- (a) applicable federal, provincial or municipal laws, orders-in-council, by-laws, codes, rules, policies, regulations and statutes;
- (b) applicable orders, decisions, codes, judgments, injunctions, decrees, awards and writs of any court, tribunal, arbitrator, Governmental Authority or other Person having jurisdiction;
- (c) applicable rulings and conditions of any licence, permit, certificate, registration, authorization, consent and approval issued by a Governmental Authority;
- (d) any requirements under or prescribed by applicable common law;
- (e) the Retail Settlement Code, the Distribution System Code, the Transmission System Code and any other codes issued by the OEB; and
- (f) the IESO Market Rules, as well as any manuals or interpretation bulletins issued by the IESO from time to time that are binding on a Party;

“**Local Distribution Company**” means WIRESCO as an electricity distributor that is licensed under Part V of the Act;

“**OEB**” means the Ontario Energy Board or its successor;

“**Party**” means WIRESCO or SERVCO;

“**Person**” means a natural person, firm, trust, partnership, limited partnership, company or corporation (with or without share capital), joint venture, sole proprietorship, Governmental Authority or other entity of any kind;

“**Schedules**” means the Schedule(s) annexed to this Agreement and forming part of this Agreement which identify the nature of services to be provided, the pricing mechanisms, the cost allocation mechanisms, and the apportionment of risks (including risks related to under or over provision of service); and

“**Services**” has the meaning ascribed to such term in Section 3.1; and

“**Third Party Expenses**” means all fees, costs and charges paid to third parties by SERVCO on behalf of WIRESCO in connection with providing the Services or incurred

by WIRESCO's employees while providing Services under this Agreement paid by SERVCO.

2. Interpretations

2.1 In this Agreement:

- (a) words denoting the singular include the plural and vice versa and words denoting any gender include all genders;
- (b) all usage of the word "including" or the phrase "e.g.," in this Agreement shall mean "including, without limitation," throughout this Agreement;
- (c) any reference to a statute shall mean the statute in force as at the date hereof, together with all regulations promulgated there under, as the same may be amended, re-enacted, consolidated and/or replaced, from time to time, and any successor statute thereto, unless otherwise expressly provided;
- (d) any reference to a specific executive position or an internal division or department of a Party shall include any successor positions, divisions or departments having substantially the same responsibilities or performing substantially the same functions;
- (e) when calculating the period of time within which or following which any act is to be done or step taken, the date which is the reference day in calculating such period shall be excluded; and if the last day of such period is not a Business Day, the period shall end on the next Business Day;
- (f) all dollar amounts are expressed in Canadian dollars;
- (g) the division of this Agreement into separate articles, sections, subsections and schedules, the provision of a table of contents and the insertion of headings is for convenience of reference only and shall not affect the construction or interpretation of this Agreement;
- (h) words or abbreviations which have well known or trade meanings are used herein in accordance with their recognized meanings;
- (i) the terms and conditions hereof are the result of negotiations between the Parties and the Parties therefore agree that this Agreement shall not be construed in favour of or against any Party by reason of the extent to which any Party or its professional advisors participated in the preparation of this Agreement.
- (j) This Agreement shall not be deemed nor construed to be the formation of a partnership as between the Parties and only those matters that are specifically dealt with in this Agreement are to be the subject matter of any rights and obligations on the part of the Parties.

- (k) Unless otherwise defined in this Agreement, words and phrases that have not been defined shall have the meaning ascribed to them in the licenses issued by the OEB pursuant to the Act or the *Electricity Act, 1998*, as the case may be.
- (l) Headings are for convenience only and shall not affect the interpretation of this Agreement. Words importing the singular include the plural and vice versa. A reference to a document or a provision of a document includes an amendment or supplement to, or a replacement of, that document or that provision of that document.

3. Services and Performance Standards

- 3.1 SERVCO shall provide to WIRESCO the services described in the Schedules hereto (the “**Services**”) for the consideration set out therein.
- 3.2 SERVCO will endeavour to perform the Services in accordance with Good Engineering and Operating Practices, in the top quartile of industry standards, based on standards set by the Electricity Distributors Association, Infrastructure Health and Safety Association, and Occupational Health & Safety Standards.
- 3.3 SERVCO will make all reasonable efforts to meet or exceed performance measures established by the OEB.
- 3.4 SERVCO and its personnel will, in providing Services hereunder, comply with the policies, requests, standard rules, regulations and other requirements of WIRESCO regarding safety and health, personal, professional and security conduct generally applicable to such WIRESCO facilities and which WIRESCO has provided to SERVCO from time to time.
- 3.5 WIRESCO and SERVCO may, from time to time, agree to modifications to the Services.
- 3.6 SERVCO shall be responsible for obtaining all necessary licences and permits and for complying with all Laws and Regulations in connection with the provision of the Services hereunder.
- 3.7 Employees, agents, independent contractor personnel, and subcontractors of SERVCO who perform any of the Services for or on behalf of SERVCO under this Agreement (the “**SERVCO Personnel**”) shall not be considered agents or employees of WIRESCO for any purpose whatsoever. SERVCO will be solely responsible for the compensation of all SERVCO Personnel and will comply with any statutory obligations under Laws and Regulations as their employer, if applicable.
- 3.8 Each Party shall ensure accounting and financial separation (as that term is used in the Code) and shall maintain separate financial records and books of account.
- 3.9 Except as otherwise expressly provided herein, risk of over- or under-provision of Services shall be borne by SERVCO.

- 3.10 With respect to Standard Supply Service (as defined in the OEB's Standard Supply Service Code for Electricity Distributors), WIRESCO agrees to indemnify SERVCO from all financial losses in the administration of Standard Supply Service.
- 3.11 Prior to incurring any third party services expenses that materially exceed the historical levels of such expenses, SERVCO shall notify WIRESCO of the amount of such differences and the circumstances giving rise thereto.
- 3.12 The Parties agree that employees and agents shall exercise due care that no person or property is injured and that no rights are infringed in the performance of or in respect, to this Agreement.

4. **Payments for Services**

- 4.1 Payments for any Services delivered under this Agreement, including reimbursement of any expenses, shall be made within 30 days of the month end in which the Services were provided unless alternative payment terms are stipulated in the applicable Schedule.
- 4.2 Fees for Services within the terms of this Agreement do not include the Harmonized Goods and Services Tax (HST).
- 4.3 All Services provided by SERVCO as outlined in the Agreement and Schedules are subject to the charges specified therein. No additional fees or charges are applicable unless otherwise specified in the related Schedule.
- 4.4 If WIRESCO fails to pay any such invoices within the time specified, interest shall accrue from the payment due date at the prime rate as stated by the Royal Bank of Canada from time to time.
- 4.5 Prior to incurring any Third Party Services Expenses that materially exceed the historical levels of such expenses, SERVCO shall use notify WIRESCO of the amount of such differences and the circumstances giving rise thereto.

5. **Annual Review of Schedules**

- 5.1 The Parties shall review the contents of each Schedule on an annual basis. The purpose of such review shall be to determine whether the activities described in each Schedule continue to be accurate. The Parties shall also review the fees charged for each service, to ensure they continue to be set at appropriate levels.
- 5.2 In the event that during such a review, disagreements arise with respect to the suggested amendments to any Schedule and the Parties cannot settle these disagreements, either Party shall have the ability to require the contents of the Schedule or Schedules under disagreement to be submitted to dispute resolution in accordance with the provisions of Section 7 of this Agreement.

6. Indemnification

- 6.1 Subject to Section 16 of this Agreement, each Party (the “**Indemnifying Party**”) agrees to indemnify and hold harmless the other Party’s Indemnified Parties (as hereinafter defined) from and against any and all losses, damages, injuries, liabilities or costs that such Indemnified Parties suffer or incur in connection with, or relating to: (i) any act or omission, negligence, willful misconduct, or fraud by the Indemnifying Party or those for whom the Indemnifying Party is in law responsible relating to its obligations under this Agreement, (ii) any default or breach by the Indemnifying Party or those for whom the Indemnifying Party is in law responsible of any representation, warranty, covenant, obligation, or agreement herein. For the purposes of this Section 6.1, a Party’s “**Indemnified Parties**” means such Party and its directors, officers, shareholders, employees, agents and those for whom they are in law responsible. This indemnity shall survive the expiration or earlier termination of this Agreement.

7. Dispute Resolution

- 7.1 In the event of a dispute regarding this Agreement, before any party may submit the dispute to arbitration in accordance with Section 7.2, such party shall first provide written notice to the other party of the particulars of the dispute, following which the Parties shall use all reasonable efforts to resolve the dispute amicably, promptly and in good faith.
- 7.2 If pursuant to Section 7.1, the Parties cannot come to a resolution of a dispute regarding this Agreement within ten (10) Business Days of the date of receipt of the written notice referred to in Section 7.1, the dispute may be submitted to arbitration by either party subject, as applicable, to the provisions of Sections 7.1, 7.2 and 7.3. Arbitration shall be conducted pursuant to the *Arbitration Act, 1991* of Ontario, as amended and then in effect to the extent not inconsistent with the rules herein specified. Such arbitration shall be held in Toronto Ontario, or in any other mutually agreed upon location. Unless otherwise mutually agreed, the dispute shall be heard by one arbitrator who has not previously been employed or otherwise retained by/or affiliated with a person that has been employed or otherwise retained by either party, does not have a direct or indirect interest in either party and shall be disinterested in the subject matter of the dispute. Such arbitrator shall either be as mutually agreed by the Parties within thirty (30) days after agreeing to arbitration or failing agreement, shall be selected under the rules of the *Arbitration Act, 1991* of Ontario. The judgment rendered by the arbitrator may be enforced in any court of competent jurisdiction.
- 7.3 All costs of the arbitration shall be paid equally by the Parties, unless the award shall specify a different division of the costs. Each party shall be responsible for its own expenses, including attorney’s fees unless, the award shall specify differently.
- 7.4 Should the Parties submit to arbitration pursuant to Section 7.2, then the following arbitration rules shall apply. Subject to Section 7 hereof, the arbitrator shall be bound by the terms of this Agreement and may not detract from or add to its items. The Parties may by mutual agreement specify the rules that are to govern the arbitration proceedings and limit the matters to be considered. The findings and award of the arbitrator shall be final

and conclusive and shall be binding upon the Parties and shall not be subject to appeal. Each party agrees that it will not bring a lawsuit concerning any dispute covered by the arbitration provision.

8. Audit Rights

8.1 Any party to this Agreement may, at reasonable intervals, upon reasonable notice and at reasonable times during normal business hours, have such access to the records of the other party or Parties as is necessary for purposes of auditing, and investigating compliance with this Agreement, including WIRESCO's right to SERVCO information in respect of its Fully Allocated Costs. This access will be limited to information that is pertinent to the specific Services contemplated under the Schedules executed by the specific party initiating the compliance audit or investigation.

9. Term and Termination

9.1 This Agreement is effective immediately following signing by all Parties hereto and shall continue in effect until terminated pursuant to this Agreement or otherwise pursuant to law.

9.2 The Agreement shall have a term of five years commencing on the date hereof. The term of this Agreement shall be extended at the end of the initial term and each extension thereof by one year unless a Party provides a notice of termination to the other Party of its intention to terminate the Agreement not later than ninety (90) days prior to the end of the term then in effect.

9.3 In addition to the termination rights under Section 9.2, this Agreement may be terminated upon 90 days written notice by either SERVCO or WIRESCO to terminate the Agreement, unless SERVCO and WIRESCO mutually agree to an earlier termination date.

9.4 Following delivery and receipt of a notice under Section 9.2, this Agreement and all rights and obligations hereunder shall terminate, other than those rights and obligations expressly intended to survive such termination.

10. Force Majeure

10.1 No Party shall be liable for a failure or delay in the performance of its obligations pursuant to this Agreement:

- (a) provided that such failure or delay could not have been prevented by reasonable precautions;
- (b) provided that such failure or delay cannot reasonably be circumvented by the non-performing Party through the use of alternate sources, work around plans or other means; and

- (c) if and to the extent such failure or delay is caused, directly or indirectly, by fire, flood, earthquake, elements of nature or acts of God, acts of war, terrorism, riots, civil disorders, rebellions, strikes, lock outs or labour disruptions or revolutions in Canada, or any other similar causes beyond the reasonable control of such Party,

(each, a “**Force Majeure Event**”). Upon the occurrence of a Force Majeure Event, the non-performing Party shall be excused from any further performance of those of its obligations pursuant to this Agreement affected by the Force Majeure Event only for so long as:

- (a) such Force Majeure Event continues; and
- (b) such Party continues to use commercially reasonable efforts to recommence performance whenever and to whatever extent possible without delay.

The Party delayed by a Force Majeure Event shall:

- (a) immediately notify the other Party of the occurrence of a Force Majeure Event; and
- (b) describe in reasonable detail the circumstances causing the Force Majeure Event.

11. Confidentiality and Ownership of Information

- 11.1** SERVCO agrees that Confidential Information of WIRESCO shall be kept confidential.
- 11.2** SERVCO shall take such reasonable measures as are necessary in order to comply with the confidentiality obligations under Section 11.1 above.
- 11.3** Information stored or produced by a Party on the sole behalf of another party to this agreement, shall be the property of the Party on whose sole behalf such information is stored or produced. Where such information consists of an original report, computer programme, information, or intellectual property produced by a Party for the sole purpose of supplying Services to that other Party and the cost of producing such report is included in the remuneration payable by such other Party, the property to such original report, computer programme, information, or intellectual property shall belong to such other Party. The foregoing shall not apply where information is stored or produced by a Party to this Agreement on behalf of a third party, or where the information is stored and produced by a Party for the mixed benefit of another party and the party which produced the information.
- 11.4** No Advisor of SERVCO shall have access to any Confidential Consumer Information in the possession of WIRESCO, except for purposes related to activities under this agreement.
- 11.5** Both parties agree that accounting and financial separation of SERVCO from WIRESCO will be established and maintained. Further the parties agree to protect the confidentiality of customer information. This provision will include compliance with the provisions of

the current version of section 5900 of the Canadian Institute of Chartered Accountants Handbook.

12. Default and Remedies

12.1 The occurrence of any one or more of the following events shall constitute a default (a "**Default**") by a Party (the "**Defaulting Party**") under this Agreement and shall constitute an "**Event of Default**" if such Default is not remedied prior to the expiry of any notice period and any cure period applicable to such Default:

- (a) if the Defaulting Party fails to pay any amount due to the other Party under this Agreement and such failure shall continue unremedied for sixty (60) days following notice in writing thereof to the Defaulting Party by the other Party; or
- (b) if the Defaulting Party fails in any material respect to perform or observe any of its other material obligations under this Agreement and such failure shall continue unremedied for a period of sixty (60) days following notice in writing thereof (giving particulars of the failure in reasonable detail) from the other Party to the Defaulting Party or such longer period as may be reasonably necessary to cure such failure (if such failure is capable of being cured), provided that the Defaulting Party:
 - (i) proceeds with all due diligence to cure or cause to be cured such failure; and
 - (ii) in proceeding so, can be reasonably expected to cure or cause to be cured such failure within a reasonable time frame acceptable to the other Party acting reasonably.

12.2 Unless otherwise agreed to in writing, in the event of an Event of Default the non-defaulting Party may terminate this Agreement as it relates to the non-defaulting Party upon notice in writing and all amounts payable by the defaulting Party hereunder shall become due and payable forthwith. The remedies in this section are expressly in lieu of any or all of the remedies which may be available to a Party in respect of or under this Agreement resulting from the furnishing, the failure to furnish or the quality of any Services.

13. Successor and Assigns

13.1 This Agreement shall enure to the benefit and be binding upon the Parties hereto and their respective successors and assigns, provided that there shall be no assignment of this Agreement without the prior written consent of the Parties hereto. The foregoing shall not prevent SERVCO from contracting out the performance of any of its obligations hereunder.

13.2 Written consent under Section 13.1 is not required where the transfer of the Agreement responsibilities to a successor or assign is necessary to fulfil the Party's statutory or regulatory obligations.

14. Notice of Claims

- 14.1 WIRESCO shall promptly give written notice to SERVCO, and SERVCO shall promptly give notice to WIRESCO, of all material claims, proceedings, notices of regulatory non-compliance from any regulatory authority, disputes (including labour disputes) or litigation which it reasonably believes could have a material adverse effect on the fulfilment of any of the material terms hereof by WIRESCO or SERVCO (whether or not any such claim, proceeding, dispute or litigation is covered by insurance) in respect of its own operations of which any of them is aware. Each Party shall provide the other Party with all information reasonably requested from time to time concerning the status of such claims, proceedings, notices, disputes, or litigation, and any developments relating thereto.

15. Insurance

- 15.1 SERVCO agrees to maintain and keep in force an insurance policy of sufficient coverage in respect of the Services performed by SERVCO under the terms of this Agreement. SERVCO agrees to endorse its insurance coverage with WIRESCO as an additional named insured to cover any liability of SERVCO resulting or arising from any claims of injury, including injury resulting in death, loss of property, or damage due to the negligence of SERVCO or to those for whom SERVCO is at law responsible, or due to SERVCO not fulfilling the terms as required in this Agreement.

16. Limitation of Liability

- 16.1 A Party's liability to the other Party hereunder in any fiscal year shall be limited to an aggregate dollar amount equal to the costs incurred by WIRESCO for the Services to be provided by SERVCO in respect of such year in accordance with the schedules hereto and shall be limited to direct damages. Neither Party will be liable to the other for any special, indirect, incidental or consequential damages, lost business revenue, loss of profits, whether based on breach of contract or tort (including negligence) or otherwise.

17. Representations and Warranties of SERVCO

- 17.1 SERVCO hereby represents and warrants to WIRESCO as follows and acknowledges that WIRESCO is relying on such representations and warranties in connection herewith:
- (a) SERVCO is a corporation, duly incorporated, validly existing and in good standing under the laws of the Province of Ontario and it has the rights, powers and privileges to execute and deliver this Agreement and to perform its obligations hereunder;
 - (b) the execution, delivery and performance of this Agreement has been duly authorized by all necessary corporate action;
 - (c) this Agreement has been duly executed and delivered by SERVCO and constitutes a legal, valid and binding obligation of SERVCO, enforceable against SERVCO by WIRESCO in accordance with its terms; and

- (d) SERVCO has the necessary resources and expertise to acquire or perform the Services and its obligations hereunder.

18. Representations and Warranties of WIRESCO

18.1 WIRESCO hereby represents and warrants to SERVCO as follows and acknowledges that SERVCO is relying on such representations and warranties in connection herewith:

- (a) WIRESCO is a corporation, duly incorporated, validly existing and in good standing under the laws of the Province of Ontario and it has the rights, powers and privileges to execute and deliver this Agreement and to perform its obligations hereunder;
- (b) the execution, delivery and performance of this Agreement has been duly authorized by all necessary corporate actions; and
- (c) this Agreement has been duly executed and delivered by WIRESCO and constitutes a legal, valid and binding obligation of WIRESCO, enforceable against WIRESCO by SERVCO in accordance with its terms.

19. Notices

19.1 All notices required or desired to be given to any Party in connection with this Agreement or arising therefrom shall be in writing and shall be given by prepaid post or hand delivery at the following addresses:

To WIRESCO:

Wasaga Distribution Inc.
950 River Road West
P.O Box 20
Wasaga Beach, ON
L9Z 1A1

Attention: Chief Executive Officer

To SERVCO:

Wasaga Resource Services Inc.
950 River Road West
P.O Box 20
Wasaga Beach, ON
L9Z 1A1

Attention: Chief Executive Officer

or to such other address or individual as may be designated by written notice to the other Party. Any notice given by personal delivery shall be conclusively deemed to have been

given on the day of actual delivery hereof and if sent by prepaid post, on the third day after mailing.

20. Amendments

20.1 Subject to any provisions of the Agreement to the contrary, any of the terms of this Agreement may be amended with the consent of both Parties and any and all amendments shall be in writing and executed by the appropriate authorized signing officers of each Party. All amendments shall be supplemental and form part of this Agreement.

21. General

21.1 If any provision of this Agreement is held by a court of competent jurisdiction to be unenforceable or contrary to law, then the remaining provisions of this Agreement, or the application of such provisions to persons or circumstances other than those as to which it is invalid or unenforceable shall not be affected thereby, and each such provision of this Agreement shall be valid and enforceable to the extent granted by law. If any clause is deemed unenforceable or contrary to law, the parties shall alter the said clause and this agreement to produce enforceability or compliance with law such that the intent of the original clause is maintained and such change or alteration may be established through the dispute resolution clause in this agreement.

21.2 No delay or omission by a Party to exercise any right or power it has under this Agreement or to object to the failure of any covenant of any other Party to be performed in a timely and complete manner, shall impair any such right or power or be construed as a waiver of any succeeding breach or any other covenant. All waivers must be in writing and signed by the Party waiving its rights.

21.3 This Agreement constitutes the entire agreement among the Parties with respect to the Services, and there are no other representations, understandings or agreements, either oral or written, between the Parties other than as herein set forth.

21.4 This Agreement shall be governed by the laws of the Province of Ontario and the laws of Canada applicable therein, excluding their rules governing conflicts of laws. The Parties hereby agree that, subject to Section 7, the courts of the Province of Ontario shall have exclusive jurisdiction over disputes under this Agreement, and the Parties agree that jurisdiction and venue in such courts is appropriate and irrevocably attach to the jurisdiction of such courts.

21.5 The terms of Sections 4, 6, 7, 8, 11, 12.2, 14, 15, 16, 19 and 21 shall survive the expiration of this Agreement or termination of this Agreement for any reason.

21.6 Subject to Section 6.1, each Party intends that this Agreement shall not benefit or create any right or cause of action in or on behalf of any person or entity other than the Parties.

21.7 The Parties agree that, subsequent to the execution and delivery of this Agreement and without any additional consideration, the Parties shall execute and deliver or cause to be executed and delivered any further legal instruments and perform any acts which are or

may become necessary to effectuate the purposes of this Agreement and to complete the transactions contemplated hereunder.

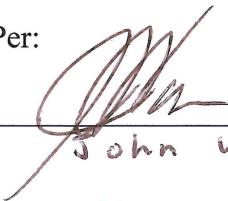
- 21.8** This Agreement may be executed in any number of counterparts, each of which will be deemed to be an original, and all of which taken together will be deemed to constitute one and the same instrument. Delivery of an executed signature page to this Agreement by any Party by electronic transmission will be as effective as delivery of a manually executed copy of the Agreement by such Party.
- 21.9** The terms and conditions hereof are the result of negotiations between the Parties and the Parties therefore agree that this Agreement shall not be construed in favour of or against any Party by reason of the extent to which any Party or its professional advisors participated in the preparation of this Agreement.
- 21.10** This Agreement shall not be deemed nor construed to be the formation of a partnership as between the Parties and only those matters that are specifically dealt with in this Agreement are to be the subject matter of any rights and obligations on the part of the Parties.

[signature page follows]

IN WITNESS WHEREOF the Parties have duly executed this Agreement on the date first above written.

WASAGA DISTRIBUTION INC.

Per:




John WIELSMA

May 1, 2020

WASAGA RESOURCE SERVICES INC.

Per:



RON ANDERSON

April 30, 2020

SCHEDULE A
BILLING, COLLECTION AND CUSTOMER SERVICE SERVICES

1. Description of Services

(a) Billing, Collecting and Data Acquisition

SERVCO shall utilize equipment that performs billing, collecting and data acquisition functions to North American industry standards. Said equipment shall meet the local needs of the community and shall be capable of providing customized local services such as equal payment plans. WIRESCO shall be entitled to review from time to time the capabilities of the system's workstations and network server to ensure that these local services are available to customers in the future.

(b) Customer Service

Customer Service will be provided by qualified and knowledgeable SERVCO staff that meets the needs of existing and potential customers. Services will include the provision of local community and engineering planning information to serve new business. WIRESCO customer information will be readily available. SERVCO staff shall be knowledgeable in respect to community demographics when providing customer service.

(c) After Hours and Emergency Response

SERVCO will respond to service/emergency calls within the required OEB Guidelines.

(d) Normal Hours Response

SERVCO staff will respond to service calls as scheduled.

(e) Emergency Preparedness

An Emergency Preparedness Plan will be maintained and updated as required.

SCHEDULE B
FINANCIAL SERVICES

1. Description of Services

SERVCO staff will provide and maintain accounting services including financial statements, financial planning, payroll, collection, withholding or remittance of taxes and other required functions. These records will be kept in a format that is acceptable to the Accounting Procedures Handbook for Electricity Distributors and will be available for WIRESCO on request.

SCHEDULE C
PLANNING AND NECESSARY MAINTENANCE SERVICES

1. Description of Services

SERVCO staff will provide planning and maintenance to the electrical system appropriate to the maintenance need. This maintenance will be co-ordinated with municipal infrastructure projects, including utilities such as Bell Canada utilizing sound electrical practices.

**SCHEDULE D
MANAGEMENT AND ADMINISTRATIVE SERVICES**

1. Description of Services

(a) Provision of Management Services

SERVCO Management Services shall include but not be limited to, the Chief Executive Officer function, human resources, regulatory assistance, advice and policy development. SERVCO shall provide reports relating to Management Services to the WIRESCO Board of Directors.

In the provision of Management Services, it is specifically understood that SERVCO is an independent contractor and not an employee of WIRESCO.

Except as may be permitted by this Agreement, SERVCO shall not be authorized to bind or commit WIRESCO, either actually or apparently, in any manner whatsoever, without the prior express written permission of WIRESCO. Notwithstanding this restriction, one aspect of Management Service provision by SERVCO will be the regulatory requirement for preparation and submission of periodic Rate Applications for, and on behalf of, WIRESCO and any other such Submission and/or Applications as may, from time to time, be required to satisfy regulatory requirements. In respect of these applications SERVCO shall be authorized to act as an Agent of WIRESCO by approval of the Board of Directors on an as and when required basis.

SERVCO has Board approved Policies covering services provided to WIRESCO. It is understood that SERVCO shall provide copies of those policies to third parties contracted by SERVCO for provision of goods and/or services to either SERVCO or WIRESCO and shall ensure that those parties adhere to the standards set out in the policies.

(b) Distribution System Code (“DSC”), Retail Settlement System (“RSS”) and Standard Supply Service (“SSS”)

WIRESCO grants to SERVCO, WIRESCO’s authorization for SERVCO to administer the DSC, RSS and SSS.

In acting as agent of WIRESCO, SERVCO will comply with all the regulatory requirements of the DSC, RSS and SSS, subject to the licensing provisions of the OEB.

Knowledge of the DSC and its application will be maintained and administered by SERVCO. SSS will be billed by SERVCO on the behalf of WIRESCO and the incremental administration charges, as at the date of signing this Agreement, will be set at \$0.34 and will accrue to the benefit of SERVCO. This incremental administration charge will be adjusted on January 1st of each year, in accordance with the Statistics Canada Consumer Price Index (“CPI”) for the life of this Agreement.

(c) Contracting with Developers, Customers and others

SERVCO staff will provide services such as material procurement and handling, design, planning, cost estimating, installation, scheduling, inspection and liaison with other utilities, contractors and the municipality.

(d) Subcontracting Services

To the extent practicable, local services will be utilised for subcontracted services.

(e) Inventory Maintenance

SERVCO staff will maintain an appropriate level of inventory based on current conditions.

(f) Engineering Services

SERVCO staff will provide engineering services utilizing approved standards and methods, while maintaining strong ethical engineering philosophy and recognizing local conditions.

SCHEDULE E
SERVICES CONNECTIONS

1. **Description of Services**

(a) Residential Service Connections

Each residential service connection will encompass the following:

- A field representative will meet customers on site at the appointed time as per OEB Guidelines.
- Service Connection will be discussed including prices with residential customers.
- Where conditions of supply are met, certified trained staff will perform cable connections as per the OEB Guidelines.

(b) Commercial and Industrial Service Connections

To be provided in accordance with applicable OEB guidelines, including the Distribution System Code.

SCHEDULE F
CAPITAL CONSTRUCTION SERVICES

1. Description of Services

- (a) SERVCO will undertake, by way of acquisition or construction, a capital construction program as approved by WIRESCO.
- (b) SERVCO will notify WIRESCO of any unplanned capital or construction activity, in detail, in a timely manner.
- (c) In extreme situations, such as wars, terrorism, fires, major storms, tornadoes, equipment failures, Acts of God and the like, WIRESCO will reimburse SERVCO for all Capital Work costs which SERVCO incurs to remedy such situations. SERVCO will notify WIRESCO as soon as possible, as to the extent of damages and cost estimates to complete the work necessary to remedy such situations.

SCHEDULE G COST ALLOCATION AND PRICING

The fees to be paid by WIRESCO to SERVCO for the Services set out in Schedules A to F above are determined each year, on a prospective basis, through a two-stage allocation of all of SERVCO's costs. Under this approach, SERVCO's costs are initially identified as relating to either services provides to WIRESCO (the "Services") or activities carried out for SERVCO's own benefit (the "Activities"). Where such costs cannot be so identified, they are identified as Indirect Costs.

To accomplish the allocation of Indirect Costs, the Parties have developed a methodology that first allocates supporting Indirect Costs of different types to an activity function (this includes the Services set out in Schedules A to F, as well as certain services provided exclusively for the benefit of SERVCO¹). The methodology uses a comprehensive model that takes each subaccount, identified in the chart of accounts, and either treats it as a direct cost of a particular activity function relating to a Service or an Activity or assigns it to a "pool" of Indirect Costs, which are then allocated among activity functions that are not readily identifiable as relating to Services or Activities. Such allocation of Indirect Costs is made according to a measure of activity level, such as direct labour cost. Each of such activity functions are then either identified as 100% related to one or more Services (and therefore allocated to WIRESCO), or as 100% related to Activities (and therefore not allocated in any part to WIRESCO), or as a shared activity function, in which case an allocator is defined or estimated. In all cases, cost causation is the appropriate basis for the assignment or allocation of the costs.

As set out in Section 5.1, the Parties shall review the results of the cost allocation process each year, including the resulting fees to be charged for each Service, to ensure they continue to be set at appropriate levels.

The cost allocation approach has been reviewed by BDR NorthAmerica Inc., who has concluded that the overall methodology adopted is reasonable and consistent with accepted principles of cost allocation.

¹ The services for the benefit of SERVCO include:

- Developer-driven construction
- Street-lighting construction
- Other construction
- Rental water heaters
- Conservation and affordability programs (mandatory)



1 **Appendix 4 (B) Aird and Berlis Memorandum**

2

3 *Please note that Aird and Berlis had originally marked this memorandum as confidential prior to*
4 *review and approval of the overall proposal. However, this document does not contain any*
5 *confidential information, and WDI is putting it forward for the public record.*



MEMORANDUM
PRIVILEGED AND CONFIDENTIAL

TO: Joanne Tackaberry, Wasaga Distribution Inc.
CC: Keith McAllister, Wasaga Distribution Inc.
FROM: David Stevens
DATE: August 6, 2019
RE: Review of Master Services Agreement (MSA) between Wasaga Distribution Inc. (WDI) and Wasaga Resources Services Inc. (WRSI)

You have asked us to review the MSA and consider whether it is compliant with the [Affiliate Relationships Code for Electricity Distributors and Transmitters](#) (ARC), as well as the [Accounting Procedures Handbook for Electricity Distributors](#) (APH). You have also indicated concern about how the pricing provisions of the MSA may limit WRSI's ability to obtain more resources to serve WDI.

Key Conclusions

While the MSA contains most of the items that the ARC requires for a service contract between a utility and an affiliate, it does not appear that the manner in which WRSI's services are priced is compliant. The costs for services provided to WDI by WRSI are charged on a fixed fee basis (referred to as the Base Financial Consideration). The amount charged is based on 2012 costs which are adjusted each year to reflect changes in customer numbers and inflation. The expectation under the ARC is that services from an affiliate to a utility should be priced based on either market costs or the affiliate's fully allocated costs. In this case, where there is no "market" for the basket of services provided by WRSI, a fully-allocated costing approach is appropriate. This approach would require tracking of the actual time spent by WRSI employees providing services to WDI, with costs to be calculated on the total costs (fully allocated costs) for such employees, along with any other costs incurred by WRSI. That is not the same as the approach used under the MSA, where the services are provided based on a fixed overall price that is linked to a reasonable level of costs from 2012.

There are also potential concerns about sharing of information and employees between WRSI and WDI. Because WRSI is considered an "energy service provider", it is not supposed to receive system planning information from WDI, and employees who work for WRSI's energy services business are not supposed to also provide service to WDI. If the MSA continues in place, it may be appropriate to seek an exemption from the information sharing restrictions in the ARC.

It is not clear that there are any additional concerns arising from compliance with the APH. Where the MSA is brought into compliance with ARC requirements, then there would not appear to be further concerns under the APH.

It is not surprising that the current form of MSA limits WRSI's willingness to add resources to provide services to WDI. Because the pricing for base (existing) services is fixed, the costs for such extra resources would not be recoverable from WDI and would have to be absorbed by WRSI's shareholder. One way to avoid this concern is to classify enhanced services as "new" services – if that is the case, then the MSA allows for the parties to agree on extra costs to be paid. Alternately, if the MSA was amended to provide for cost-based pricing (fully allocated costs), then costs of additional services or costs would be passed along to WDI.

Background Facts

Based on our review of the materials provided, the following are the relevant facts underlying the analysis in this memorandum.

- WDI is a "virtual utility" with no employees – it receives all of its administrative, operating, engineering, finance and other services from WRSI.
 - WRSI's main activity is providing services to WDI, but WRSI also provides services to other entities and customers, including streetlight maintenance, construction, cable installation, water heater rentals and other activities.
- The MSA was restated in 2013, and provides the terms under which WRSI provides services to WDA.
 - The term of the MSA is "perpetual", but it is to be reviewed annually (implying that the parties can mutually agree to terminate). (section 2.01)
- The MSA sets out the terms under which WDI pays WRSI for services.
 - The services provided are detailed in section 3.02 and 3.03.
 - WDI pays "Base Financial Consideration" to WRSI which is calculated by adjusting a 2012 benchmark amount \$2,083,254 per year by customer count growth/loss in two rate classes (80% of the proportionate change) and inflation/CPI – see sections 5.01 and 5.02.
 - The most recent Base Financial Consideration (2018) is \$2,601,290.
 - WDI will also reimburse/pay WRSI for "direct costs" incurred for WDI, such as taxes, directors' fees, insurance, audit costs, outside regulatory costs etc.

- Other key components of the MSA include:
 - A commitment that there will be accounting and financial separation of WDI and WRSI, and that the confidentiality of WDI customer information will be protected. (section 4.02)
 - A requirement for each party to maintain records as necessary and as agreed between the parties. (section 4.03)
 - Dispute resolution provisions. (section 11.02)
- The OEB has (at least implicitly) reviewed the MSA and the resulting financial consequences as part of WDI's rate cases – most recently in the 2016 cost of service proceeding (EB-2015-0107).
 - No concerns have been expressed by the OEB or stakeholders about the MSA or the “virtual utility” approach, but it is important to note that that WDI's last two cost of service rate proceedings resulted in complete settlements and the OEB did not specifically look at the MSA or associated impacts (including costs).
 - A brief review of the OEB's site did not reveal many OEB decisions where the Board has looked at the services agreement costs and arrangements for similar “virtual utility” scenarios.
 - In a 2008 [Decision](#) (Rideau St Lawrence), the OEB reviewed an arrangement where the service company provided services to the utility priced on a fully-allocated basis. In that case, the OEB indicated that it was satisfied with the way that costs have been allocated.
 - In a 2009 [Decision](#) (Tillsonburg), the OEB did not question the fixed fee paid by the utility to its shareholder for the fully allocated costs of dedicated employees assigned to do utility work, but expressed concern about the 5% management fee paid on costs assessed to the utility (particularly in respect to pass-through items such as charges for goods and services from third parties).
 - In a 2012 [Decision approving a Settlement Agreement](#) (Erie Thames), the OEB approved the utility's costs in a situation where the utility had transitioned away from a services/virtual utility model to an approach where the utility itself provided services through its own employees.

Question #1: Is the MSA compliant with ARC requirements?

The [Affiliate Relationships Code for Electricity Distributors and Transmitters](#) (ARC) sets out the OEB's expectations about the conduct of regulated distributors when they are dealing with their

affiliates. Useful guidance about how to interpret the ARC is set out in a (non-binding) July 2006 [Compliance Bulletin](#) and in the OEB's [Notice of Proposed Amendments to ARC](#) from 2008.

It seems clear that the ARC applies to the MSA and the services provided under the MSA (WDI and WRSI are affiliates, since both parties have the same shareholder). The ARC governs the activities of WDI (the licensed utility), and this in turn limits and prescribes WRSI's dealings with WDI. It is important (as will be seen below) that WRSI will be considered to be an affiliate that is also an "energy service provider", because its services include rental water heaters.

Any consideration of the ARC, and the expectations and limitations under the ARC should start with its objectives (purpose), which include:

- Protecting ratepayers from harm that may arise as a result of dealings between a utility and its affiliate.
- Preventing a utility from cross-subsidizing affiliate activities.
- Protecting the confidentiality of information collected by a utility in the course of provision of utility services.
- Preventing a utility from acting in a manner that provides an unfair business advantage to an affiliate that is an energy service provider.

Three areas of the ARC are relevant to the MSA:

- (a) *Pricing* – the ARC directs maximum prices to be paid for services received from affiliates, equal to either market price or (where there is no market for the services) the affiliate's fully allocated cost to provide the service.
- (b) *Contents of the MSA* – the ARC sets out items that must be included in each affiliate service contract.
- (c) *Employee and information sharing* – the ARC sets out expectations to protect confidential information being shared with an affiliate, with additional requirements where the affiliate is an energy service provider.

Set out below is a summary of the ARC requirements for each of these items, and a brief analysis of how these apply to the MSA

(a) Pricing

The default expectation under the ARC is that where a "reasonably competitive market" exists for a service (or product, resource or use of an asset) being provided by an affiliate to a utility, then the utility will pay no more than market price. The determination of market price should be established through a fair and open competitive bidding process. See section 2.2.2 of the ARC.

In our view, there is a good argument that no reasonably competitive market exists for the collection of services provided by WRSI to WDI. It is not clear that there would be many (if any) interested parties if the services provided under the MSA were put to public tender.

Section 2.3.4.1 of the ARC indicates that where it can be established that a reasonably competitive market does not exist for a service that a utility acquires from an affiliate, the utility shall pay no more than the affiliate's fully-allocated cost to provide that service.

Section 2.3.4.3 of the ARC indicates that where a utility pays a cost-based price for a service, obtained from an affiliate, the utility shall obtain from the affiliate, from time to time as required to keep the information current, a detailed breakdown of the affiliate's fully-allocated cost of providing the service.

The pricing in the MSA is done in two ways.

1. "Direct costs" (third-party costs) are charged by WRSI to WDI on a pass-through basis. There is no mark-up applied to such costs, meaning that WDI pays the same amount as if such costs were invoiced directly.
2. "Services Costs" (the charge for the services provided by WRSI employees) are charged by WRSI on a fixed fee basis (referred to as the Base Financial Consideration). The amount charged is based on 2012 costs which are adjusted each year to reflect changes in customer numbers and inflation. The initial Base Financial Consideration (\$2,083,254 per year) is said to represent the "Total Controllable Costs of the Utility" approved in WDI's 2012 cost of service rate proceeding. It is not clear, though, that this amount was specifically determined in that case, nor that the OEB ever considered WRSI's fully allocated costs in that case. The [Decision](#) in WDI's 2012 rate case approves a Settlement Agreement which sets out (among other things), an "envelope" amount for OM&A expenses and a capital budget. The parties agreed in that case that the budgets would allow WDI to continue to make the necessary investments in maintenance and operation expenditures as well as capital investments to maintain the safety and reliability of the electricity distribution service that it provides. No specific reference was made to WRSI's costs (fully-allocated, or otherwise).

Applying the ARC expectations to the pricing set out in the MSA, there is at least a concern that the current costing arrangements under the MSA are not compliant with the ARC.

On one hand, there ought not to be concern about the "direct costs" paid by WRSI and reimbursed by WDI. There is no mark-up associated with these costs, and they are not discretionary items. WDI's costs for these items would be the same if they were directly procured. It is hard to see how this approach is offside any of the objectives that the ARC is meant to promote.

On the other hand, an argument may be made that the costing and reporting for "services costs" under the MSA does not meet some ARC requirements. It does not appear that the Base Financial

Consideration paid by WDI represents WRSI's fully allocated costs to provide the associated services. Moreover if the current amounts paid by WDI to WRSI for services under the MSA are premised on 6 years of adjustments to an "approved" 2012 OEB budget that considered WRSI's costs, it cannot be said that these costs represent WRSI's current fully allocated costs to provide the services. Additionally, it does not appear that there is any current "detailed breakdown" of WRSI's affiliate's fully-allocated cost of providing the Services.

The cleanest course of action is to update the pricing methodology set out the MSA, to provide for fully-allocated costing. However, if that approach is not taken, and if complaints arise, then WDI could argue that ratepayers are not being harmed and the utility is not cross-subsidizing the affiliate. That might blunt the impact of a complaint. At this time, it seems fair to assume that WDI ratepayers are not harmed (since the amounts paid in rates were agreed and approved, and are separate from the amounts paid under the MSA). Further, so long as WDI is not overpaying for the services received from WRSI, then there would not be any cross-subsidization. It should be noted though, that proving there is no cross-subsidization would require knowledge of WRSI's actual fully-allocated costs to provide services.

(b) Contents of the MSA

Section 2.2.1 of the ARC requires that where a distributor receives a service, resource, product or use of asset from an affiliate, it shall do so in accordance with a Services Agreement that includes the following items:

- (a) the type, quantity and quality of service;
- (b) pricing mechanisms;
- (c) cost allocation mechanisms;
- (d) confidentiality arrangements;
- (e) the apportionment of risks (including risks related to under or over provision of service);
- (f) a dispute resolution process.

Section 3.1.1 of the ARC states that the term of an affiliate contract shall not exceed five years, unless otherwise approved by the Board.

For the most part, the MSA meets the OEB's expectations for contents of an affiliate services agreement. It includes descriptions of services provided, pricing, confidentiality protection and dispute resolution procedures.

One area that could attract attention in an audit or review of the MSA is the term of the agreement. An argument could be raised that the MSA has a term of more than 5 years – while the contract is reviewable annually, it does not terminate unless the parties agree. If future changes are being made to the MSA, it would be advisable to update the contract to a 5 year maximum length (at which time it would have to be renewed).

(c) Employee and information sharing

Section 2.1.1 of the ARC states that a utility shall ensure accounting and financial separation from all affiliates and shall maintain separate financial records and books of accounts.

Section 2.2.3 of the ARC states that a utility shall not share with an affiliate that is an energy service provider employees that are directly involved in collecting, or have access to, confidential information. The rule about employee sharing will likely apply even where the utility has no employees. In his 2006 Compliance Bulletin, the OEB's Chief Compliance Officer (Brian Hewson) indicated his view that an employee of an affiliate that provides services to the distributor is shared with the distributor. Therefore, ARC compliance will require that WRSI employees who engage in energy services (including water heater rentals) should not also provide services to WDI.

Section 2.6 of the ARC deals with confidential information (information about a customer, retailer, generator or system planning information). Among other things, it requires that no customer information be disclosed to an affiliate except as required for billing purposes, and directs that no system planning information can be disclosed to an affiliate that is an energy service provider.

The MSA appears to be compliant with most of these requirements.

Section 4.02 of the MSA indicates that the parties will ensure that there is accounting and financial separation between WDI and WRSI. While no details are provided about how this is accomplished, presumably that commitment continues to be met.

The MSA does not specifically address whether WRSI employees who provide energy services are restricted from also providing services to WDI. Steps should be taken to make sure this occurs.

The restriction against sharing system planning information with an affiliate who is an energy services provider is problematic. The nature of the work done by WRSI for WDI means that this type of information (such as plans for system expansion and amendments, and plans for work management) is likely provided or available to WRSI on an ongoing basis.

Assuming that the MSA will continue to be in place, it may be advisable to request that the OEB grant an exemption from ARC compliance for the above items. An argument could be made that there is no harm that will result from sharing of system planning information (or even of sharing employees who provide water heater services). The OEB has granted ARC exemption applications in the past where it can be shown that there will be no harm to ratepayers.

Question #2: Is the MSA is compliant with APH requirements?

The OEB's [Accounting Procedures Handbook for Electricity Distributors](#) (APH) establishes the accounting records that electricity distributors must use for regulatory purposes. The APH includes Article 340, which is titled "Allocation of Costs and Transfer Pricing". The "underlying concept" of that Article is that "transfer pricing and allocation of cost methods should not result

in cross-subsidization between regulated and non-regulated lines of business, products or services.”

Much of the discussion in Article 340 of the APH relates to the books, records and methodologies that should be used and kept by a regulated utility that also offers unregulated services. The expectation is that allocation methods should be appropriate, documented and consistent. Most of this commentary is not directly applicable to WDI, since its services are obtained from (not provided to) WRSI. Stated differently, it is not clear that the requirements and expectations of the APH would extend to the records to be kept by WRSI.

All that said, the APH is clear that the general method for charging indirect costs between regulated and non-regulated lines of business should be on a fully allocated cost basis. The APH repeats and explains the affiliate transaction transfer pricing expectations from the ARC. None of this appears to be different from, or additional to, the pricing expectations described above from the ARC. Therefore, in our view, if the arrangements under the MSA between WDI and WRSI are brought into compliance with the ARC, then we do not see that there would be additional concerns about APH compliance.

Question #3: Does the MSA limit WDI’s ability to receive additional services and support?

The MSA describes the services to be provided by WRSI. The Base Financial Consideration prescribes the amount to be paid for such services – it is adjusted each year to take account of inflation and changes in customer numbers, but otherwise the assumption is that costs remain static. It is only where there are additional or modified services to be provided that the amount paid is to be adjusted. Section 5.03 states that where WRSI realizes “substantially greater costs” in providing new services then the parties shall meet to determine a mutually-acceptable outcome.

The effect of these provisions is that where WDI believes that additional resources are required from WRSI to provide agreed services, there is no way for WRSI to recover the associated costs. That will make it difficult for WRSI to justify adding resources. However, where the additional resources can be said to be needed for “new” services (or potentially “modified” services), then the parties can meet and agree on appropriate additional amounts to be paid. Alternately, as noted at the start of this memorandum, if the MSA is amended to provide for cost-based pricing (fully allocated costs), then costs of additional services or costs would be passed along to WDI. WDI can then apply to recover the updated level charges from WRSI within its next cost of service proceeding.



Wasaga Distribution Inc.
EB-2023-0055
Exhibit 4 – Operating Expenses
Appendices
Filed: October 20, 2023

1 **Appendix 4 (C) BDR – Study of Affiliate Service Costs and Cost Allocation**

***STUDY OF AFFILIATE
SERVICE COSTS AND
COST ALLOCATION
In Respect of
Wasaga Distribution Inc.***

December 13, 2019

BDR

*BDR
34 King Street East
Suite 600
Toronto, ON M5C 2X8
416-807-3332 phone*

Table of Contents

EXECUTIVE SUMMARY	3
INTRODUCTION AND SCOPE	3
CONCLUSIONS.....	4
1 SCOPE AND METHODOLOGY	9
2 ORGANIZATION STRUCTURE AND AFFILIATE SERVICES	9
3 REQUIREMENTS OF THE ARC.....	10
4 METHODOLOGY ADOPTED BY THE COMPANY	12
4.1 OVERALL APPROACH.....	12
4.2 ALLOCATION OF INDIRECT COST POOLS TO ACTIVITY FUNCTIONS	13
4.2.1 <i>Rationale</i>	13
4.2.2 <i>Indirect Cost Pool #1 – Costs Supporting Customer Services and Billing</i>	13
4.2.3 <i>Indirect Cost Pool #2 – Activities Supporting Labour, for Allocation to all Activity Functions</i>	15
4.2.4 <i>Cost Pool #3 – Rolling Stock</i>	21
4.2.5 <i>Cost Pool #4 – Service Centre Maintenance Labour and Other Expenses</i>	22
4.2.6 <i>Cost Pool #5 – Payroll Burden, including Statutory Deductions, Employee Sick Time, Vacation, and Statutory Holidays</i>	22
4.3 DETERMINATION AND ALLOCATION OF ACTIVITY FUNCTIONS	23
4.4 AMORTIZATION AND COST OF CAPITAL	24

EXECUTIVE SUMMARY

Introduction and Scope

Wasaga Distribution Inc. (“WDI”) is a local electricity distributor (“LDC”) distributing electricity to approximately 13,000 customers within the municipal boundaries of the Town of Wasaga Beach. WDI is incorporated under the Ontario Business Corporations Act, and is one of several companies whose ultimate owner is the Town of Wasaga Beach. WDI is managed by a Board of Directors appointed by the Town of Wasaga Beach.

WDI is licensed by the Ontario Energy Board (“OEB”) and subject to regulation of its rates and charges to consumers.

As is common among Ontario LDC’s, WDI shares resources and services with affiliates in order to benefit from economies of scale and thereby control the level of costs of providing services to customers. Of most importance is the relationship between WDI and its affiliate Wasaga Resource Services Inc. (WRSI).

WDI is a virtual utility and thus has no employees. All of the employees who provide services to electricity customers on behalf of WDI, including all necessary LDC activities, are employees of WRSI. As well, WRSI owns the rolling stock, office equipment, inventory, computers that serve the WDI electricity customers.

WRSI therefore provides to WDI through WRSI employees and the listed assets all of the following services:

- Management and Regulatory services;
- Financial, including treasury, accounting, budgeting, and financial reporting;
- Customer service, billing and collection
- Design, capital construction, operation and maintenance of the distribution system
- Services related to WDI’s obligations for conservation and demand management
- Developer and customer requested construction (when the developer or customer has contracted with WDI for a contestable service).

WRSI also provides shared resources to itself for the following activities:

- Water heater rental services, including related billing and collection
- Street lighting construction and maintenance services, and
- Other construction on a demand basis.

WDI owns directly all of the distribution assets used in the distribution of electricity, and also the land and building which is occupied by WRSI. The cost of occupancy is computed on a market basis (comparable rental), charged by WDI to WRSI, and then becomes part of the charges made by WRSI to WDI for the services of employees.

Three other affiliate corporations exist. Wasaga Geosands Inc. is directly 100% owned by the Town of Wasaga Beach, and serves as the holding company (“Holdco”) for the other affiliates, including WDI. Holdco has no employees and no functions other than its function as the holding company. Wasaga Genco Inc. is a wholly owned subsidiary of Holdco and therefore “sister” corporations of WDI and WRSI. Genco Inc. is not active in any business, and has no employees. Genco Inc. does not provide or receive resources or services to WDI.

BDR NorthAmerica Inc. (“BDR”) was retained to review the approaches used in the transfer pricing of resources received by WDI from WRSI, and has prepared this report. In making its assessment, BDR relied exclusively on data provided by WRSI management. The scope of the study specifically excludes:

- evaluation of the appropriateness of the services (except as set forth below) or the reasonableness of the levels of the costs, and
- any independent audit of the accounting or analysis which underlies the costs or cost allocation.

The Affiliate Relationships Code for Electricity Transmitters and Distributors (“ARC”) provides that services defined as “shared corporate services” and services provided where no reasonably competitive market exists should be priced at fully-allocated costs, and all other services at no more than a market-based price (where the LDC is the purchaser) or no less than a market-based price (where the LDC is the supplier). BDR has taken the provisions of the ARC into account in reviewing the transfer pricing methodology applied to each service.

Conclusions

The overall method proposed by Management is a two-stage allocation, in which costs that cannot be identified directly with either the regulated or non-regulated businesses are treated as indirect costs and allocated to the direct activity functions. The direct activity functions are then allocated or assigned according to the business that they serve.

BDR considers that this method provides a systematic approach to the allocation of the indirect costs and avoids the challenges of multiple allocation approaches and circular allocations that sometimes arise when indirect costs are allocated by individually selected measures.

BDR therefore considers the overall methodology adopted as reasonable and consistent with accepted principles of cost allocation.

BDR has reviewed the allocation method choices currently being proposed by Management. For the majority of types of costs, BDR considers the proposed allocator to reflect the cost causation principle, and therefore to be reasonable and consistent with accepted principles of cost allocation.

As Management’s cost allocation methodology is in the first stages of development, in some cases an approach has been selected because better data to support an allocation reflecting cost causation is not currently being collected. Management has advised BDR of its intentions in some of these cases—for example to develop a work order system in which employee time and vehicle usage are logged to a particular activity at the time the work is being done. ***BDR has advised Management that these initiatives will improve the methodology and the accuracy of results.***

In other cases, BDR has suggested one or more alternative allocation bases which have been used successfully by LDCs in BDR’s experience, and which BDR believes more accurately reflect cost causation.

However, BDR has no reason to conclude that implementation of these improvements and refinements, desirable as they are, will materially affect the total allocations, as long as there is no significant change in the scope of business activities of the affiliates or the basis on which services are shared.

The only shared resource provided by WDI to WRSI is use of its building, for which a market-based rent is charged. ***BDR is of the opinion that the market basis is as required by the OEB’s Affiliate Relationships Code, and that the company has used a reasonable approach in obtaining market information in support of the pricing.***

The following tables summarizes the services provided by WRSI to WDI the transfer pricing method presently proposed by Management, and BDR’s comment or recommendation.

Table ES:1 – Services Provided by WRSI to WDI (Pricing Policy: Cost-Based)		
Nature of Service	Allocation Method Proposed by Management	BDR Comment or Recommendation
Executive and Board	Allocated to WDI	BDR recommends that CEO costs identifiable as for WDI be directly assigned to WDI, and those identified as for

Table ES:1 – Services Provided by WRSI to WDI (Pricing Policy: Cost-Based)		
Nature of Service	Allocation Method Proposed by Management	BDR Comment or Recommendation
		WRSI be allocated between WDI and non-regulated activities according to the total allocated costs of those activities. This recommendation presupposes that the activities provide a shared benefit to the businesses, and therefore that a time logging methodology will not result better identification of the cost causality.
Management and administration	Assigned to WDI	Reasonable for regulatory and WDI CEO and Board component to be assigned to WDI. WRSI CEO and Board component may reasonably be allocated on a measure of relative scope and scale, such as total of other costs. Implementation of a time system or time sampling, if implemented, may identify activities that provide a shared benefit, or a direct benefit to the non-regulated activities.
Finance services other than payroll	Considered 100% WDI	Reasonable. Continue to consider logging of time on a sample basis.
Call centre, billing and collections, including related indirect costs	Allocated between electricity distribution bills and water heater rental, based on number of customers and	Considered appropriate

Table ES:1 – Services Provided by WRSI to WDI (Pricing Policy: Cost-Based)		
Nature of Service	Allocation Method Proposed by Management	BDR Comment or Recommendation
	relative resources used	
Human Resources	Not separately identified as a cost centre in WRSI. Advised that the functions are handled directly by functional management.	
Indirect management labour and related materials	Treated as an indirect cost pool and allocated to activity functions by direct labour.	Considered appropriate
Education Expenses, Inside	Direct labour in the “inside” activities	Considered appropriate. FTE’s a valid alternative.
Safety Education Costs	Direct labour in related activity functions	Considered appropriate. FTEs a valid alternative.
Engineering Labour and Materials	Proportionately to “inventory movement”	Considered appropriate
Maintenance of general plant building	Labour cost in the function	Considered appropriate
Building rent	Labour in the activity functions using the head office building and the service centre building	Considered appropriate
Outside services	Total labour	BDR recommends review specific services to determine if specific to either the regulated or non-regulated activities.
Office supplies and expenses	Total labour	Considered appropriate; some specific components suggested for review
Miscellaneous expenses	Total labour	Considered appropriate
Stores costs	Materials movement	Considered appropriate
Payroll burdens	Labour	Considered appropriate
Vehicles	Weighted for costs and usages of large and	Considered appropriate in absence of detailed usage

Table ES:1 – Services Provided by WRSI to WDI (Pricing Policy: Cost-Based)		
Nature of Service	Allocation Method Proposed by Management	BDR Comment or Recommendation
	small, then allocated on basis of labour.	data for the vehicles.
Service Centre Maintenance Labour and Other Expenses	Area utilization and labour	Considered appropriate.
Payroll Burden	Payroll dollars	Considered appropriate.

1 SCOPE AND METHODOLOGY

The scope of this study was defined by Management in discussion with BDR.

As sources of information for this study, BDR received from WRSI the historic and current MSA under which the service and payment commitments are established, and a detailed spreadsheet setting out a proposed methodology for the allocation of costs for each LDC function performed by WRSI for WDI. All data were accepted by BDR as correct and complete, subject to a review as to reasonableness, but without independent verification.

During the assignment, BDR met by conference call with management of WRSI to confirm our understanding of the data provided, and to discuss alternative methodologies for the proposed transfer pricing.

The focus of the study is entirely on the appropriateness of the transfer pricing arrangements and the costs charged by WRSI to WDI, and is not intended as a broader audit of compliance with any other aspect of the ARC.

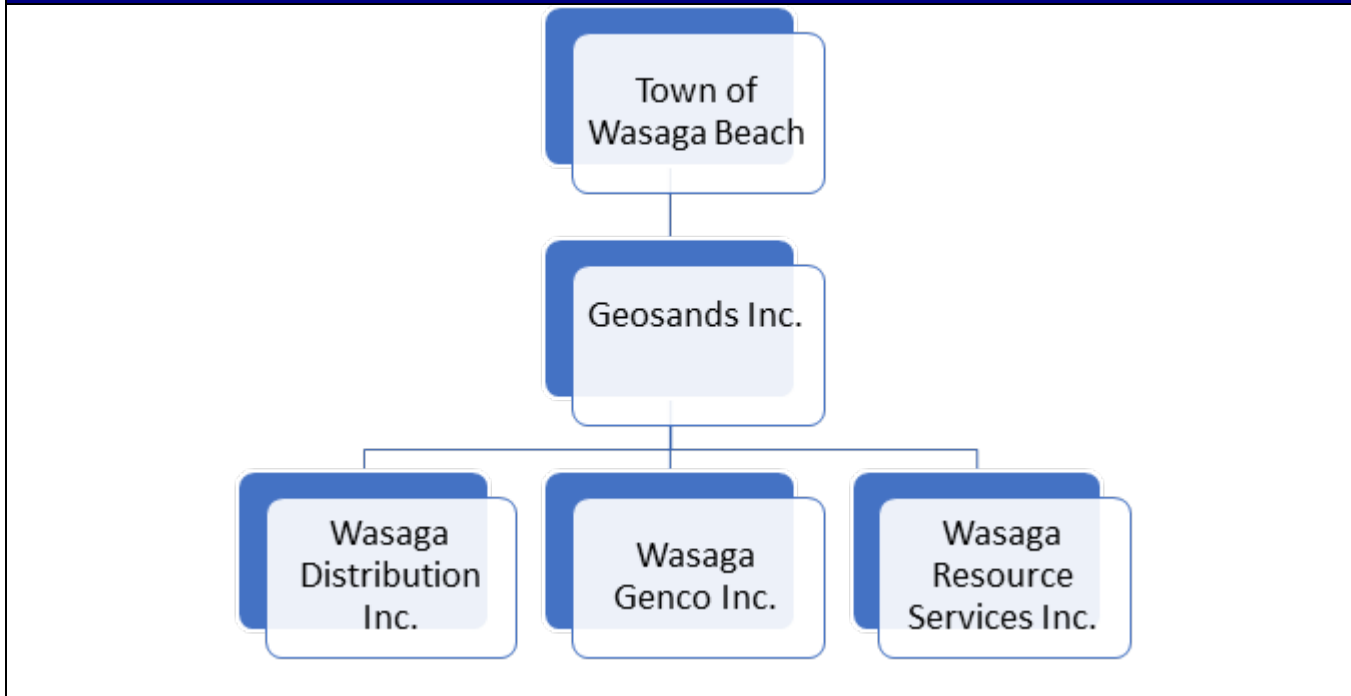
2 ORGANIZATION STRUCTURE AND AFFILIATE SERVICES

This description of the corporate structure of WDI and its affiliates is based on review of information filed with the OEB on September 11, 2015 as part of WDI's application in EB-2015-0107 and has been confirmed by WRSI's management as correct as of the date of this report. The Town of Wasaga Beach is the sole shareholder of Wasaga Geosands Inc., ("Holdco") a holding company of which WDI and WRSI and an inactive affiliate Wasaga Genco Inc. are wholly-owned subsidiaries.

Holdco has no employees, and no business other than as a holding company. The three affiliates of WDI which are subsidiaries of Holdco are:

The primary business of WRSI is to carry out all activities necessary for the distribution of electricity to WDI's customer base. It does this through dedicated staffing and general assets other than buildings and land. Services to WDI therefore account for the majority of the activities, costs and revenues of WRSI. WRSI also provides streetlight and traffic light maintenance services and certain municipal construction services under contract to the shareholder, the Town of Wasaga Beach, and contestable construction services to consumers directly and developers who contract with WDI. This company also provides certain services for telecommunication companies, and carries on a water heater rental business in the Town of Wasaga Beach.

Figure 2.1 – Corporate Organization Structure of WDI and Affiliates



3 REQUIREMENTS OF THE ARC

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

“shared corporate services” means business functions that provide shared strategic management and policy support to the corporate group of which the utility is a member, relating to legal, regulatory, procurement services, building or real estate support services, information management services, information technology services, corporate administration, finance, tax, treasury, pensions, risk management, audit services, corporate planning, human resources, health and safety, communications, investor relations, trustee, or public affairs”.¹

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

¹ ARC, Section 1.2.

According to this definition, the management, financial, human resources, regulatory and information technology services provided by WRSI to WDI are “shared corporate services”, but billing, building occupancy, engineering design and construction, and use of equipment are not “shared corporate services”.

For services that are not “shared corporate services”, the first step in the transfer pricing methodology, whether the transaction is a purchase or a sale by the regulated utility, is necessarily a determination of whether each “service, product, resource or use of asset” has a “reasonably competitive market” or not. If it has a competitive market, the market value must be determined by an acceptable method. If there is no market value benchmark available, a cost-based price must be determined by an acceptable method. When the regulated company is *acquiring* the product or service, the transfer price must be set at the lower of cost or market, and when the regulated utility is *selling* the product or service the price must be the higher of cost of market.

In BDR’s experience, establishment of a market-based price benchmark for billing services has been problematic. Although some LDCs do outsource elements of their billing, call centre, bill delivery, payment processing and collection processes, the pricing is challenging to benchmark because the bundle of services being outsourced is different in each case. For example, one LDC might outsource only after-hours call centre activities, while another might outsource only certain portions of its collection process. As a result, in working with LDC clients, BDR has found use of a cost-based transfer price to be reasonable for these services between affiliates, and to our knowledge this approach has been not been challenged in the regulatory process.

For engineering, construction and operations services and related equipment use, there exists an active market of suppliers who are affiliates of other LDCs and who are not affiliated with any LDC. Prices quoted by these vendors would therefore supply a market-based benchmark for the related labour, and also for related equipment. In BDR’s experience, it is difficult for an LDC to obtain a large sample of market pricing, because contractors may bid differently at different times and to different clients, and would not necessarily be willing to provide pricing in the absence of a bona fide opportunity. Management has advised BDR that a small sample of market pricing for labour and equipment is available that can be used as a market pricing benchmark.

For these services, cost provides an appropriate transfer price, unless cost exceeds market price, in which case the market price is the upper bound of pricing. The ARC pricing rules as stated would presumably allow for an affiliate to mark up these services over cost, as long as the resulting price does not exceed market. WRSI and WDI are not proposing any markup over cost at this time.

Building occupancy is a shared service for which market pricing can be established, since an arms-length market exists in every community for commercial real estate

rentals. Management advised BDR that the “rent” charged by WDI to WRSI is reviewed at 3-4-year intervals. At those times, Management obtains a report from a qualified third-party appraiser familiar with the market in the local community. The market values for comparable office and warehouse/industrial space as provided by the appraiser determine the rent charged. In BDR’s opinion, therefore, the rental of the building owned by WDI is being priced at market value, as required by the ARC. Rent is therefore not analyzed in this report, other than as a pass-through component of the costs of activity functions using the building space.

4 METHODOLOGY ADOPTED BY THE COMPANY

4.1 *Overall Approach*

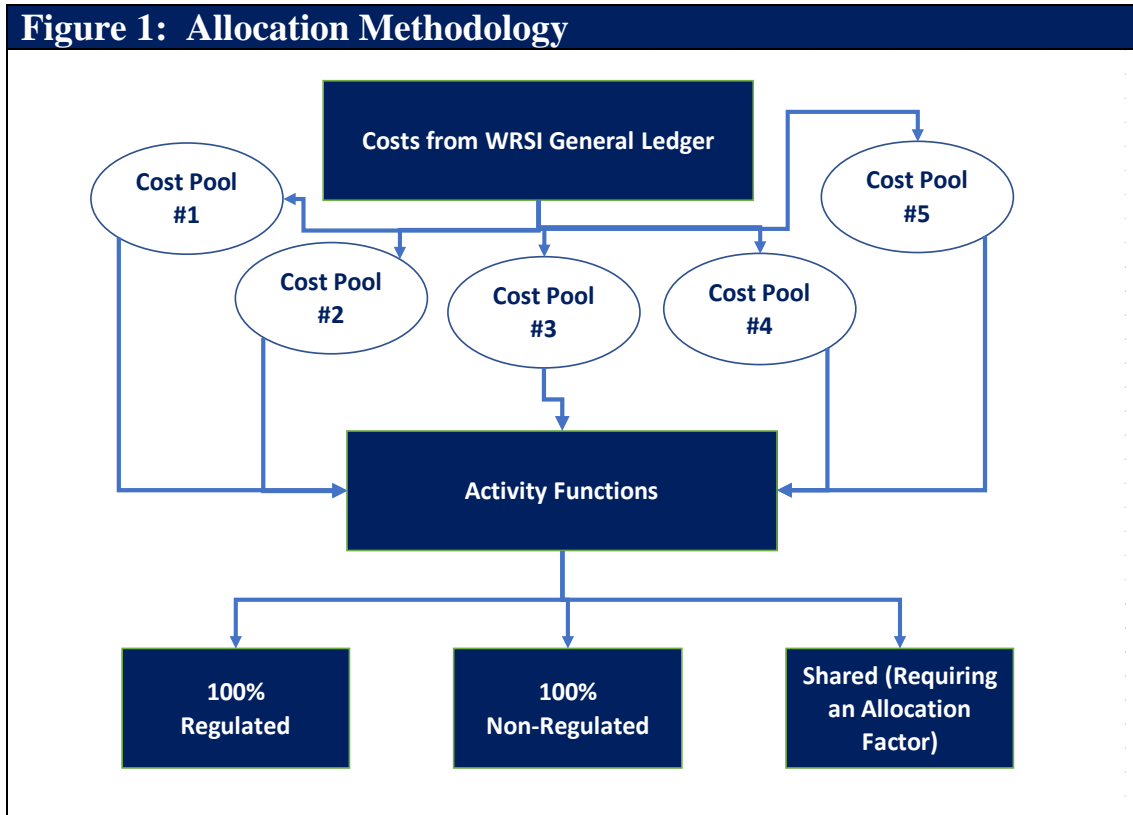
Unlike many other LDCs that adopt an approach of developing a separate activity or causal allocator for any cost that is not directly assignable, and using that to allocate to an affiliate, WDI has developed a detailed methodology that first allocates supporting indirect costs of different types to an activity function². In this respect, the approach resembles a customer cost allocation study, in which costs that are not clearly related to basic measures such as number of customers, energy consumed or peak demand, can be addressed through an indirect allocation approach.

WDI has produced a comprehensive model that takes each subaccount, identified in the chart of accounts, and either treats it as a direct cost of a particular activity function or assigns it to a “pool” of indirect costs, which are then shared among the activity functions according to a measure of activity level, such as direct labour cost.

Each of the activity functions are then either identified as 100% related to the regulated business (and therefore allocated to WDI), or as 100% related to the unregulated business (and therefore not allocated in any part to WDI), or as a shared activity function, in which case an allocator is defined or estimated. In all cases, cost causation is the appropriate basis for the assignment or allocation of the costs.

² The activity functions are:

- Customer service, billing and collection
- Financial services
- Planning and maintenance
- “management and administration”
- Service connections
- WDI capital construction
- Developer-driven construction
- Street-lighting construction
- Other construction
- Rental water heaters
- Conservation and affordability programs (mandatory)



4.2 Allocation of Indirect Cost Pools to Activity Functions

4.2.1 Rationale

Each of the activity functions is considered to be supported by some or all of the supporting resources, which are then allocated as part of an “indirect cost pool” to the activity functions. Inclusion with an activity function results in the indirect costs being assigned as 100% regulated, 100% non-regulated, or shared, on the same basis as the direct costs of the activity function.

4.2.2 Indirect Cost Pool #1 – Costs Supporting Customer Services and Billing

These costs include:

- Customer billing direct labour
- Non-labour costs of customer billing

This cost pool is a shared cost, and at present is being allocated 99.5% to LDC electricity billing, and the other 0.5% to the billing of water heater rentals. Where a

WDI customer rents a water heater from WRSI, the rental charges are included on WDI's bill for electricity to the customer. Resources supporting billing, including call centre and services, customer information and bill calculation, bill presentment and delivery, payment processing and collection if needed, are therefore shared between the two activity functions.

Management advised BDR that they are looking at possible approaches to refine this allocation. At this stage of methodology development, the 99.5%/0.5% ratio is estimated, based on two considerations:

- a) About 400 WDI customers, or 3% of the total customer base, rent water heaters; and
- b) Water heater billing is much less resource-intensive as compared with electricity billing. There are no meter readings to process, so that the charge remains the same monthly unless and until the rate is adjusted. As a result, there are also fewer inquiries related to billing of water heater rental, as compared to electricity billing. It is therefore reasonable to "weight" the utilization of billing resources for rental water heaters more lightly than for electricity. A factor of about 1/6 would result in the allocation now being proposed.

Although based on an estimate, BDR considers the underlying rationale proposed by Management to be reflective of cost causation, and therefore consistent with accepted principles of cost allocation.

BDR approves of Management's intention, as part of a program of refinements in its cost allocation methodology, to consider whether some measurable indicator of resource utilization might replace this estimate. Other LDCs who provide billing services for an affiliate's rental water heaters have used time logs of billing staff, CIS database fields, or lines on the bill itself as allocators.

However, Management also advised BDR that the portfolio of rental water heaters is declining, and therefore over time, the component of billing costs allocated by any of these measures to rental water heaters is expected to decline also. BDR does not expect that changes in the basis of allocation would result in a material change in either total billing costs incurred by WRSI or the total billing dollars allocated to the revenue requirement of WDI. BDR therefore considers further work in this particular aspect of the cost allocation to be a low priority.

4.2.3 Indirect Cost Pool #2 – Activities Supporting Labour, for Allocation to all Activity Functions

Since this Cost Pool includes a number of different costs which receive different allocation treatments, the following table sets out the costs in this Cost Pool, the method of allocation to activity functions, and BDR’s comment on the methodology.

Table 4:1 – Allocation of Cost Pool #2		
Nature of Service	Allocation Method Used	BDR Comment or Recommendation
Management Labour and Related Materials	Direct Labour in the Cost Function	<p>Uses labour costs of each cost function as a measure of the relative activity level, and therefore by assuming, the level of management resources required by the function.</p> <p>Where management logs time to activities, or can reasonably identify and estimate time for each activity, BDR considers this the preferred methodology.</p> <p>However, considering the activity functions to which costs are being allocated, BDR does not expect that management would be able to identify its own typical recurring activities directly with the cost functions. <i>On this basis, BDR considers the method used as reasonable and consistent with accepted principles of cost allocation.</i></p> <p><i>BDR recommends that over time, Management review which of its activities if any can be identified directly with either the regulated or non-regulated businesses, and undertake to log the time that can be so identified, for direct assignment to the activity functions.</i></p>

Table 4:1 – Allocation of Cost Pool #2		
Nature of Service	Allocation Method Used	BDR Comment or Recommendation
Education Expenses Inside	<p>Related labour applied to labour in the WDI activity functions that are primarily “inside”, and to WDI Construction and Developer Driven Construction</p> <p>Materials component applied to the same activity functions, by a factor computed on the basis of non-labour costs in those activity functions.</p>	<p><i>Since education supports the value of the employees, BDR considers the use of an employee-related variable as the allocation factor to be reasonable and consistent with accepted principles of cost causation.</i></p> <p><i>BDR also considers that since WRSI has the ability to distinguish “inside” and “outside” education costs, the reflection of this distinction is a positive refinement to the allocation methodology.</i></p> <p>BDR considers it would likely be justifiable, as well as simplifying the methodology, for the non-labour component of education to be allocated on the basis of labour in the activity functions, since support for employees, rather than the non-labour cost of the activity function is the primary causal factor.</p> <p>BDR also notes that the use of wage and salary cost as the allocator implies that compensation rates, as well as number of employees, factor into the causation of education cost. This is a matter for Management to consider as the methodology evolves. Number of FTEs would otherwise be a valid alternative allocator.</p>
Safety Education Costs, employee and materials	Treatment consistent with “inside” education, except that the activity function allocated this cost are	<p>Comments on allocation of “inside” education apply equally to this cost. <i>In BDR’s opinion, safety education costs relate primarily to field function and therefore are correctly</i></p>

Table 4:1 – Allocation of Cost Pool #2		
Nature of Service	Allocation Method Used	BDR Comment or Recommendation
	Planning and Maintenance and Construction activity functions	<p><i>allocated to operations, maintenance and construction.</i></p> <p>BDR recommends that Management verify to what degree, if any, safety training is or should be provided in any other activity functions (example: driver training for all operators of company vehicles).</p>
Engineering Labour and Materials	Applied proportionately to “inventory movement”	<p>BDR understand “inventory movement” to be a measure of new engineering project activity across the planning and construction activity functions. <i>On this basis, BDR considers the method reasonable and consistent with accepted principles of cost allocation.</i></p> <p>An alternative for consideration as the methodology develops would be for engineers to log time to a work order system which distinguishes the projects by activity function. Where labour is being allocated, actual tracking of the work of the employees involves is the best choice where reasonable to do so. In such case, the non-labour costs of engineering planning could reasonably be allocated by the same factor as the compensation costs.</p>
Costs of maintenance of general plant (building)	Applied in proportion to labour in the cost function	<p>This approach treats building maintenance as being caused by space utilization in the building, and space utilization as being caused by the workforce housed in the building. <i>In BDR’s view, this is reasonable, and the resulting</i></p>

Table 4:1 – Allocation of Cost Pool #2		
Nature of Service	Allocation Method Used	BDR Comment or Recommendation
		<p><i>allocation is consistent with accepted principles of cost allocation.</i></p> <p>Use of labour compensation rather than employee count or FTEs implies that compensation levels are related to space utilization. BDR recommends that Management consider the issue as the work evolves. An alternative used by some LDCs would be to examine the floor plans of the building, and allocate according to the floor space assigned to each activity function.</p>
Costs of building rent, allocated between office and service centre space	Office portion applied to activity functions residing in the office, by a labour factor, and service centre portion applied to activity functions residing in the service centre, by a labour factor	<p><i>As the building space costs exist to support the activity of employees, BDR considers this allocation to be reasonable and consistent with accepted principles of cost allocation.</i></p>
Outside services	Total labour	<p><i>It is BDR's view that these items should be reviewed.</i> Details of the invoices of the knowledge of Management may enable some of these services to be identified specifically with either regulated or non-regulated activities. If possible, outside services specific to regulated activities (for example, legal or consulting services related to regulation by the OEB) should be designated for direct recovery from WDI.</p> <p><i>If the services provide a shared value to both the regulated and</i></p>

Table 4:1 – Allocation of Cost Pool #2		
Nature of Service	Allocation Method Used	BDR Comment or Recommendation
		<i>non-regulated activities which cannot be distinguished, labour is a reasonable summary measure of level of activity, in BDR's view; however, total of internal costs would also be a reasonable summary measure.</i>
Office supplies and expenses	Total labour	<p><i>With the following exceptions where BDR suggests further study, BDR considers employees a causal factor with respect to these costs, and therefore considers the proposed approach reasonable and consistent with accepted principles of cost allocation.</i></p> <ul style="list-style-type: none"> - Bell Mobility – Finance and fees related to accounting designations may be appropriately directly assigned 100% to finance - Computer related items should be reviewed. If all employees receive a computer and access to the corporate systems, FTEs would be an appropriate basis for allocation. It may be possible in the future to refine the allocation of this item if the costs of specific systems or hardware can be separately identified.
Miscellaneous expenses	Total labour	<i>In view of the small value of these items and the difficulty of establishing specific causal factors for the costs, BDR considers that the proposed methodology is reasonable.</i> It could be considered that EDA membership primarily benefits the regulated electricity

Table 4:1 – Allocation of Cost Pool #2		
Nature of Service	Allocation Method Used	BDR Comment or Recommendation
		distribution business and should be direct assigned; however, doing so would not result in a material difference in overall transfer pricing.
Stores costs applied to materials movement	Allocated proportionately to materials movement.	In BDR's experience stores costs are a function of a number of variables, including the space required by different inventory items, turnover, economic order quantity and the cost of just-in-time arrangements with suppliers. In previous work, BDR has concluded that the effort required to study these factors and develop an allocation on that basis would be unreasonable for the level of cost. Therefore, BDR consistently recommends some measure of inventory value or capital budget value as a basis for the allocation of stores costs. <i>On this basis, BDR considers the proposed methodology reasonable and consistent with accepted principles of cost allocation.</i>
Cost Pool #5, Payroll Burdens	Proportionate to labour components of costs in Cost Pool #2	This allocation provides for payroll burdens related to the labour components of indirect costs to follow the related direct compensation. This approach ensures that all payroll burdens are captured in the allocation. <i>BDR considers the proposed methodology reasonable and consistent with accepted principles of cost allocation.</i>

4.2.4 Cost Pool #3 – Rolling Stock

This cost pool addresses the allocation of vehicles to all activity functions supported by WRSI's fleet of large and small vehicles. Costs are first divided to large vehicles and small vehicles by factors estimated by Management, reflecting the best data available on a preliminary basis to reflect the difference in level of costs associated with each of these two general categories of vehicles. Management advised BDR that it is in process of developing more precise weighting factors that reflect the costs of each subgroup of vehicles. When combined with budget and actual usage level statistics, this would enable an hourly charge-out rate to be developed as the basis of allocation.

Each activity function has been reviewed by Management as to the percentage of its vehicle use that relates to large vehicles or small vehicles, based on the estimates of staff familiar with the activity function. Management has advised BDR that it intends to implement a time system in which each vehicle will be logged when assigned to a job. This will provide the best possible data as to the usage of vehicles by different activity functions.

Management also advised BDR, as noted previously in this report, that it has access to market rate data, where contractors have broken out vehicle charges in quoting prices for work. Management is reviewing these market prices for use as a benchmark to ensure that a cost-based rate is no higher than the market rates, as required by the ARC.

The costs in this Cost Pool include:

- Labour factor computed on the basis of fleet related labour plus an allocation of labour from Cost Pools #4 and #5.
- Materials factor computed on the basis of all non-labour fleet costs, plus an allocation of materials cost from Cost Pool #4.

In the absence of detailed usage data for each vehicle or vehicle category, BDR considers Management judgment to be the best available source of information as to each activity function's relative use of large and small vehicles.

Also in the absence of such data, BDR considers relative labour in the activity functions that use vehicles to be a reasonable approach for the allocation of the related labour costs and the materials costs, with total labour assumed to be a valid proxy for field labour requiring use of a vehicle.

Since vehicle use is a service with a market, BDR recommends that Management review the cost-based charges by comparison with available market data annually.

4.2.5 Cost Pool #4 – Service Centre Maintenance Labour³ and Other Expenses

For this Cost Pool, the costs incurred are split between rolling stock and the costs of the activity functions that use the service centre. This reflects the two different usages of the facility, which are (a) vehicle garage and maintenance; and (b) all other service centre usage. On the basis of area utilization, Management allocates 75% of the labour costs and 50% of the non-labour costs other than cleaning to rolling stock, for further allocation as part of Cost Pool #3. BDR understands that the difference in allocation of non-labour costs is intended to reflect Management's judgment that the non-labour cost components are used less intensively in the garage area.

BDR considers this approach to be reasonable and consistent with accepted principles of cost allocation.

The remaining costs allocated to the activity functions that use the service centre, based on labour in those activity functions. The activity functions receiving an allocation are:

- Planning and Maintenance
- Service Connections
- Water Heaters
- Construction (Street Lights excluded because the material is delivered directly to the developer and is not inventories or stored by WRSI)

BDR considers that employees, whether on a labour basis which reflects compensation difference, or on an FTE, represent a reasonable cost causation variable, and therefore this method is consistent with accepted principles of cost allocation.

4.2.6 Cost Pool #5 – Payroll Burden, including Statutory Deductions, Employee Sick Time, Vacation, and Statutory Holidays

These costs are allocated to activity functions by payroll dollars. Costs are identified in the accounts as between inside and outside activity functions, enabling these burdens to be split accordingly. Dollars from this cost pool are then added to the other cost pools as described.

BDR considers this method to be reasonable and consistent with accepted principles of cost allocation.

³ An allocation of payroll burdens from Cost Pool #5 is added, so that the related costs receive the same treatment as building maintenance labour.

4.3 Determination and Allocation of Activity Functions

The Cost Pools described in the previous section are allocated on the basis documented, as applicable amongst the activity functions. To these amounts are added the costs of the activity functions as identified in WRSI’s accounts. The specific identification of these costs is a “direct assignment”.

Where a cost can be specifically identified and directly assigned, no allocation method is required. Allocation is required only where a direct assignment is not possible, either because the user of the resource is not clearly known, or multiple users benefit from the resource.

In BDR’s opinion direct assignment is the best possible method to attribute costs in any case where there is only one user of a resource, and the identity of that user is clear. BDR therefore accepts the direct assignment of costs for purposes of transfer pricing of resources and services supplied by WRSI to WDI.

Having assembled the direct assignment costs for each activity function and added the allocated component of each Cost Pool, the next step to complete the transfer pricing computation is to identify each activity function as 100% regulated (WDI), 100% non or shared. Any shared activity function will then require an allocator to split the dollars between regulated and non-regulated.

Management advised BDR that the activity functions reflect the accounts of WRSI.

Table 4:2 – Identification and Allocation of Activity Functions		
Activity Function	Allocation	BDR Comment or Recommendation
Billing, Collecting and Customer Service	Regulated (0.5% of costs having already been allocated to Water Heater Rentals	Function serves only the regulated ratepayers, and is appropriately charged to the revenue requirement of WDI.
Financial Services	100% to WDI	Recommend this cost be reviewed over time, to determine whether any components serve non-regulated activities. (e.g. Payroll, to be separated and allocated by employees), potentially track activities like budgeting and financial statement preparation, to the degree that this function serves both companies.

Table 4:2 – Identification and Allocation of Activity Functions		
Activity Function	Allocation	BDR Comment or Recommendation
Planning and Maintenance	100% to WDI	As the costs relate to the distribution system, this assignment is considered appropriate.
Management and Administrative Services	100% to WDI	BDR recommends regulatory and WDI CEO and Board be directly assigned 100% to WDI, and allocate WRSI CEO costs in part of WDI, based on proportion of total cost.
Service Connections	100% WDI	Applicable only to distribution customers.
Distribution Capital Construction	100% WDI	Applicable only to distribution customers.
Developer Capital Construction	100% WDI	Assume a revenue offsetting costs...otherwise if a direct charge for revenue, non-regulated.
Streetlights	100% non-regulated	Appropriate
Municipal and Other Construction	100% non-regulated	Appropriate
Water Heater Rental	100% non-regulated	Appropriate.
Conservation Affordability Trust Fund	Costs are recovered through IESO programs during the life of the program.	Required result is to separate costs eligible for recovery through these programs. This method achieves the result. As the programs have wound down, minimal or no costs are expected in the future.

4.4 *Amortization and Cost of Capital*

The ARC requires that for capital costs, “fully allocated cost” include the components of amortization and rate of return on net assets, and the OEB-approved rate.

Asset types included for analysis are:

- Office equipment
- Computer hardware
- Computer software
- Communications equipment
- Power equipment

- Vehicles
- Water heaters
- Plant inventory and
- Water heater inventory.

BDR recommends that the annual cost of assets receive the same type of treatment as the expenses for purposes of allocation. Specifically, BDR considers it reasonable to allocate on the following basis:

Table 4:3 Suggested Allocation Treatment for Costs Related to Assets	
Asset Type	Suggested Treatment by BDR
Plant Inventory and power equipment	Direct assign to WDI
Water Heaters and water heater inventory	Assign to water heater activity function. This is the method proposed by Management
Vehicles	Group into the rolling stock cost pool, and use the appropriate allocation for that cost pool. This is the method currently proposed by Management.
Communications equipment and office equipment	Allocate by FTEs or labour
Computer hardware and software	Use methodology for related labour and materials as it evolves.



Wasaga Distribution Inc.
EB-2023-0055
Exhibit 4 – Operating Expenses
Appendices
Filed: October 20, 2023

1 **Appendix 4 (D) Purchasing and Procurement Policy**

POLICY AND PROCEDURES

Department Finance	Responsible Director/VP. Operations, Finance	Effective Date October 22, 2020	Policy No. FN-0030-00
Policy Name Purchasing/Commitment Policy		Supersedes new	Page Page 1 of 11

1.0 PURPOSE

The procurement process strives to ensure the most cost effective and efficient products and services are purchased and that all purchased items meet regulatory and safety compliance standards. It shall maintain the integrity of the purchasing process and protect vendors, staff and the Board of Directors involved by providing clear direction and accountabilities.

2.0 SCOPE

This procedure applies to all WRSI staff who are authorized to purchase goods and services for WRSI and its affiliates for use in the workplace.

3.0 OBJECTIVES

- 3.1 Obtaining goods or services for specified quality and quantity at the best price with sufficient lead time for delivery.
- 3.2 Obtaining quotations and /or issuing tenders in accordance with company guidelines. On occasion, when departments require cost estimates to determine whether or not to proceed with a purchase, suppliers must be advised that these are study estimates only, and that any purchases will go through the standard purchasing process. All information, including alternate quotes, are to be submitted to the purchaser unless otherwise instructed.
- 3.3 Completing traditional purchase transactions by issuing purchase orders to ensure deliveries and schedules are met.
- 3.4 Maintaining inventory levels consistent with the needs and schedules of the department, and at practical levels based on historical use and emergency stock requirements.
- 3.5 Safely disposing of all obsolete and surplus material after receiving notification from all affected departments.
- 3.6 Maintaining the highest professional, ethical and moral business practices.

- 3.7 Purchase materials that meet all appropriate specifications and comply with minimum legal and regulatory standards, safety standards, and that comply with the requirements of Regulation 22/04 where applicable.
- 3.8 Obtaining supplier or manufacture catalogues specifications and related information.
- 3.9 Sourcing potential suppliers, interviewing sales representatives, informing all applicable departments of information received regarding new or existing materials, equipment, processes and techniques and retain on file for reference.
- 3.10 Arrange for relevant training and/or demonstrations from the supplier as necessary.

4.0 Definitions

4.1 Request for Quotation (RFQ)

A request for prices on specific goods and/or services from selected vendors, which are submitted verbally, in writing or electronically. The RFQ provides a detailed description of the goods and services to be purchased. The RFQ evaluation is typically based upon quality and price. RFQs are best suited to standardized products and services or low value work so as to minimize total cost to receive.

4.2 Request for Tender (RFT)

A document used to request sealed supplier responses for goods and/or services based on a defined need, such as delivery requirements, performance specifications, terms and conditions. An RFT focuses the evaluation criteria predominantly on quality, price, and delivery requirements. RFTs may be invitational (i.e., three or more suppliers are asked to submit a bid) or open (i.e., the bid document is available to any supplier that deems itself capable of meeting the needs and specifications defined in the RFT).

4.3 Request for Qualifications (RFQ)

A request for qualifications (RFQ) is a step sometimes used in the formal process of procuring a product or service. It is typically used as a screening step to establish a pool of vendors (businesses or individuals to provide a product or service) that are then qualified, and thus eligible to submit responses to a request for tender (RFT), or a request for proposals (RFP). In this two-step process, the response to the RFQ will describe the company or individual's general qualifications to perform a service or supply a product but generally will not include specific details or price proposals

4.4 Request for Proposal (RFP)

A document used to request suppliers to provide solutions for the delivery of complex products or services or to provide alternative options or solutions. The process uses predefined evaluation criteria (price is not the only factor). The RFP leaves all or part of the precise structure and format of the response to the discretion of the proponents.

4.5 Request for Information (RFI)

The purpose of an RFI is to gather general supplier or product information. This mechanism may be used when researching a contemplated procurement and the characteristics of the ideal solution have not yet been determined. RFIs normally contribute to the final version of a subsequent RFP.

4.6 Purchase Order

A purchasing document that is a legal contract and is used to formalize a transaction with a vendor. Purchase Orders must be provided to the vendor prior to receiving the goods and/or services. The Vendor should include the Purchase Order number on all invoicing.

4.7 Blanket Purchase Order

A special type of Purchase Order that is open for use for a specific period of time, generally a calendar year. It is intended for repetitive purchase of goods or services.

4.8 Credit Card

A company provided credit card intended to facilitate the purchase and payment of goods and/or services.

4.9 Emergency Materials or Services

Emergency requirements shall be defined as items or services, which must be sourced quickly, where time is of the essence and would prevent the normal purchasing process to proceed. Examples of situations that may require emergency items include correction of safety problems, loss of service, large economic loss, spill of pollutants, purchase of materials due to a major storm, etc. Emergency procedures may require temporary suspension of provisions of the Purchasing Policy as determined by an Executive member of WRSI.

4.10 Limits of Authority

Limits of Authority are set as per Sections 6.1 and 6.2 below and represent the minimum authority required. Approval for purchasing supplies and services is based on the total estimated dollar value, including an agreed-upon renewal and is exclusive of applicable taxes. Purchases shall not be split to bypass approval limits.

4.11 Verbal Authorization

Employees are advised that a verbal authorization or commitment on their part to a vendor to proceed with the supply of goods or services, can form a legal contract that is valid and enforceable under law the same as any written contract document. Employees may not enter into verbal agreements with other parties on behalf of the Company unless an emergency situation exists as defined in this policy.

4.12 Budget

A financial plan outlining expected revenues, expenses and expenditures for fixed assets that is formally reviewed and approved by the Board of Directors

5.0 PURCHASING METHODS

Goods and services with a value exceeding \$10,000 should be acquired through a competitive process such as RFQ, RFT, or RFP, except when the sole source procurement criteria described below is met, noted as an exception below in section 5.3 or in cases of an emergency.

5.1 RFQ

Quotations shall be obtained from suppliers for materials or services to maintain competitive pricing. Materials or services may be sourced based on emails or facsimile quotations as dictated by circumstance.

Standard practice will be to solicit quotes from at least three vendors whenever possible. It is recognized that in some situations three vendors may not be practicable. As a minimum, formal written quotations shall be sought from any vendor when a purchase exceeds \$10,000.

5.2 RFT/RFP

An RFT or RFP will be used for the purchase of goods and services relating to significant projects. The decision as to whether to use an RFT or RFP will be made by the user department. The user department may take the lead in development of the RFT/RFP. The RFTs/RFPs will include, as a minimum, the following information:

- 5.2.1 A description of the goods or services required
- 5.2.2 Full disclosure of the evaluation criteria, process and methodology to be used in assessing submissions, including identification of criteria considered mandatory, any technical standards that need to be met, and methods of weighting the criteria.
- 5.2.3 A period of irrevocability where bids cannot be withdrawn
- 5.2.4 Documents will have a minimum response time of 14 calendar days and must have a closing date set on a normal working day during normal business hours.

A reviewing committee will evaluate the submissions and select the successful vendor. The committee will consist of at least one management person from the user department and one management person from an external department. This decision must be documented and signed off by each member of the review committee. The final purchase order must be signed by a person with the appropriate signing authority.

5.3 Sole Source Procurement

Sole source procurement may be considered in the following instances:

- 5.3.1 When the goods and services can be obtained only from one person or firm.
- 5.3.2 The expertise of an individual organization or individual is deemed to be specifically required by the company.
- 5.3.3 When competition is precluded because of the existence of patent rights, copy rights, secret processes, control of raw material or other such conditions.
- 5.3.4 When it is the only product or service that has been approved by the company for the use in the distribution system and there is only one known supplier of that product or service.
- 5.3.5 When the procurement is for electric power or energy, gas, water or other utility services where it would not be practical to allow a contractor other than the utility company itself to work upon the system.
- 5.3.6 When the procurement is for technical services in connection with the assembly, installation or servicing of equipment of a highly technical or specialized nature.
- 5.3.7 When the procurement is for parts or components to be used as replacements in support of equipment specifically designed by a manufacturer.
- 5.3.8 The contractor is already at work on the site (based on an existing Purchase Order) and it would not be practical to engage another contractor; or,
- 5.3.9 Specific Health and Safety items as approved by an Executive Member.

6.0 PURCHASING PROCEDURES

6.1 Limits of Authority - Budgeted Items

Once the Board of Directors has approved a budget, the Management team has the authority to approve all budgeted purchases within budgeted amounts to within the limits noted below. The President has the authority to substitute a budgeted item for an unbudgeted item if the item has more of a priority than the item budgeted. The Board of Directors must be informed of this change at the next scheduled Board meeting.

President or CEO – above \$250,000

Vice President/Director – Up to \$250,000

Manager – up to \$20,000

6.2 Limits of Authority – Unbudgeted Items

It is understood that from time to time the company will be required to procure material or services that were not incorporated in the budget. These purchases have different approval limits than those that the Board of Directors has approved.

Geosands Board of Director approval required on unbudgeted items over \$50,000

President/CEO plus Chairperson of the effected Company – greater than \$15,000 and less than and including \$50,000

President or CEO – up to and including \$15,000

Vice President/Director – up to and including \$5,000

Manager – up to \$1,000

6.3 Purchase Orders

An approved and signed Purchase Order is required for all purchases greater than \$3,000 except in instances noted below. This requirement also applies to project change orders and other modifications (e.g., changes required due to revised engineering specifications) to the original project terms.

All Purchase Orders require supervisor approval in accordance with the Limits of Authority (see sections 6.1 and 6.2) prior to submitting the Purchase Order to the vendor.

6.4 Purchase Order Exceptions

- 6.4.1 Purchases, project change orders, and other modifications less than \$3,000 do not require a Purchase Order. These expenditures require supervisor approval in accordance with the Limits of Authority (see section 6.1 and 6.2).
- 6.4.2 Purchase Orders are not required for the exceptions noted below (regardless of the dollar value) where an alternate approval procedure is in place. Such alternate approval must be in accordance with the Limits of Authority (see section 6.1 and 6.2):
 - 6.4.2.1 Purchase made through WRSI credit cards
 - 6.4.2.2 Training and education (e.g. Conferences, courses, conventions, memberships, etc.
 - 6.4.2.3 Employee expenses (e.g. allowances, meals, travel expenses, etc.)
 - 6.4.2.4 General expenses, including, but not limited to, the following:
 - a) Payroll deductions remittances
 - b) IESO Bill
 - c) Hydro One Bill

- d) Medicals
- e) Insurance
- f) Tax remittances
- g) Audit expenses
- h) Legal services (see section 6.10)
- i) Consulting services (see section 6.10)
- j) Banking services
- k) Postage
- l) Inspections
- m) Licenses
- n) Advertising
- o) Ontario Energy Board assessment fees
- p) Meeting expenses
- q) Donations
- r) Sponsorships
- s) Utilities (e.g. water, telephone, fleet fueling charges from Town, etc.)

6.5 Inventory Items – New

Purchase will be initiated based on established stock order points and advice from user departments. Vendor contracts may be used for repeat purchases, for a specified period of time.

6.6 Inventory Items – Used

Opportunities to purchase used material will come from a variety of sources. A list of materials for sale will be obtained from the vendor and if WRSI or its affiliates are interested in the items, a bid will be submitted to the vendor. Whenever feasible, the products should be inspected in person prior to submitting a bid. Purchases should be made subject to testing by WRSI (possibly performed by a 3rd party in accordance with regulation 22/04, if applicable) and payment should not be made until after the products have tested satisfactorily.

6.7 Non-inventory Items (including Capital Purchases)

This category covers items that are not held in stock but are ordered based on requests from the user department. Examples of these types of items are furniture, office equipment, tools, IT equipment, vehicles, capital projects for the utility infrastructure, and services such as building repairs and maintenance.

For sub-contractor services, the sub-contractor shall supply evidence of sufficient insurance and WSIB clearance prior to commencing work. Depending on the length of the project, the certificates may need to be updated on a regular basis (i.e. every 90 days for WSIB clearance).

The limits of authorization as noted in section 6.1 and 6.2 apply.

6.8 System Access Work

System access work is work that WDI is required to do on the distribution system so that customers can connect to the system (such as new subdivisions or the connection of a new commercial or industrial building) or it is work that is required to be done to allow road ways or allowance to be changed (such as a road widening project). While

the budget normally includes the work that is known to be happening in the budget year, there are times where new projects are sprung on the LDC with no or little notice. These are capital based projects and do not normally significantly affect net income in the year in which they are put in service. While this work may or may not be in the budget, the approvals for this type of work, and any associated purchases required to fulfill the system access work will fall into the limits of authority for budgeted work. The Board of Directors should be informed of any non-budgeted projects that arise via the regularly scheduled Board meetings.

6.9 Emergency Items / Services

This category covers items that must be sourced quickly, generally outside normal working hours where time is of the essence and are not held in stock. Initiation of emergency purchases are the responsibility of the affected department and may require suspension of the provisions of the Purchasing Policy. Any suspension of the Purchasing Policy shall be reported to the Executive team on the first regular working day following the emergency. Details on the purchase and determining factors for suspension of the Purchasing Policy shall be included in the information provided.

6.10 Consulting Services

This category covers the sourcing of services of outside consulting and legal firms to provide services. The user department may source consulting/legal services. If necessary, a Non-Disclosure Agreement (NDA) should be used.

For each agreement, the following should be defined in writing prior to any work beginning:

- Clearly defined project scope
- Deliverables with due dates
- Payment schedule

All non-budgeted consulting/legal services require the approval of an Executive staff.

6.11 Scrap, Obsolete, or Surplus Items

Scrap, obsolete or surplus items shall be safely disposed of upon the advice of a user department by sale, or otherwise as deemed appropriate and in the best interest of the Company.

Sale of obsolete furniture and equipment under \$1,000 estimated value per item may be offered to employees on sealed offer basis. Minimum bids may be applied by the Executive of the department disposing of the equipment. All items not sold to employees may be offered for sale to vendors, donated to charity, or scrapped by the user department, if the items are of little or no commercial value.

When completed an Asset Disposal Form must be filled out and handed into the Accounting Department.

6.12 Performance Bonds

Performance bonds are required for all capital construction projects in which the vendor's quote (i.e. exclusive of goods and materials supplied) exceeds \$50,000. The contractor shall prior to the commencement of the work, provide:

Policy Name <p style="text-align: center;">Purchasing Policy</p>	Page <p style="text-align: center;">9 of 11</p>
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- A labour and material payment bond in the amount of 50% of the Contract Price; and
- A performance bond in the amount of 50% of the Contract Price.

Any requirement for performance bonds will be defined in the tender documents

In instances of breach of contractual performance obligations where a performance bond has been provided, the user department Executive will use discretion in determining the necessary and appropriate remediation options to pursue to satisfactorily complete the project in the most efficient manner.

6.13 New Materials and Equipment

All materials purchased for use to construct a utility electrical distribution system must meet the requirements of Ontario Regulation 22/04. New equipment and material that has not previously been used must be brought to the attention of the Engineering department to ensure regulatory and operations requirements are satisfied prior to the equipment or materials being deployed in the field. Engineering is required to approve such equipment or materials.

6.14 Credit Cards

A credit card is used for the purchase of goods and services for WRSI and its affiliates. Credit cards may be used for training, travel, meals, accommodations and small value materials and supplies. Restrictions and exemptions can apply to any card with a supervisor's approval.

Monthly statements are sent to cardholders directly. Each cardholder is responsible to review their monthly statements and provide a transaction summary with receipts and return such summary to the Finance Department by the established monthly deadlines. Monthly transaction summaries must be reviewed and approved by the employee's immediate supervisor. Failure to provide an approved transaction summary to Finance by the established deadline may result in cancellation of the credit card assigned to the employee.

6.15 Confidentiality

Confidentiality is important to protect the transparency of the purchasing process, protect the purchaser from legal claims and ensure that fairness is provided to all our vendors. To ensure that this is maintained, the following shall apply:

- Sealed bids and quotes shall remain confidential from third parties.
- Personal, proprietary and third-party information will be protected.
- The confidentiality of information received during the course of business must be respected and not used for personal gain.
- Any personal interest that may impinge or may be construed to impinge on an employee's impartiality in any circumstance in the performance of their duties must be reported to their Executive member.

