Exhibit 4:

OPERATING EXPENSES

Exhibit 4: Operating Expenses

Tab 1 (of 5): Overview

OVERVIEW

Exhibit 4 provides a detailed review of OM&A expenses, highlighting both historical trends and projections from 2020 to 2025. Since its last application, GSHi has been continuously adapting to a variety of evolving business environment changes. These challenges include, but are not limited to, difficulties in recruiting skilled and specialized staff, ongoing post-COVID supply chain disruptions, increasing cybersecurity concerns, increasing complexity in the electricity industry and the introduction of new customer initiatives. Additionally, customers now expect enhanced information access, and digital services, all of which require GSHi to continually innovate and enhance its operations to meet these shifting demands.

As outlined in Appendix 2-JA OM&A Summary Analysis included as Exhibit 4, Tab 1, Schedule 1, Attachment 1, and summarized in Table 1 below, total OM&A costs are expected to increase from a 2020 Board Approved figure of $16.2 million to a Test Year of $20.2 million, representing a compound annual growth rate of 4.5% over the last 5 years.

Table 1 OM&A Summary

	2020 Last Rebasing Year OEB Approved	2025 Test Year
Operations	$ 6,893,900	$ 8,367,972
Maintenance	$ 2,032,385	$ 1,964,161
Billing and Collecting	$ 997,931	$ 1,717,354
Community Relations	$ 1,360,800	$ 1,234,670
Administrative and General	$ 4,952,761	$ 6,940,671
Total	**$ 16,237,777**	**$20,224,828**

The cost per customer is anticipated to increase from a Board Approved 2020 figure of $278 to $342 in 2025 as indicated in Appendix 2-L Recoverable OM&A Cost per Customer and per FTE included as Exhibit 4, Tab 1, Schedule 1, Attachment 2, and summarized as Table 2 below. Analysis of GSHi's FTE count is included in Exhibit 4, Tab 4, Schedule 1.

Table 2 – OM&A Cost per Customer and FTE

	2020 Last Rebasing Year OEB Approved	2020 Last Rebasing Year Actuals	2021 Actuals	2022 Actuals	2023 Actuals	2024 Bridge Year	2025 Test Year
Operations and Maintenance	$ 8,926,285	$ 8,340,433	$ 7,969,218	$ 7,852,835	$ 8,276,906	$ 9,305,992	$10,332,133
Administration	$ 7,311,492	$ 7,227,584	$ 7,510,708	$ 7,983,415	$ 8,839,109	$ 9,075,258	$ 9,892,695
Total Recoverable OM&A	$ 16,237,777	$ 15,568,017	$ 15,479,926	$ 15,836,250	$ 17,116,015	$18,381,250	$ 20,224,828
Number of Customers	58,422	58,431	58,560	58,656	58,857	59,001	59,146
Number of FTEs	103	96	98	98	96	105	108
OM&A Cost per Customer	**$ 278**	**$ 266**	**$ 264**	**$ 270**	**$ 291**	**$ 312**	**$ 342**
OM&A Cost per FTE	**$ 157,802**	**$ 161,393**	**$ 158,144**	**$ 162,311**	**$ 178,120**	**$ 174,621**	**$ 187,860**

These increases will help to ensure that the infrastructure and services meet customer needs and regulatory standards, while also supporting essential investments to enhance GSHi's reliability, safety, and efficiency.

Cost Drivers

Specifics regarding the Cost Drivers contributing to the increase are located in Exhibit 4, Tab 2. GSHi has incorporated Appendix 2-JB Recoverable OM&A Cost Driver Table as Exhibit 4, Tab 2, Schedule 1, Attachment 1. Table 3 below outlines the changes in GSHi's OM&A costs from the 2020 Board Approved budget to the 2025 Test Year.

Table 3 – OM&A Cost Driver Summary

	2020 Board Approved	2025 Test Year	Difference	% of Total Change	% Increase over 2020 BA
Shared Services Corporate Cost Allocation	5,410,450	7,186,525	1,776,075	44.5%	32.8%
Labour & Burden	5,507,393	6,320,575	813,182	20.4%	14.8%
Future Pension Benefit Interest Expense	169,297	448,000	278,703	7.0%	164.6%
Contract Labour	400,320	631,276	230,956	5.8%	57.7%
Vegetation Management Contract Labour	489,851	700,000	210,149	5.3%	42.9%
Building Expenses	587,969	770,595	182,626	4.6%	31.1%
IT Costs Allocated from Affiliate	645,035	770,203	125,168	3.1%	19.4%
Memberships	310,845	432,655	121,810	3.1%	39.2%
Insurance	141,473	232,721	91,248	2.3%	64.5%
Software, Licences, Maintenance and Support Costs	328,661	403,320	74,659	1.9%	22.7%
Rate Application Costs	99,860	155,960	56,100	1.4%	56.2%
Stores Material	360,720	406,736	46,016	1.2%	12.8%
Vehicle Expenses	400,078	408,792	8,714	0.2%	2.2%
Bad Debt Expense	250,000	250,000	-	0.0%	0.0%
Miscellaneous Tools and Supplies	183,300	147,965	- 35,335	-0.9%	-19.3%
Leases, Rentals and Pole Attachment Expense	353,429	313,634	- 39,795	-1.0%	-11.3%
Training, Development and Networking	246,477	206,267	- 40,210	-1.0%	-16.3%
Other Miscellaneous Items	352,619	439,604	86,985	2.2%	24.7%
Total	**16,237,777**	**20,224,828**	**3,987,051**	**100%**	**24.6%**

Shared Services Corporate Cost Allocation (44.5%): This increase is largely due to additional staff in GSHPi, general wage and progression increases, and fair market rent charges recommended as part of the Cost Allocation review audit performed by KPMG. The increase related to the fair market rent charges are offset by additional revenue in GSHi. The impact as it relates to GSHPi Corporate Services departments is as follows:

Description	Impact	Amount
Rent charged from Hydro Inc (GSHi) to Corporate Services Departments (GSHPi) (GSHi charging GSHPi)	Other revenue	$334,016
Amount Charged back to GSHi through Corporate Services SLA (GSHPi charging GSHi)	OM&A	($220,847)
Net impact on rates (favourable to GSHi customers)	**Net impact on rates**	**$113,169**

Labour & Burden (20.4%): While labor costs have risen, this increase reflects the need to maintain a highly skilled workforce capable of managing modern energy distribution systems and addressing new regulatory requirements.

Future Pension Benefit Interest Expense (7.0%): The Future Pension Benefit interest expense represents the cost of other post-employment benefit interest as determined by an annual actuarial valuation.

Contract Labour (5.8%): The increased use of contract labor is strategic, allowing GSHi to efficiently manage short-term projects and specialized tasks without the need for permanent hires.

Vegetation Management Contract Labour (5.3%): This rise in costs is due to the increase in contractor costs and are essential to maintaining system reliability and safety by preventing outages due to overgrown vegetation.

Additional information about these cost drivers, along with some of the less significant ones, is available in Exhibit 4, Tab 2, Schedule 1.

Summary of Recoverable OM&A Expenses

A high-level summary of the OM&A Expenses at the program level from the 2020 Board Approved figure from GSHi's 2020 Cost of Service Application (EB-2020-0037) to the 2025 Test Year is provided as Table 5 below.

Table 5 – OM&A by Program Summary

	2020 Last Rebasing Year OEB Approved	2020 Last Rebasing Year Actuals	2021 Actuals	2022 Actuals	2023 Actuals	2024 Bridge Year	2025 Test Year
Operations	$ 6,893,900	$ 6,549,683	$ 6,278,014	$ 6,455,287	$ 6,559,611	$ 7,597,012	$ 8,367,972
Maintenance	$ 2,032,385	$ 1,790,749	$ 1,691,204	$ 1,397,548	$ 1,717,295	$ 1,708,980	$ 1,964,161
Billing and Collecting	$ 997,931	$ 1,341,063	$ 1,293,294	$ 1,338,148	$ 1,564,557	$ 1,740,168	$ 1,717,354
Community Relations	$ 1,360,800	$ 913,508	$ 992,345	$ 1,043,502	$ 1,059,283	$ 1,148,270	$ 1,234,670
Administrative and General	$ 4,952,761	$ 4,973,012	$ 5,225,069	$ 5,601,765	$ 6,215,269	$ 6,186,820	$ 6,940,671
Total	**$ 16,237,777**	**$15,568,016**	**$15,479,926**	**$ 15,836,250**	**$17,116,015**	**$18,381,250**	**$20,224,828**

Exhibit 4, Tab 3, Schedule 1 presents a variance analysis for each of the major categories at the program level, comparing the 2025 Test Year with 2023 actuals (GSHi's most recent actuals), 2025 Test Year with 2020 Board Approved, and 2020 Board Approved with 2020 Actuals per the filing guidelines. The main increases are due to filling vacancies and adding FTEs, general wage and progression increases, higher Shared Services costs, and rising IT costs.

General Expense Reduction from 2020 Settlement

The following, including Settlement Agreement Table 4, is an extract from GSHi's 2020 Cost of Service Application Settlement agreement (EB-2019-0037).

"For the purpose of presentation of the Settlement Proposal, the reduction of $1,151,180 has been allocated to the various expense categories in Table 4 below in order to illustrate how the reduction might be managed, with a material amount [$508,089] based on assuming vacancies in FTE counts that were not built into the application as filed as well as an assumption of smaller cuts across numerous program areas. The Parties acknowledge, however, that it is for GSHi to manage its OM&A budget in its sole discretion as it sees fit based on the actual operating circumstances it experiences in the test year and beyond.

Table 4 - 2020 Test Year OM&A Expenses

	Application October 31 2019	IRR March 10 2020	Variance from Original Filing	Settlement Proposal	Variance from IRRs
Operations	$7,086,590	$7,086,590	$0	$6,893,900	$(192,690)
Maintenance	$2,054,449	$2,054,449	$0	$2,032,385	$(22,064)
Billing and Collecting	$2,614,941	$2,614,941	$0	$2,533,693	$(81,248)
Community Relations	$0	$0	$0	$0	$0
Administration & General +LEAP	$5,632,977	$5,632,977	$0	$4,777,799	$(855,178)
Total	**$17,388,957**	**$17,388,957**	**$0**	**$16,237,777**	**$(1,151,180)**

"[1].

In its analysis throughout this exhibit and the application, GSHi has allocated the material amount of $508,089 as described in Table 6:

[1] Decision and Rate Order, EB-2019-0037, Greater Sudbury Hydro Inc, Schedule B Settlement Proposal pg 21

Table 6 – Allocation of General Expense Reduction

Category	Budget Per Settlement	Adjustment	Adjusted Settlement Budget
Operating	$6,893,900		$6,893,900
Maintenance	$2,032,385		$2,032,385
Billing and Collecting	$1,065,997	($68,066)	$997,931
Community Relations	$1,467,696	($106,896)	$1,360,800
Administrative	$5,285,888	($333,127)	$4,952,761
General Expense Reduction	($508,089)	$508,089	$0
Grand Total	**$16,237,777**	**$0**	**$16,237,777**

GSHi also notes that during the IRM period, it realigned Billing and Collecting and Community Relations expenses to more appropriate USoA Accounts and as such has aligned the 2020 Board Approved budget to match the current expense USoA accounts used where possible for comparative purposes.

Budget and Inflation Rate Assumptions

GSHi's Test Year budget was drafted based on proposals from the Management Team, which were informed by historical actuals and adjusted for any known necessary changes for the Test Year. These budgets were then reviewed and modified by GSHi's Executive Team. For the 2025 Cost of Service application, the 2025 Test Year OM&A and Capital Budgets were presented to the Board early in the application process for review and feedback, and subsequently received approval from GSHi's Board of Directors on October 28th, 2024.

Typically, when an inflation rate assumption was needed, GSHi applied the 2025 Input Price Index of 3.6% published by the OEB for IRM applications. GSHi's most recent collective bargaining agreement expired on March 31, 2024, and details regarding the inflation rate used for General Wage increases are provided in Exhibit 4, Tab 4, Schedule 1.

Attachment 1 (of 2):

OEB Appendix 2-JA Summary of Recoverable OM&A Expenses

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TO BE UPDATED AT THE DRAFT RATE ORDER STAGE

Appendix 2-JA

Summary of Recoverable OM&A Expenses

	2020 Last Rebasing Year OEB Approved	2020 Last Rebasing Year Actuals	2021 Actuals	2022 Actuals	2023 Actuals	2024 Bridge Year	2025 Test Year
Reporting Basis	MIFRS	MIFRS	MIFRS	MIFRS	MIFRS	MIFRS	MIFRS
Operations	$ 6,893,900	$ 6,549,683	$ 6,278,014	$ 6,455,287	$ 6,559,611	$ 7,597,012	$ 8,367,972
Maintenance	$ 2,032,385	$ 1,790,749	$ 1,691,204	$ 1,397,548	$ 1,717,295	$ 1,708,980	$ 1,964,161
SubTotal	**$ 8,926,285**	**$ 8,340,433**	**$ 7,969,218**	**$ 7,852,835**	**$ 8,276,906**	**$ 9,305,992**	**$ 10,332,133**
%Change (year over year)		-6.6%	-4.5%	-1.5%	5.4%	12.4%	11.0%
%Change (Test Year vs Last Rebasing Year - Actual)							23.9%
Billing and Collecting	$ 997,931	$ 1,341,063	$ 1,293,294	$ 1,338,148	$ 1,564,557	$ 1,740,168	$ 1,717,354
Community Relations	$ 1,360,800	$ 913,508	$ 992,345	$ 1,043,502	$ 1,059,283	$ 1,148,270	$ 1,234,670
Administrative and General	$ 4,952,761	$ 4,973,012	$ 5,225,069	$ 5,601,765	$ 6,215,269	$ 6,186,820	$ 6,940,671
SubTotal	**$ 7,311,492**	**$ 7,227,584**	**$ 7,510,708**	**$ 7,983,415**	**$ 8,839,109**	**$ 9,075,258**	**$ 9,892,695**
%Change (year over year)		-1.1%	3.9%	6.3%	10.7%	2.7%	9.0%
%Change (Test Year vs Last Rebasing Year - Actual)							36.9%
Total	**$ 16,237,777**	**$ 15,568,016**	**$ 15,479,926**	**$ 15,836,250**	**$ 17,116,015**	**$ 18,381,250**	**$ 20,224,828**
%Change (year over year)		-4.1%	-0.6%	2.3%	8.1%	7.4%	10.0%

	2020 Last Rebasing Year OEB Approved	2020 Last Rebasing Year Actuals	2021 Actuals	2022 Actuals	2023 Actuals	2024 Bridge Year	2025 Test Year
Operations[4]	$ 6,893,900	$ 6,549,683	$ 6,278,014	$ 6,455,287	$ 6,559,611	$ 7,597,012	$ 8,367,972
Maintenance[5]	$ 2,032,385	$ 1,790,749	$ 1,691,204	$ 1,397,548	$ 1,717,295	$ 1,708,980	$ 1,964,161
Billing and Collecting[6]	$ 997,931	$ 1,341,063	$ 1,293,294	$ 1,338,148	$ 1,564,557	$ 1,740,168	$ 1,717,354
Community Relations[7]	$ 1,360,800	$ 913,508	$ 992,345	$ 1,043,502	$ 1,059,283	$ 1,148,270	$ 1,234,670
Administrative and General[8]	$ 4,952,761	$ 4,973,012	$ 5,225,069	$ 5,601,765	$ 6,215,269	$ 6,186,820	$ 6,940,671
Total	**$ 16,237,777**	**$ 15,568,016**	**$ 15,479,926**	**$ 15,836,250**	**$ 17,116,015**	**$ 18,381,250**	**$ 20,224,828**
%Change (year over year)		-4.1%	-0.6%	2.3%	8.1%	7.4%	10.0%

Attachment 2 (of 2):

OEB Appendix 2-L Recoverable OM&A Cost per Customer and per FTE

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Appendix 2-L
Recoverable OM&A Cost per Customer and per FTE [1]

	Last Rebasing Year 2020 - OEB Approved	Last Rebasing Year (2020 Actuals)	2021 Actuals	2022 Actuals	2023 Actuals	2024 Bridge Year	2025 Test Year
Reporting Basis	**MIFRS**	**MIFRS**	**MIFRS**	**MIFRS**	**MIFRS**	**MIFRS**	**MIFRS**
OM&A Costs							
O&M	$ 8,926,285	$ 8,340,433	$ 7,969,218	$ 7,852,835	$ 8,276,906	$ 9,305,992	$ 10,332,133
Admin Expenses[6]	$ 7,311,492	$ 7,227,584	$ 7,510,708	$ 7,983,415	$ 8,839,109	$ 9,075,258	$ 9,892,695
Total Recoverable OM&A from Appendix 2-JB [5]	$ 16,237,777	$ 15,568,016	$ 15,479,926	$ 15,836,250	$ 17,116,015	$ 18,381,250	$ 20,224,828
Number of Customers [2,4]	58,422	58,431	58,560	58,656	58,857	59,001	59,146
Number of FTEs [3,4]	103	96	98	98	96	105	108
Customers/FTEs	568	606	598	601	613	561	549
OM&A cost per customer							
O&M per customer	$153	$143	$136	$134	$141	$158	$175
Admin per customer	$125	$124	$128	$136	$150	$154	$167
Total OM&A per customer	$278	$266	$264	$270	$291	$312	$342
OM&A cost per FTE							
O&M per FTE	$86,756	$86,465	$81,414	$80,486	$86,135	$88,406	$95,971
Admin per FTE	$71,061	$74,928	$76,730	$81,824	$91,985	$86,214	$91,889
Total OM&A per FTE	$157,817	$161,393	$158,144	$162,311	$178,120	$174,621	$187,860

Exhibit 4: Operating Expenses

Tab 2 (of 5): OM&A Summary and Cost Driver Tables

SUMMARY AND COST DRIVER TABLES

Appendix 2-JB Recoverable OM&A Cost Driver Table is presented as Exhibit 4, Tab 2, Schedule 1, Attachment 1. This appendix outlines the various factors that have caused fluctuations in GSHi's OM&A expenses since its last cost of service rebasing in 2020 (EB-2019-0037). GSHi provides Table 1 below as a summary of the Cost Drivers included in Appendix 2-JB as well as their total impact when comparing the 2025 Test Year and the 2020 Board Approved amounts.

Table 1 – Summary of Cost Drivers and Total Impact

Cost Driver	2020 Actual vs 2020 Board Approved	2021 vs 2020 Actuals	2022 vs 2021 Actuals	2023 vs 2022 Actuals	2024 Projection vs 2023 Actual	2025 Budget vs 2024 Projection	2025 Budget vs 2020 Board Approved
Shared Services Corporate Cost Allocation	-$ 328,915	$ 380,937	$ 132,770	$ 723,133	$ 336,089	$ 532,061	**$ 1,776,075**
Labour & Burden	-$ 673,381	$ 1,850	$ 197,219	-$ 173,015	$ 961,069	$ 499,440	**$ 813,182**
Future Pension Benefit Interest Expense	$ 192,503	-$ 40,620	$ 25,574	$ 129,706	-$ 141,060	$ 112,600	**$ 278,703**
Contract Labour	$ 90,847	-$ 103,389	$ 87,044	$ 28,348	$ 130,528	-$ 2,422	**$ 230,956**
Vegetation Management Contract Labour	$ 172,101	-$ 58,641	-$ 261,996	$ 179,484	$ 39,201	$ 140,000	**$ 210,149**
Building Expenses	$ 71,786	-$ 16,767	$ 120,703	$ 16,375	-$ 155,240	$ 145,768	**$ 182,626**
IT Costs Allocated from Affiliate	-$ 89,103	$ 14,368	$ 5,973	$ 58,623	$ 20,931	$ 114,376	**$ 125,168**
Memberships	$ 14,118	-$ 12,066	-$ 2,699	$ 28,426	$ 47,826	$ 46,205	**$ 121,810**
Insurance	-$ 5,491	$ 16,715	$ 30,175	$ 33,640	$ 10,533	$ 5,676	**$ 91,248**
Software, Licences, Maintenance and Support Costs	$ 67,192	-$ 70,264	-$ 57,174	$ 38,628	$ 59,746	$ 36,531	**$ 74,659**
Rate Application Costs	-$ 68,042	$ 84,466	$ 99,750	-$ 197,536	$ 23,937	$ 113,525	**$ 56,100**
Stores Material	-$ 53,463	$ 51,767	-$ 6,240	-$ 10,707	$ 15,692	$ 48,967	**$ 46,016**
Vehicle Expenses	-$ 12,472	-$ 39,603	$ 19,197	$ 80,149	-$ 89,140	$ 50,582	**$ 8,714**
Bad Debt Expense	$ 10,522	-$ 193,339	-$ 11,440	$ 260,400	-$ 66,142	$ -	**$ -**
Leases, Rentals and Pole Attachment Expense	$ 156,304	-$ 131,201	-$ 12,201	-$ 44,911	$ 55,194	-$ 62,980	**-$ 39,795**
Training, Development and Networking	-$ 155,121	-$ 22,296	$ 14,340	$ 32,465	$ 55,021	$ 35,381	**-$ 40,210**
Other Miscellaneous Items	-$ 57,924	$ 48,771	-$ 24,671	$ 96,557	-$ 38,948	$ 27,865	**$ 51,650**
Total Change in OM&A	**-$ 668,539**	**-$ 89,312**	**$ 356,324**	**$ 1,279,765**	**$ 1,265,238**	**$ 1,843,575**	**$ 3,987,051**

While key drivers are elaborated upon throughout this Application, a summary of drivers with a total material impact on the 2025 Test Year Budget is provided below.

Shared Services Corporate Cost Allocation

The variances year over year, as well as in total, as they relate to the Shared Services Corporate Cost Allocation is presented as Table 2 below. It should be noted that some items in the Cost Driver analysis have been reclassed into more appropriate drivers from

Shared Services, such as IT Costs allocated from GSHPi are shown specifically and some labour costs related to this Application are included in Rate Application Costs.

Table 2 Shared Services Corporate Cost Allocation Variance

Comparison	Variance
2020 Actual vs 2020 Board Approved	-$ 328,915
2021 vs 2020 (Actuals)	$ 380,937
2022 vs 2021 (Actuals)	$ 132,770
2023 vs 2022 (Actuals)	$ 723,133
2024 Projection vs 2023 Actual	$ 336,089
2025 Budget vs 2024 Projection	$ 532,061
2025 Budget vs 2020 Board Approved	**$ 1,776,075**

Shared Services are discussed in Exhibit 4, Tab 4, Schedule 2. The most significant item affecting the increase in Shared Services is the increase in the number of employees and compensation amount allocated to GSHi and the introduction of fair market rent to GSHPi for tenancy at 500 Regent Street in Sudbury.

The increase in shared services costs, driven by the introduction of fair market rent for GSHPi, stems from the findings of the KPMG Report on Shared Services and Cost Allocations Review, as outlined in Exhibit 4, Tab 4, Schedule 2, Attachment 2. Starting in 2023, GSHi began charging rent to the Corporate Services departments within GSHPi, resulting in an increase of rent revenue from shared services departments, recorded in account 4210, amounting to $325,405 in 2023 and $334,016 in the 2025 Test Year. However, this also impacted GSHi’s portion of shared services costs, increasing by $211,178 in 2023 and an additional $9,670 in 2025, totaling $220,847, which is included in OM&A for the 2025 Test Year. The net impact on the 2025 Test Year revenue requirement due to this change is $113,169, reflecting increased rent revenue of $334,016 offset by higher OM&A costs of $220,847.

As the business landscape changed and became more complex, the additional positions of General Counsel with an assistant, along with an additional senior accountant were needed. In order to manage part of the General Expense Reduction from the 2020 Cost of Service Application Settlement Agreement (EB-2019-0037), vacancies of 1.46 FTEs in GSHi were not filled in the Customer Billing and related services. This could be sustained through the Covid shutdown while the office was closed to the public. This was no longer sustainable for the department once the doors reopened to the public along with additional billing complexities and programs that were introduced through various government initiatives, accordingly the positions were filled.

As part of GSHi's 2020 Cost of Service settlement agreement (EB-2019-0037) GSHi agreed to have a third party perform a shared services and cost allocation review before its next Cost of Service. Through a competitive process, KPMG was awarded the review which was performed in 2022 and finalized in 2023. The report (included as Exhibit 4, Tab 4, Schedule 2, Attachment 2) recommended GSHi charge market rent to each of the corporate service departments. This rent provided revenue to GSHi (for further details see Exhibit 6, Tab 3) but is offset in part, by an increase in the shared costs of the corporate service departments that are allocated to GSHi.

Other increases include the change in computer software to subscription-based services as well as increases to CyberSecurity costs.

Labour and Burdens

The variances year over year, as well as in total, as they relate to Labour and its associated burden is presented as Table 3 below.

Table 3 Labour and Burdens Variance

Comparison	Variance
2020 Actual vs 2020 Board Approved	-$ 674,603
2021 vs 2020 (Actuals)	$ 3,071
2022 vs 2021 (Actuals)	$ 197,219
2023 vs 2022 (Actuals)	-$ 173,015
2024 Projection vs 2023 Actual	$ 961,069
2025 Budget vs 2024 Projection	$ 499,440
2025 Budget vs 2020 Board Approved	**$ 813,182**

The costs included in this cost driver relate to labour and burden variances for GSHi employees specifically. Any labour and burden complement variance changes from GSHPi are included in the Shared Services Corporate Cost Allocation cost driver line.

Labour and burden variances are impacted by a variety of factors including, change in FTE complement, general wage increases, the amount of labour deployed to capital or recoverable work in each year, overtime worked and burden cost variances.

FTE Complement and General Wage Increase

Explanations for FTE Complement variance and discussions on general wage increases can be found in Exhibit 4, Tab 4, Schedule 1. This includes details about new positions added since GSHi's 2020 Cost of Service (EB-2019-0037). The number of FTEs in GSHi has a slight increase compared to the 2020 Board Approved figures. Despite this stability, GSHi introduced several positions—a Manager of Engineering and Asset Management, a Control Room System Operator, and a Project Coordinator—which were offset by the vacancy of a Power System Inspector and the reduction of Co-Op and Summer Student placements. Although the FTE count balanced out, the costs associated with the new roles were higher than those of the reductions, leading to increased expenses. Furthermore, in 2023, GSHi dealt with numerous leaves and vacancies, further detailed in Exhibit 4, Tab 4, Schedule 1.

The quantity of labour allocated to capital fluctuates annually based on the nature and volume of capital work undertaken. Although Table 3 above illustrates the overall OM&A variances for labour and burden, GSHi offers Table 4a below, detailing the total labour and burden variances segmented by the amounts charged to OM&A, Capital, Recoverable work, and those included in the burden rate. Additionally, GSHi provides Table 4b, presenting the variances calculated by category for each year.

Table 4a – Total Labour and Burden by Category

	OM&A	Capital	Burdened	Recoverable	Total	Variance (over prior year)
2020 Board Approved	$ 5,507,393	$ 2,413,465	$ 1,005,155	$ 475,797	**$ 9,401,810**	
2020 Actuals	$ 4,834,012	$ 2,485,940	$ 1,047,437	$ 489,700	**$ 8,857,088**	**-$ 544,722**
2021 Actuals	$ 4,835,861	$ 2,825,101	$ 1,144,983	$ 406,133	**$ 9,212,079**	**$ 354,991**
2022 Actuals	$ 5,033,080	$ 2,497,966	$ 1,087,628	$ 547,210	**$ 9,165,885**	**-$ 46,194**
2023 Actuals	$ 4,860,066	$ 2,713,212	$ 1,174,954	$ 415,938	**$ 9,164,170**	**-$ 1,715**
2024 Projection	$ 5,821,135	$ 2,896,601	$ 1,204,365	$ 411,986	**$ 10,334,087**	**$ 1,169,917**
2025 Budget	$ 6,320,575	$ 2,734,653	$ 1,277,779	$ 386,158	**$ 10,719,165**	**$ 385,078**
2025 Budget vs 2020 Board Approved	**$ 813,182**	**$ 321,188**	**$ 272,624**	**-$ 89,639**	**$ 1,317,355**	

Table 4b – Total Labour and Burden Variance by Category

	OM&A Labour Variance	Capital Labour	Burdened Labour	Recoverable Labour Variance	Total Labour Variance
2020 Actual vs 2020 Board Approved	-$ 673,381	$ 72,475	$ 42,282	$ 13,903	-$ 544,722
2021 vs 2020 Actuals	$ 1,850	$ 339,161	$ 97,547	-$ 83,567	$ 354,991
2022 vs 2021 Actuals	$ 197,219	-$ 327,135	-$ 57,355	$ 141,077	-$ 46,194
2023 vs 2022 Actuals	-$ 173,015	$ 215,246	$ 87,326	-$ 131,272	-$ 1,715
2024 Projection vs 2023 Actual	$ 961,069	$ 183,389	$ 29,411	-$ 3,952	$ 1,169,917
2025 Budget vs 2024 Projection	$ 499,440	-$ 161,948	$ 73,414	-$ 25,828	$ 385,078
2025 Budget vs 2020 Board Approved	$ 813,182	$ 321,188	$ 272,624	-$ 89,639	$ 1,317,355

Overtime

Overtime is worked for a variety of reasons including unexpected and scheduled outages, compensating for leaves and vacancies etc. Table 5 below illustrates the amount and variances of overtime worked. The amounts in this table relate to raw labour only and do not include the burden impact.

Table 5 – Overtime Costs in OM&A

	OM&A	Variance (over prior
2020 Board Approved	$ 288,235	
2020 Actuals	$ 411,372	**$ 123,137**
2021 Actuals	$ 434,005	**$ 22,634**
2022 Actuals	$ 434,892	**$ 887**
2023 Actuals	$ 581,996	**$ 147,104**
2024 Projection	$ 507,358	**-$ 74,638**
2025 Budget	$ 448,719	**-$ 58,639**
2025 Budget vs 2020 Board Approved		**$ 160,484**

In 2023, a year when GSHi experienced a high number of leaves and vacancies, the overtime required to compensate for a reduced workforce was significant in addition to Voltage Conversion initiatives that required outages to businesses which were accommodated after hours or on the weekends to minimize disruptions.

Burden Costs

Burden costs vary for two main reasons, the number of FTE's and the costs included in the burden calculation. FTE's are discussed above and in further detail in Exhibit 4, Tab 4, Schedule 1.

GSHi provides the following table 6 with the annual costs included in the labour burden calculation and the variances year over year as well as the 2025 Test Year versus the 2020 Board Approved Budget.

Table 6 – Costs included in Payroll Burden

	Burden Costs	Variance (over prior
2020 Board Approved	$ 2,487,269	
2020 Actuals	$ 1,996,901	**-$ 490,368**
2021 Actuals	$ 2,278,711	**$ 281,810**
2022 Actuals	$ 2,285,593	**$ 6,882**
2023 Actuals	$ 2,173,719	**-$ 111,874**
2024 Projection	$ 2,497,423	**$ 323,704**
2025 Budget	$ 2,607,175	**$ 109,752**
2025 Budget vs 2020 Board Approved		**$ 119,906**

Regarding the variances mentioned above, the annual fluctuation is materially influenced by the amount of labor incurred in a given year.

In the comparison of 2020 Actuals versus the 2020 Board Approved budget, GSHi's payroll burden costs were $490,000 lower than anticipated. This was largely due to a reduction in OPEB current service costs and active interest, driven by a decrease in the discount rate from 3.1% to 2.6% as of December 31st, along with a lower-than-expected benefits payout. Additionally, Long Term Disability expenses were $74,000 under budget due to a change in rates, and active employee benefit costs were also lower than budgeted, primarily because COVID-related restrictions led to reduced benefit usage by employees.

Payroll burden costs include Employer Health Tax, Canada Pension Plan contributions, dental and vision benefit costs, OMERS pension contributions, Employment Insurance premiums, WSIB premiums, and costs related to post-employment benefits. See Exhibit 4, Tab 4, Schedule 1, section titled “Benefits” for more discussion about these benefits. Most of these costs remain consistent, fluctuating proportionately with the labor costs incurred each year. On an individual basis, none of these items typically exhibit a variance that exceeds materiality year-over-year. The most significant component of payroll burden costs that can fluctuate year-over-year is related to other post-employment benefits (OPEB). Changes in assumptions, particularly regarding the discount rate in recent years, have caused fluctuations in the actuarial valuation of the OPEB liability and have also led to variations in the amount of interest expensed during the year for both current and retired employees. However only the smaller component, interest expense, has an impact on burdens. See Exhibit 4, Tab 4, Schedule 1, Table 4 for a summary of OPEB costs from 2020 to 2025. Total actual OPEB costs range from a low of $541,574 expense in 2021 to a high of $599,755 expense in 2023.

Future Pension Benefit Expense

The variances year over year, as well as in total, as they relate to Future Pension Benefit Expense is presented as Table 7 below.

Table 7 – Future Pension Benefit Expense Variance

Comparison	Variance
2020 Actual vs 2020 Board Approved	$ 192,503
2021 vs 2020 (Actuals)	-$ 40,620
2022 vs 2021 (Actuals)	$ 25,574
2023 vs 2022 (Actuals)	$ 129,706
2024 Projection vs 2023 Actual	-$ 141,060
2025 Budget vs 2024 Projection	$ 112,600
2025 Budget vs 2020 Board Approved	**$ 278,703**

The Future Pension Benefit interest expense represents the cost of other post-employment benefit interest as determined by an annual actuarial valuation. While the 2020 actual vs. 2020 board approved variance appears material in the above table, Exhibit 4, Tab 4, Schedule 1 Table 4 shows the OPEB cost summary in total and indicates that the total amount of OPEB costs embedded in rates for combined current service cost and interest approximates the actual amount incurred in 2020 ($593k vs. $594k).

Costs are established annually based on a report prepared by a third-party actuary. The latest Actuarial reports have been included as Exhibit 9, Tab 1, Schedule 1, Attachments 2 through 6.

Contract Labour

GSHi has experienced an overall increase in Contract Labour in comparison to the 2020 Board Approved budget.

Table 8 – Contract Labour Variance

Comparison	Variance
2020 Actual vs 2020 Board Approved	$ 90,847
2021 vs 2020 (Actuals)	-$ 103,389
2022 vs 2021 (Actuals)	$ 87,044
2023 vs 2022 (Actuals)	$ 28,348
2024 Projection vs 2023 Actual	$ 130,528
2025 Budget vs 2024 Projection	-$ 2,422
2025 Budget vs 2020 Board Approved	**$ 230,956**

After the retirement of its Power System Inspector in 2023, GSHi chose not to immediately replace the role as it is typically used for work accommodations, opting instead to outsource its Distribution System Inspections at an annual cost of roughly $60,000. Additionally, GSHi has been outsourcing various Station Maintenance activities such as snow removal, and graffiti cleaning. Since the 2020 budget, the expenses for these services have increased, and GSHi has also started outsourcing grass cutting, which was previously handled by student employees. These changes have contributed to a $25,000 rise in contract labour expenses. Starting in 2022, GSHi outsourced its Collections activities as well, leading to an $84,000 increase in contract labour costs. To meet its metering sampling requirements, GSHi had to raise its budget by $44,000 over the 2020 Board Approved amount. These combined factors have led to the overall increase in contract labour expenses, ensuring that GSHi can maintain its operational efficiency and meet regulatory requirements.

Vegetation Management Contract Labour

Tree Trimming Contract Labour costs have increased by $210,000 since the 2020 Board Approved amount as illustrated in Table 9 below.

Table 9 – Tree Trimming Contract Labour

Comparison	Variance
2020 Actual vs 2020 Board Approved	$ 172,101
2021 vs 2020 (Actuals)	-$ 58,641
2022 vs 2021 (Actuals)	-$ 261,996
2023 vs 2022 (Actuals)	$ 179,484
2024 Projection vs 2023 Actual	$ 39,201
2025 Budget vs 2024 Projection	$ 140,000
2025 Budget vs 2020 Board Approved	**$ 210,149**

To ensure the reliability and safety of our distribution system, it was crucial to increase the vegetation management budget by $210,000 relative to the 2020 Board Approved amount. This additional funding will allow GSHi to address the current vegetation management needs and maintenance, which is essential for minimizing power outages caused by overgrown vegetation. By investing in this area, we can enhance the overall efficiency of our operations, reduce the risk of service interruptions, and ultimately provide better service to our customers. The increased budget will enable us to deploy more resources and expedite the necessary work, ensuring that we meet regulatory requirements and maintain the integrity of our infrastructure.

Building Expenses

Expenses associated with GSHi's main office building and West Nipissing depot have led to an overall increase of $182,000 as shown in Table 10 below.

Table 10 – Building Expenses

Comparison	Variance
2020 Actual vs 2020 Board Approved	$ 71,786
2021 vs 2020 (Actuals)	-$ 16,767
2022 vs 2021 (Actuals)	$ 120,703
2023 vs 2022 (Actuals)	$ 16,375
2024 Projection vs 2023 Actual	-$ 155,240
2025 Budget vs 2024 Projection	$ 145,768
2025 Budget vs 2020 Board Approved	**$ 182,626**

The escalation in property management, utilities, and insurance expenses has led to an increase in building costs by $182,000. These additional funds are necessary to cover the rising costs involved in maintaining and managing GSHi's main office buildings, ensuring they are kept in optimal condition. Moreover, the increased insurance premiums are essential for protecting our assets against potential risks.

OM&A Change in Capitalized Overhead

GSHi transitioned to Modified IFRS for accounting purposes prior to its 2020 Cost of Service Application (EB-2019-0037). Since transition to Modified IFRS, GSHi only capitalizes costs which are directly attributable to an asset. GSHi confirms that there has been no change to its policy in relation to amounts to be included in its burden. The overall amount of capitalized overhead is directly proportional to the labour charged. Any fluctuations in the reported years is only impacted by labour fluctuations.

Attachment 1 (of 1):

OEB Appendix 2-JB OM&A Cost Driver Table

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Appendix 2-JB
Recoverable OM&A Cost Driver Table[1,3]

OM&A	Last Rebasing Year (2020 Actuals)	2021 Actuals	2022 Actuals	2023 Actuals	2024 Bridge Year	2025 Test Year
Reporting Basis	MIFRS	MIFRS	MIFRS	MIFRS	MIFRS	MIFRS
Opening Balance[2]	$ 16,237,777	$ 15,568,016	$ 15,479,926	$ 15,836,250	$ 17,116,015	$ 18,381,250
Shared Services Corporate Cost Allocation	-$ 328,915	$ 380,937	$ 132,770	$ 723,133	$ 336,089	$ 532,061
Labour & Burden	-$ 674,603	$ 3,071	$ 197,219	-$ 173,015	$ 961,069	$ 499,440
Future Pension Benefit Interest Expense	$ 192,503	-$ 40,620	$ 25,574	$ 129,706	-$ 141,060	$ 112,600
Contract Labour	$ 90,847	-$ 103,389	$ 87,044	$ 28,348	$ 130,528	-$ 2,422
Vegetation Management Contract Labour	$ 172,101	-$ 58,641	-$ 261,996	$ 179,484	$ 39,201	$ 140,000
Building Expenses	$ 71,786	-$ 16,767	$ 120,703	$ 16,375	-$ 155,240	$ 145,768
IT Costs Allocated from Affiliate	-$ 89,103	$ 14,368	$ 5,973	$ 58,623	$ 20,931	$ 114,376
Memberships	$ 14,118	-$ 12,066	-$ 2,699	$ 28,426	$ 47,826	$ 46,205
Insurance	-$ 5,491	$ 16,715	$ 30,175	$ 33,640	$ 10,533	$ 5,676
Software, Licences, Maintenance and Support Costs	$ 67,192	-$ 70,264	-$ 57,174	$ 38,628	$ 59,746	$ 36,531
Stores Material	-$ 53,463	$ 51,767	-$ 6,240	-$ 10,707	$ 15,692	$ 48,967
Vehicle Expenses	-$ 12,472	-$ 39,603	$ 19,197	$ 80,149	-$ 89,140	$ 50,582
Bad Debt Expense	$ 10,522	-$ 193,339	-$ 11,440	$ 260,400	-$ 66,142	$ -
Rate Application Costs	-$ 68,042	$ 84,466	$ 99,750	-$ 197,536	$ 23,937	$ 113,525
Leases, Rentals and Pole Attachment Expense	$ 156,304	-$ 131,201	-$ 12,201	-$ 44,911	$ 55,194	-$ 62,980
Training, Development and Networking	-$ 155,121	-$ 22,296	$ 14,340	$ 32,465	$ 55,021	$ 35,381
Other Miscellaneous Items	-$ 57,924	$ 48,771	-$ 24,671	$ 96,557	-$ 38,951	$ 27,868
Closing Balance[2]	$ 15,568,016	$ 15,479,926	$ 15,836,250	$ 17,116,015	$ 18,381,250	$ 20,224,828

Exhibit 4: Operating Expenses

Tab 3 (of 5): OM&A Variance Analysis

OM&A VARIANCE ANALYSIS

GSHi has included Appendix 2-JC OM&A Programs Table as Exhibit 4, Tab 3, Schedule 1, Attachment 1. The following sections provide variance explanations for material variances (greater than +/- $150,000) at the program level in each of the three requested comparisons:

- Historical OEB-Approved (2020 BA) vs Historical Actuals (2020)
- Test Year (2025) vs most recent Historical Actuals (2023)
- Test Year (2025) vs Historical OEB-Approved (2020 Board Approved)

Operation Category

GSHi provides Table 1 below to highlight the different programs in the Operation Category and the requested variances.

Table 1 – Operation Program Variances

Program Details	2020 OEB-Approved	2020 Actuals	2023 Actuals	2025 Test Year	Variance 2020 Actuals vs. 2020 OEB-Approved	Variance Test Year 2025 vs. 2023 Actuals	Variance Test Year vs. 2020 OEB-Approved
Operation							
Operation Supervision and Engineering	1,583,787	1,380,481	1,604,934	2,052,731	-203,306	447,797	468,944
Station Operations	1,120,423	930,241	949,764	1,375,196	-190,182	425,432	254,773
Miscellaneous Distribution Expense	1,012,927	1,072,682	895,684	1,225,639	59,755	329,955	212,712
Load Dispatching	755,252	734,003	673,498	990,390	-21,249	316,892	235,138
Meter Operations	790,446	767,775	755,778	877,319	-22,671	121,541	86,873
Customer Premises	501,845	636,500	813,040	792,448	134,655	-20,592	290,603
Overhead Distribution System Operations	818,485	707,284	625,923	744,073	-111,201	118,150	-74,412
Underground Distribution System Operations	144,041	73,014	102,864	158,598	-71,027	55,734	14,557
Pole Attachments	166,694	247,702	138,125	151,578	81,008	13,454	-15,116
Sub-Total	**6,893,900**	**6,549,683**	**6,559,611**	**8,367,972**	**-344,217**	**1,808,361**	**1,474,072**

Program specific tables are provided throughout this section to highlight the required variance explanations.

Operation Supervision and Engineering

The Operation Supervision and Engineering program includes USoA account 5005 - Operation Supervision and Engineering.

Table 2 – Operation Supervision and Engineering Variances

Operation Supervision and Engineering	
2020 OEB-Approved	1,583,787
2020 Actuals	1,380,481
2023 Actuals	1,604,934
2025 Test Year	2,052,731
Variance 2020 Actuals vs. 2020 OEB-Approved	-203,306
Variance Test Year 2025 vs. 2023 Actuals	447,797
Variance Test Year 2025 vs. 2020 OEB-Approved	468,944

2020 Board Approved vs 2020 Actuals – Distribution Engineering labour came in under budget in OM&A as more time and burdens were capitalized than budgeted as both Distribution Engineers spent more time than expected on the Gemmel Substation Rebuild. The decision was made to have both Distribution Engineers involved to gain as much knowledge as possible as they would be responsible for similar projects in the future. Training and travel expenses were below budget due to decreased travel during the pandemic. Vehicle expenses in Engineering were under budget as employees made fewer site and customers visits throughout the year due to COVID. Fewer site visits and customer meetings due to COVID also led to lower overtime costs for the engineering department.

2025 Test Year vs 2023 Actuals – The cost increase between 2025 Test Year and 2023 Actuals are the result of the impact of a partial vacancy in 2023 for a Distribution Engineer and a full vacancy for a Project Coordinator. In addition, the Engineering Supervisor was hired part way through the year 2023, so the full impact is reflected in the 2025 budget. These increases have been offset by a position that was previously included in this program from the GIS/Mapping function now being reflected in the Administration program.

2025 Test Year vs 2020 Board Approved – The cost increase is a function of the addition of the Manager of Engineering and Asset Management position, a Project Coordinator (both discussed in Exhibit 4, Tab 4, Schedule 1), general wage and progression increases and a shift in labour costs between OM&A and Capital. There is also a reallocation of salary costs that have been attributed to this program from the Station Operations and Stations Maintenance programs both discussed below.

While some of these variances are partially within GSHi's control, the majority of variances during 2020 were influenced by the COVID-19 pandemic and were beyond GSHi's control.

Station Operations

The Stations Operations program includes the following USoA accounts:
5012 - Station Buildings and Fixtures Expense
5016 - Distribution Station Equipment - Operation Labour
5017 - Distribution Station Equipment - Operation Supplies and Expenses

Table 3 – Station Operations Program Variances

Station Operations	
2020 OEB-Approved	1,120,423
2020 Actuals	930,241
2023 Actuals	949,764
2025 Test Year	1,375,196
Variance 2020 Actuals vs. 2020 OEB-Approved	-190,182
Variance Test Year 2025 vs. 2023 Actuals	425,432
Variance Test Year 2025 vs. 2020 OEB-Approved	254,773

2020 Board Approved vs 2020 Actuals – The difference arises from a reallocation of labour between OM&A programs. In 2020, as GSHi navigated the pandemic, the decision was made to keep certain crews at home, in isolation, to safeguard our workforce and ensure that they remained healthy enough to continue safe and reliable operation of the distribution system. For our Substations crews more time was charged to the Miscellaneous Distribution Expense program and overhead burden accounts than initially budgeted. Also affecting this program was Technical Services Supervisor position remaining unfilled for a substantial portion of the year as GSHi determined its succession plans after the departure of its VP Engineering and Operations.

2025 Test Year vs 2023 Actuals – The variance is caused in part by a parental leave in the Substation crew that remained unfilled in 2023 as well as a vacancy caused by the departure of a P&C Technician part way through 2023. In addition, a shift between OM&A and capital allocation as there are no significant station projects budgeted in 2025, the focus will be on decommissioning sites that have been replaced by recently upgraded substations.

2025 Test Year vs 2020 Board Approved - The variance is due to general wage increases and time spent in OM&A versus capital, given the absence of major station projects in the 2025 Capital Budget. In 2025, the Substation crews will be focused on decommissioning sites that have been replaced by recently upgraded substations. Also contributing to the increase are the higher operating costs required for the Substation Buildings, such as their utility and property tax costs.

The shift in labour between OM&A and Capital are operational in nature and reflect GSHi's focus between capital projects and OM&A needs as they change from year to year. The higher costs for operating the Substation buildings and their utilities are largely influenced by external factors beyond GSHi's control.

Miscellaneous Distribution Expense

The Miscellaneous Distribution Expense program includes USoA account 5085 - Miscellaneous Distribution Expense.

The costs included in this program relate to training costs and time specific to the Operations and Stations employees that is not specifically charged to other accounts. This change was made upon the conversion to IFRS where these costs could no longer be included in the capital burden as they are not considered direct costs. It also includes the Procurement costs, Information Technology and Information Systems costs that are allocated directly to GSHi.

Table 4 – Miscellaneous Distribution Expense Variance

Miscellaneous Distribution Expense	
2020 OEB-Approved	1,012,927
2020 Actuals	1,072,682
2023 Actuals	895,684
2025 Test Year	1,225,639
Variance 2020 Actuals vs. 2020 OEB-Approved	59,755
Variance Test Year 2025 vs. 2023 Actuals	329,955
Variance Test Year 2025 vs. 2020 OEB-Approved	212,712

2020 Board Approved vs 2020 Actuals – While a material variance is not noted here, GSHi notes that more time was charged to this program in 2020 than budgeted due to the decision to keep certain crews at home, in isolation, to safeguard our workforce and ensure that they remained healthy enough to continue safe and reliable operation of the distribution system. The increased labour costs in this program were offset by a reduction in training and travel costs budgeted to this program which did not occur due to COVID restrictions. This program also experienced lower than anticipated IT costs also due to decreased travel and training due to COVID and some costs being allocated to more departments rather than direct to this program.

2025 Test Year vs 2023 Actuals – The variance between the 2025 Test Year and the 2023 actuals is due to higher training and development expenditures required for Operations and Substation personnel, which includes general as well as job specific training, increased IT expenses (outlined in Shared Services Exhibit 4, Tab 4, Schedule 2), elevated costs for SCADA and Network Monitoring, as well the costs for Metersense maintenance moving to this program from the Meters Operation program.

2025 Test Year vs 2020 Board Approved – The variance between the 2025 Test year and the 2020 Board Approved budget relates to increased IT expenses (outlined in Shared Services Exhibit 4, Tab 4, Schedule 2), elevated costs for Scada and Network

Monitoring, as well as the costs for Metersense maintenance moving to this program from the Meters Operation program.

Increases in IT and SCADA monitoring costs are attributed to technological advancements and cybersecurity concerns, which are influenced by external factors such as industry trends and regulatory requirements. However, the decision to elevate training and development expenditures is within GSHi's strategic planning.

Load Dispatching

The Load Dispatching program includes USoA account 5010 - Load Dispatching.

Table 5 – Load Dispatching Variances

Load Dispatching	
2020 OEB-Approved	755,252
2020 Actuals	734,003
2023 Actuals	673,498
2025 Test Year	990,390
Variance 2020 Actuals vs. 2020 OEB-Approved	-21,249
Variance Test Year 2025 vs. 2023 Actuals	316,892
Variance Test Year 2025 vs. 2020 OEB-Approved	235,138

2025 Test Year vs 2023 Actuals – In 2023 the Control Room had two full year vacancies and a half year vacancy as GSHi struggled to find qualified Control Room Operators to fill them. The job market for Control Room Operators has become increasingly difficult due to a shortage of qualified candidates and high demand across the industry. This shortage has made it challenging to attract and retain skilled personnel, causing prolonged vacancies, as reflected in GSHi's experience. GSHi was successful in filling one of the vacancies in July of 2023 and another in December 2023. The 2025 budget reflects a full complement as well as general wage increases and progression increases for apprentices.

2025 Test Year vs 2020 Board Approved – The 2025 budget reflects the increase of one System Operator over the 2020 Board Approved budget as GSHi plan for succession in the Control Room in addition to general wage and progression increases. Also new in 2025 over 2020 is the allocation of more time for a Supervisor dedicated to the Control room.

The difficulties in hiring qualified control room operators were beyond GSHi's control, especially in a tight labor market post-pandemic. The addition of apprentices were within GSHi's control in order to manage the Control Room staff issues long term given the issues hiring trained Operators.

Customer Premises

The Customer Premises program includes the following USoA accounts:

5070 - Customer Premises - Operation Labour

5075 - Customer Premises - Materials and Expenses

Table 6 – Customer Premises Variances

Customer Premises	
2020 OEB-Approved	501,845
2020 Actuals	636,500
2023 Actuals	813,040
2025 Test Year	792,448
Variance 2020 Actuals vs. 2020 OEB-Approved	134,655
Variance Test Year 2025 vs. 2023 Actuals	-20,592
Variance Test Year 2025 vs. 2020 OEB-Approved	290,603

2025 Test Year vs 2020 Board Approved – The increase in this program relates to the increasing labour and materials required for trouble calls at customer premises as well as the allocation of costs for a Supervisor directly to Locates that was previously included in the payroll burden as this more accurately reflects the costs.

While the decision to allocate part of the Supervisor costs directly to Locates is within GSHi's control, costs included in Customer Premises are largely driven by Customer requests and are outside of GSHi's control. In addition more of these calls are in coming in after hours and thus are at overtime rates.

Maintenance Category

GSHi provides Table 7 below to highlight the different programs in the Maintenance Category and the requested variances.

Table 7 – Maintenance Category Variances

Program Details	2020 OEB-Approved	2020 Actuals	2023 Actuals	2025 Test Year	Variance 2020 Actuals vs. 2020 OEB-Approved	Variance Test Year 2025 vs. 2023 Actuals	Variance Test Year vs. 2020 OEB-Approved
Maintenance							
Vegetation Management	537,755	723,215	578,757	766,727	185,460	187,970	228,972
Overhead Distribution System Maintenance	739,933	512,577	553,488	648,054	-227,356	94,566	-91,879
Underground Distribution System Maintenance	468,498	352,978	447,811	454,776	-115,520	6,965	-13,722
Station Maintenance	276,895	146,973	55,364	75,220	-129,922	19,856	-201,675
Meter Maintenance	3,267	48,797	75,085	11,626	45,530	-63,459	8,359
Sentinel Lights	6,037	6,209	6,791	7,758	172	967	1,721
Sub-Total	**2,032,385**	**1,790,749**	**1,717,295**	**1,964,161**	**-241,636**	**246,866**	**-68,224**

Vegetation Management

The Vegetation Management program includes USoA account 5135 - Overhead Distribution Lines and Feeders - Right of Way.

Table 8 - Vegetation Management Variances

Vegetation Management	
2020 OEB-Approved	537,755
2020 Actuals	723,215
2023 Actuals	578,757
2025 Test Year	766,727
Variance 2020 Actuals vs. 2020 OEB-Approved	185,460
Variance Test Year 2025 vs. 2023 Actuals	187,970
Variance Test Year 2025 vs. 2020 OEB-Approved	228,972

2020 Board Approved vs 2020 Actuals – These costs are over budget in part because of the contractors increasing their pricing due to costs associated with COVID protocols. There was also an increase in the number of spot improvements (which are customer driven) over what was anticipated during budget preparation. There was also a significant amount of back lot and full tree removals which requires more labour and increases the cost.

2025 Test Year vs 2023 Actuals – GSHi continued to struggle to keep up with Vegetation Management after 2020 as contractors experienced difficulty with staffing for a period of time post pandemic. It has become apparent that an increase to this budget is necessary to effectively control vegetation encroaching on the distribution system. This is essential to ensure the reliability and safety of the system.

2025 Test Year vs 2020 Board Approved - Regreening efforts in the municipality have been ongoing since the late 70's with attempts to beautify, or 'reclaim', the area lands that have previously been described as a 'moonscape'. Such efforts included aerial seeding via helicopter in addition to increasing the number of tree and shrub species in the area to approximately 75. The effects of these efforts, especially those in the last decade, are impacting our vegetation management strategies. For the 2025 test year, GSHi has allocated a higher budget for Vegetation Management compared to the 2020 board-approved budget. This increase aims to strengthen the vegetation management program, with the addition of a brushing program. The increased spend will ultimately minimize the risk of outages or momentary interruptions caused by tree contacts or wildlife interactions from the trees.

The need for increased vegetation management spending is largely influenced by external factors, such as the post-pandemic labour shortage among contractors, increased contractor costs and the environmental impact of regreening efforts in the area.

Overhead Distribution System Maintenance

The Overhead Distribution System Maintenance program includes the following USoA accounts:

5120 - Maintenance of Poles, Towers and Fixtures

5125 - Maintenance of Overhead Conductors and Devices

5130 - Maintenance of Overhead Services

Table 9 – Overhead Distribution System Maintenance Variances

Overhead Distribution System Maintenance	
2020 OEB-Approved	739,933
2020 Actuals	512,577
2023 Actuals	553,488
2025 Test Year	648,054
Variance 2020 Actuals vs. 2020 OEB-Approved	-227,356
Variance Test Year 2025 vs. 2023 Actuals	94,566
Variance Test Year 2025 vs. 2020 OEB-Approved	-91,879

2020 Board Approved vs 2020 Actuals: The COVID-19 pandemic posed many challenges, leading us to prioritize capital work over maintenance. Early in 2020, GSHi postponed routine maintenance that might compromise the distribution system for extended periods. GSHi also isolated some crews at home to protect their health and ensure system reliability. This delayed the capital plan, forcing adjustments when crews returned. Key projects like the Gemmell Substation Rebuild and Tedman/Cressey voltage conversions were prioritized to ensure progress and resource availability for the Cressey rebuild in 2021. Additionally, discretionary maintenance requiring power outages was deferred due to lockdowns with customers working from home. Equipment failures or malfunctions were less frequent, reducing the need for certain maintenance activities.

The decision to postpone certain maintenance activities due to the COVID-19 pandemic was an external factor that influenced GSHi’s planning. The decision to prioritize capital work over maintenance was within GSHi’s control but was made to mitigate risk and ensure reliability during a challenging time.

Station Maintenance

The Station Maintenance program includes the following USoA accounts:
5110 - Maintenance of Buildings and Fixtures - Distribution Stations
5114 - Maintenance of Distribution Station Equipment

Table 10 – Station Maintenance Variances

Station Maintenance	
2020 OEB-Approved	276,895
2020 Actuals	146,973
2023 Actuals	55,364
2025 Test Year	75,220
Variance 2020 Actuals vs. 2020 OEB-Approved	-129,922
Variance Test Year 2025 vs. 2023 Actuals	19,856
Variance Test Year 2025 vs. 2020 OEB-Approved	-201,675

2025 Test Year vs 2020 Board Approved – In the 2020 Board Approved Budget, GSHi budgeted Supervision Costs to Maintenance but in practice has not charged costs directly there, they are charged to operations and included in the payroll burden that is charged with crews time. As a result, GSHi has not directly budgeted Supervision time to this program and this is causing the majority of the fluctuation.

These are cost reallocations that are within GSHi's control and not a true overall fluctuation.

Billing, Collecting and Community Relations Categories

Beginning in 2021, GSHi chose to separate the Billing and Customer Account functions into distinct accounts and programs for reporting purposes. Consequently, it is more suitable to evaluate these programs collectively for this application, as their budgets and costs are interconnected in the 2020 Board Approved amounts. The variances for this category are presented together in Table 11 below.

The Billing program contains the following USofA accounts:
5305 – Supervision
5310 - Meter Reading Expense
5315 - Customer Billing

5340 - Miscellaneous Customer Accounts Expenses

The Collections and Bad Debt Expense program includes the following USoA accounts:
5320 – Collecting
5335 - Bad Debt Expense

The Customer Accounts program includes the following USofA accounts:
5405 – Supervision
5410 - Community Relations - Sundry

Table 11 – Billing and Collecting and Community Relations Program Variances

Program Details	2020 OEB-Approved	2020 Actuals	2023 Actuals	2025 Test Year	Variance 2020 Actuals vs. 2020 OEB-Approved	Variance Test Year 2025 vs. 2023 Actuals	Variance Test Year vs. 2020 OEB-Approved
Billing, Collecting and Community Relations							
Billing	598,006	488,019	1,023,362	1,195,009	-109,987	171,647	597,003
Collections and Bad Debt Expense	399,925	401,381	541,195	522,345	1,456	-18,850	122,420
Customer Accounts	1,360,800	1,382,523	1,059,283	1,234,670	21,723	175,387	-126,130
Sub-Total	**2,358,731**	**2,271,922**	**2,623,840**	**2,952,024**	**-86,809**	**328,184**	**593,293**

2025 Test Year vs 2023 Actuals – The variance is a result of a slight increase in FTEs, increased postage and stationery costs, additional costs associated with the contracted Collections agent, general wage and progression increases, increased IT costs (discussed in Exhibit 4, Tab 4, Schedule 2) and increased costs related to maintenance and support for GSHi's Customer Information System and portal.

2025 Test Year vs 2020 Board Approved – The variance is in part related to the addition of a Billing Supervisor and additional Customer Service Representative FTEs. GSHi had allocated a portion of the General Expense Reduction from the 2020 Cost of Service to this program, however it was not sustainable over the longer term and the vacancies from 2020 were filled. In addition, GSHi added a contract Collections officer since 2020 and has also seen an increase in credit bureau commission costs. This program also has increased IT costs as well as building costs due to the addition of charging GSHPi rent which is discussed in further detail in Exhibit 4, Tab 4, Schedule 2 – Shared Services and Corporate Cost Allocation.

While the addition of a billing supervisor and extra customer service representatives were within GSHi's control they were necessary to respond to an increasingly complex industry. Increases in IT costs and external commission costs from the credit bureau reflect broader industry trends and external factors beyond GSHi's immediate control.

Administrative and General Category

The variances for the programs in the Administrative and General category are depicted in Table 12 below.

Table 12 - Administrative and General Program Variances

Program Details	2020 OEB-Approved	2020 Actuals	2023 Actuals	2025 Test Year	Variance 2020 Actuals vs. 2020 OEB-Approved	Variance Test Year 2025 vs. 2023 Actuals	Variance Test Year vs. 2020 OEB-Approved
Administrative and General							
Administration	3,331,399	3,070,871	4,101,387	4,619,969	-260,528	518,582	1,288,570
General Plant Costs	704,039	759,850	898,949	923,838	55,811	24,889	219,799
Regulatory Expense	693,576	694,392	653,375	855,677	816	202,302	162,101
Pensions and OPEBs	191,697	399,399	529,508	501,187	207,702	-28,321	309,490
LEAP	32,050	48,500	32,050	40,000	16,450	7,950	7,950
Sub-Total	**4,952,761**	**4,973,012**	**6,215,269**	**6,940,671**	**20,251**	**725,402**	**1,987,910**
Total OM&A	**16,237,777**	**15,585,367**	**17,116,015**	**20,224,828**	**-652,410**	**3,108,813**	**3,987,051**

Administration

The Administration program includes the following USofA accounts:

5605 - Executive Salaries and Expenses

5610 - Management Salaries and Expenses

5615 - General Administrative Salaries and Expenses

5620 - Office Supplies and Expenses

5630 - Outside Services Employed

5660 - General Advertising Expenses

5665 - Miscellaneous General Expenses

Table 13 – Administration Program Variances

Administration	
2020 OEB-Approved	3,331,399
2020 Actuals	3,070,871
2023 Actuals	4,101,387
2025 Test Year	4,619,969
Variance 2020 Actuals vs. 2020 OEB-Approved	-260,528
Variance Test Year 2025 vs. 2023 Actuals	518,582
Variance Test Year 2025 vs. 2020 OEB-Approved	1,288,570

2020 Board Approved vs 2020 Actuals: Administration Program 2020 actual expenditures were $260,000 lower than budget primarily due to implications of the COVID-19 pandemic. The need for in-person training and travel sharply decreased because of movement restrictions and the transition to remote work. Many scheduled training sessions were either canceled or moved to online platforms, significantly reducing travel expenses. Additionally, the reliance on consultants declined as GSHi adapted to remote work setups and postponed projects that required onsite consultant presence. Several other budget areas also remained under budget for projects or initiatives that could be deferred while staff concentrated on managing remote work and essential tasks during the pandemic.

2025 Test Year vs 2023 Actuals - The $518,000 increase in the 2025 budget is driven by rising IT costs, general wage and progression increases, the introduction of a General Counsel office and an additional accountant (all partially allocated to GSHi) and new memberships. These expenses are somewhat mitigated by the savings from the retirement of a VP, but the overall impact still leads to a net increase in costs.

2025 Test Year vs 2020 Board Approved – The $1.3 million increase in the administration program in 2025 when compared to the 2020 Board Approved figures is the result of rising IT costs, general wage and progression increases, the introduction of a General Counsel office and an additional accountant (partially allocated to GSHi), an increased allocation of accounting to GSHi and the GIS/Mapping department being moved to this program line from Operation Supervision and Engineering program. Another major reason for this increase is the change implemented at the suggestion of KPMG that the departments in GSHPi be charged fair market value rent. The increased building costs are offset by increased other revenue in account 4210.

The variances in GSHi's Administration Program reflect a mix of factors both within and beyond GSHi's control. The COVID-19 pandemic led to lower than planned expenditures in 2020 due to reduced travel, training, and reliance on consultants—factors that were largely beyond GSHi's control but were effectively managed through a quick transition to remote work. Increases in the 2025 budget, such as general wage increases, and the introduction of a General Counsel office, were strategic decisions made by GSHi to meet growing operational and regulatory needs. These were within GSHi's control, reflecting proactive long-term planning and investment in the workforce and technology. However, some external pressures, such as rising IT costs and the impacts of market rates for building rent, contributed to higher expenses, which were partially influenced by industry trends.

General Plant Costs

The General Plant program includes the following USofA accounts:

5635 - Property Insurance

5675 - Maintenance of General Plant

Table 14 – General Plant Cost Variances

General Plant Costs	
2020 OEB-Approved	704,039
2020 Actuals	759,850
2023 Actuals	898,949
2025 Test Year	923,838
Variance 2020 Actuals vs. 2020 OEB-Approved	55,811
Variance Test Year 2025 vs. 2023 Actuals	24,889
Variance Test Year 2025 vs. 2020 OEB-Approved	219,799

2025 Test Year vs 2020 Board Approved – The rise in the General Plant program is primarily driven by increased costs associated with maintaining and managing GSHi's main office buildings, along with higher insurance premiums and utility expenses. GSHi has ramped up regular maintenance efforts to mitigate future capital expenditures and extend the longevity of its facilities.

The rise in insurance premiums and utility costs are largely external factors driven by market conditions, while the maintenance of office buildings is within GSHi's operational management control to ensure long-term integrity of the buildings.

Regulatory Expense

The Regulatory Expense Program consists of USoA Account 5665 – Regulatory Expense.

Table 15 – Regulatory Expense Variances

Regulatory Expense	
2020 OEB-Approved	693,576
2020 Actuals	694,392
2023 Actuals	653,375
2025 Test Year	855,677
Variance 2020 Actuals vs. 2020 OEB-Approved	816
Variance Test Year 2025 vs. 2023 Actuals	202,302
Variance Test Year 2025 vs. 2020 OEB-Approved	162,101

2025 Test Year vs 2023 Actuals – This variance is predominantly caused by an increase in the amortization of the Cost of Service costs (the 2025 application vs the 2020 application) and an increase in the budget for the OEB Quarterly assessment costs.

2025 Test Year vs 2020 Board Approved – The increase in this program is attributed to the amortization of costs for the 2025 Cost of Service application, as well as the rise in OEB Quarterly Assessments

The increases in the 2025 budget, driven by the amortization of the Cost of Service application and higher OEB Quarterly Assessment costs, are largely outside of GSHi's control. These regulatory expenses are dictated by external requirements and the timing of applications that GSHi is obligated to comply with. While GSHi manages the application process, the associated costs and assessments are governed by regulatory mandates and timelines.

Pensions and OPEBs Program

The Pensions and OPEBs Program consists of USoA account 5646 – Employee Pensions and OPEB.

Table 16 – Pension and OPEBs Variances

Pensions and OPEBs	
2020 OEB-Approved	191,697
2020 Actuals	399,399
2023 Actuals	529,508
2025 Test Year	501,187
Variance 2020 Actuals vs. 2020 OEB-Approved	207,702
Variance Test Year 2025 vs. 2023 Actuals	-28,321
Variance Test Year 2025 vs. 2020 OEB-Approved	309,490

2020 Board Approved vs 2020 Actuals

As part of its 2020 cost of service rate application and the associated settlement agreement, GSHi negotiated a general expense reduction, where it was granted the discretion to allocate the overall OM&A expense reduction as it deemed appropriate. GSHi allocated this expense reduction to specific items in its 2020 test year budget, including other post-employment benefits (OPEB). A portion of the general expense reduction negotiated in the settlement was applied to OPEB costs. This cost reduction affects both interest costs, which impact the income statement (specifically, future pension benefit interest expense), and costs embedded in payroll burdens that are distributed across numerous cost centers.

Due to the impracticality of updating the dozens of redistributions that would be required, the entire cost reduction was allocated to the future pension benefit interest expense rather than the payroll burden cost center. Exhibit 4, Tab 4, Schedule 1, Table 4 provides a summary of overall OPEB costs. The cost embedded in rates under the "2020 Approved" column in that table ($593k) closely approximates the "2020 Actual" cost ($594k), and GSHi believes this more accurately represents the overall variance between board-approved OPEB costs and the actual costs incurred. Based on the information summarized in Table 4, GSHi does not believe there is a material variance in overall other post-employment benefit costs.

2025 Test Year vs 2020 Board Approved

As part of its 2020 cost of service rate application and the associated settlement agreement, GSHi negotiated a general expense reduction, where it was granted the discretion to allocate the overall OM&A expense reduction as it deemed appropriate. GSHi allocated this expense reduction to specific items in its 2020 test year budget, including other post-employment benefits (OPEB). A portion of the general expense reduction negotiated in the settlement was applied to OPEB costs. This cost reduction affects both interest costs, which impact the income statement (specifically, future pension benefit interest expense), and costs embedded in payroll burdens that are distributed across numerous cost centers.

Due to the impracticality of updating the dozens of redistributions that would be required, the entire cost reduction was allocated to the future pension benefit interest expense rather than the payroll burden cost center. Exhibit 4, Tab 4, Schedule 1, Table 4 provides a summary of overall OPEB costs. The cost embedded in rates under the "2020 Approved" column in that table ($593k) closely approximates the "2025 Test" cost ($582k), and GSHi believes this more accurately represents the overall variance between board-approved OPEB costs and the actual costs incurred. Based on the information summarized in Table 4, GSHi does not believe there is a material variance in overall other post-employment benefit costs.

Other Programs USofA Definitions

The following Programs did not have material variances requiring explanation, however GSHi provides the USofA accounts that are included in each.

Meter Operations

- 5065 - Meter Expense

Overhead Distribution System Operations

- 5020 - Overhead Distribution Lines and Feeders - Operation Labour
- 5025 - Overhead Distribution Lines and Feeders - Operation Supplies and Expenses
- 5030 - Overhead Sub-transmission Feeders – Operation
- 5035 - Overhead Distribution Transformers – Operation

Pole Attachments

- 5095 - Overhead Distribution Lines and Feeders - Rental Paid

Underground Distribution System Maintenance

- 5145 - Maintenance of Underground Conduit
- 5150 - Maintenance of Underground Conductors and Devices
- 5155 - Maintenance of Underground Services
- 5160 - Maintenance of Line Transformers

Meter Maintenance

- 5175 - Maintenance of Meters

Sentinel Lights

- 5170 - Sentinel Lights – Labour
- 5172 - Sentinel Lights - Materials and Expenses

LEAP

- 6205 – Donations (LEAP)

Attachment 1 (of 1):

OEB Appendix 2-JC OM&A Programs Table

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Appendix 2-JC
OM&A Programs Table

Programs	Last Rebasing Year (2020 OEB-Approved)	Last Rebasing Year (2020 Actuals)	2021 Actuals	2022 Actuals	2023 Actuals	2024 Bridge Year	2025 Test Year	Variance (Test Year vs. 2023 Actuals)	Variance (Test Year vs. Last Rebasing Year (2020 OEB-Approved)
Reporting Basis	MIFRS	MIFRS	MIFRS	MIFRS	MIFRS	MIFRS	MIFRS	MIFRS	MIFRS
Operation									
Operation Supervision and Engineering	1,583,787	1,380,481	1,464,782	1,545,299	1,604,934	2,020,188	2,052,731	447,797	468,944
Station Operations	1,120,423	930,241	800,245	998,400	949,764	968,129	1,375,196	425,432	254,773
Miscellaneous Distribution Expense	1,012,927	1,072,682	994,303	977,235	895,684	1,230,629	1,225,639	329,955	212,712
Load Dispatching	755,252	734,003	695,543	681,248	673,498	898,490	990,390	316,892	235,138
Meter Operations	790,446	767,775	728,549	624,430	755,778	793,646	877,319	121,541	86,873
Customer Premises	501,845	636,500	699,331	693,656	813,040	709,881	792,448	-20,592	290,603
Overhead Distribution System Operations	818,485	707,284	636,193	686,102	625,923	737,389	744,073	118,150	-74,412
Underground Distribution System Operations	144,041	73,014	86,993	80,769	102,864	91,722	158,598	55,734	14,557
Pole Attachments	166,694	247,702	172,075	168,148	138,125	146,938	151,578	13,454	-15,116
Sub-Total	6,893,900	6,549,683	6,278,014	6,455,287	6,559,611	7,597,012	8,367,972	1,808,361	1,474,072
Maintenance									
Vegetation Management	537,755	723,215	656,503	392,870	578,757	626,975	766,727	187,970	228,972
Overhead Distribution System Maintenance	739,933	512,577	557,281	480,509	553,488	574,927	648,054	94,566	-91,879
Underground Distribution System Maintenance	468,498	352,978	355,206	348,443	447,811	398,578	454,776	6,965	-13,722
Station Maintenance	276,895	146,973	94,116	118,696	55,364	90,086	75,220	19,856	-201,675
Meter Maintenance	3,267	48,797	24,430	51,313	75,085	11,801	11,626	-63,459	8,359
Sentinel Lights	6,037	6,209	3,668	5,717	6,791	6,613	7,758	967	1,721
Sub-Total	2,032,385	1,790,749	1,691,204	1,397,548	1,717,295	1,708,980	1,964,161	246,866	-68,224
Billing and Collecting									
Billing	598,006	488,019	1,062,416	1,086,598	1,023,362	1,258,460	1,195,009	171,647	597,003
Collections and Bad Debt Expense	399,925	401,381	230,878	251,550	541,195	481,708	522,345	-18,850	122,420
								0	0
								0	0
								0	0
Sub-Total	997,931	889,400	1,293,294	1,338,148	1,564,557	1,740,168	1,717,354	152,797	719,423
Community Relations									
Customer Accounts	1,360,800	1,382,523	992,464	1,044,554	1,059,283	1,148,270	1,234,670	175,387	-126,130
								0	0
								0	0
								0	0
								0	0
Sub-Total	1,360,800	1,382,523	992,464	1,044,554	1,059,283	1,148,270	1,234,670	175,387	-126,130
Administrative and General									
Administration	3,331,399	3,070,871	3,403,603	3,501,699	4,101,387	4,331,502	4,619,969	518,582	1,288,570
General Plant Costs	704,039	759,850	733,024	860,144	898,949	767,096	923,838	24,889	219,799
Regulatory Expense	693,576	694,392	703,118	826,122	653,375	720,772	855,677	202,302	162,101
Pensions and OPEBs	191,697	399,399	353,275	381,749	529,508	335,400	501,187	-28,321	309,490
LEAP	32,050	48,500	32,050	32,050	32,050	32,050	40,000	7,950	7,950
Sub-Total	4,952,761	4,973,012	5,225,069	5,601,765	6,215,269	6,186,820	6,940,671	725,402	1,987,910
Miscellaneous		-17,351	-119	-1,052				0	0
Total	**16,237,777**	**15,568,016**	**15,479,926**	**15,836,250**	**17,116,015**	**18,381,250**	**20,224,828**	**3,108,813**	**3,987,051**

Exhibit 4: Operating Expenses

Tab 4 (of 5): Other OM&A Costs and Analyses

WORKFORCE PLANNING AND EMPLOYEE COMPENSATION

GSHi has not made any significant changes in its workforce planning and compensation strategies since the last rate application. Unforeseen developments, particularly the impact of COVID-19, significantly affected GSHi's ability to fill vacancies as originally planned. The pandemic caused widespread disruptions, leading to operational challenges, delays in hiring processes, and a highly competitive labour market. COVID-19-related restrictions, such as social distancing, office closures, and increased demand for remote work, also made it more difficult to recruit and onboard new employees in a timely manner. Even as the pandemic's effects have lessened, the labour market remains highly competitive, particularly for technical positions, making it challenging to attract and retain skilled staff.

Compensation Systems and Strategies

Overall compensation for all employees is designed to remain competitive with market compensation to attract and retain qualified candidates. GSHi and GSHPi do not use any performance pay compensation strategies.

It is the responsibility of the HR Governance Committee of the Board of Directors to continue to monitor and ensure the effectiveness of the compensation for both the GSHi and GSHPi's workforces. The Committee is responsible for establishing a mandate which forms the basis for the parameters that the bargaining teams use for union negotiations. The data presented to the Committee includes past industry and like-sized utility settlements, current labour rates for specific skilled jobs in Northeastern Ontario and economic projections. The Committee also approves any increases for Executive positions and makes a recommendation to the Board of Directors for CEO compensation. Management and Non-Union increases are considered once the collective bargaining process is completed. In reviewing the compensation and increases for these groups, general economic conditions are considered, as well as the MEARIE management survey and results of the OEB and Corporate scorecards.

Unionized employees

The majority of GSHi and GSHPi's workforces are unionized, with 85% for GSHi and 68% for GSHPi. The compensation for unionized employees is negotiated through the collective bargaining process. Since the last COS Application, the workers had been represented by CUPE Local 4705 up to May 19, 2024. Certification of a new Local 1000, also known as Power Workers Union was completed on May 20, 2024. GSHi workers are mainly outside, technical and trade positions while the majority of GSHPi positions are considered office positions.

Both collective agreements provide for annual payroll increases and employee step progressions. Labour rates and benefits are adjusted based on negotiated changes. Since the 2020 COS Application, the annual increases have been the same for each bargaining unit. The following table shows the increases since 2019:

Table 1: Historical CBA Negotiated Wage Increases

Period	Wage Increase
April 1, 2019 to March 31, 2020	2.00%
April 1, 2020 to March 31, 2021	2.00%
April 1, 2021 to March 31, 2022	2.00%
April 1, 2022 to March 31, 2023	2.25%
April 1, 2023 to March 31, 2024	2.25%

The contract periods were April 1, 2019 to March 31, 2022 (3 year contract) and then April 1, 2022 to March 31, 2024 (2 year contract). Contract negotiations planned with new union in January 2025. An inflationary increase of [redacted]% has been used for budgeting the 2025 Test Year.

Executive, Management and Non-Unionized employees

The Executive, Management and Non-Unionized salary scale was originally established in 2007 by the Hay Management Group. The salary groupings and ranges have been relied upon since then to ensure that relative equality exists in compensation for these groups, based on the value of the work performed. The MEARIE management survey is reviewed to ensure that our management compensation is in line with similar sized comparable companies.

Benefits

The employee benefit plans are designed to address the health and wellness needs of GSHi and GSHPi employees.

A comprehensive benefit package exists which includes health and dental benefits, health spending accounts, life insurance, vacation and leave programs, employer portions of government deductions and the OMERS defined benefit pension plan for which the employer matches the employee's contributions. Additional programs include an employee assistance program and fitness participation reimbursements. Depending on the number of years of service, employees hired before April 1, 2004 are entitled to lifetime benefits.

Statutory benefits

Statutory benefits paid by GSHi are summarized as follows:

- Canada Pension Plan ("CPP") – GSHi remits 5.95% of gross earning (2024 maximum per employee is $3,867.50);
- Employment Insurance ("EI") – GSHi remits 1.96% of gross earnings (2024 maximum per employee is $1,239.01);
- Employer Health Tax ("EHT") – GSHi remits 1.95% of gross earnings plus taxable benefits;
- Workplace Safety Insurance Board ("WSIB") – GSHi remits 0.82% of gross earnings plus taxable benefits (2024 maximum per employee is $965.14).

At the time of 2025 budget preparation, GSHi estimated an increase for each statutory benefit in line with historical increases.

Pensions

GSHi employees are members of the OMERS. OMERS is a multi-employer pension plan in which most Ontario LDCs participate. As such, GSHi pension benefit costs are consistent with other participating Ontario LDCs. The plan is a contributory defined pension plan which is financed by equal contributions from the employer and employee based on the employee's contributory earnings. For the 2025 Test Year, GSHi assumed OMERS rates of 9.0% on earning up to the Yearly Maximum Pensionable Earnings (YMPE) level and 14.6% on earnings over YMPE.

Table 2: GSHi OMERS Cost

	2020		2020		2021		2022		2023		2024		2025	
	OEB Approved		Actual		Actual		Actual		Actual		Bridge (Budget)		Test	
OM&A	64.4%	429,117	62.0%	417,570	56.2%	361,764	61.3%	401,697	58.2%	360,580	60.7%	434,082	64.0%	482,799
Capital	35.6%	237,644	38.0%	255,483	43.8%	282,206	38.7%	253,128	41.8%	259,110	39.3%	281,030	36.0%	271,368
Total OMERS ($)		666,761		673,053		643,970		654,825		619,691		715,112		754,167

OPEBs

GSHi currently provides post-employment benefit life insurance and health and dental benefits to all active full-time employees and retirees under the age of 65. Employees hired before April 1, 2004 and current retirees are entitled to life time benefits. Employees hired after April 1, 2004 have benefits until the age of 65. Table 3 below summarizes the coverage amounts for each of the employee groups.

Table 3: Employee Future Benefits Eligibility

Employee Group	Payment Structure
Management	
Hired prior to April 1, 2004	Lifetime coverage
Hired after April 1, 2004	Coverage to age 65
Union – Hydro	
Hired prior to April 1, 2004	Lifetime coverage
Hired after April 1, 2004	Coverage to age 65
Union – Services	
Hired prior to April 1, 2004	Lifetime coverage
Hired after April 1, 2004	Coverage to age 65

<u>Accounting Methods for Pensions and OPEBs</u>

GSHi accounts for OMERS on a cash basis, which is consistent with the approach taken by other participating Ontario LDCs. OMERS is a multi-employer pension plan, and individual employee future benefit obligations are not available at the employer level.

In its last Cost of Service (COS) rate application in 2020, GSHi transitioned from the cash basis to the accrual basis for accounting for OPEBs. Table 4 below summarizes the OPEB costs incurred and recorded in OM&A and capital.

Table 4: OPEB Cost Summary

	2020		**2020**		**2021**		**2022**		**2023**		**2024**		**2025**	
	OEB Approved		Actual		Actual		Actual		Actual		Bridge (Budget)		Test	
Current service & interest	100.0%	593,097	100.0%	594,204	100.0%	541,574	100.0%	563,970	100.0%	599,755	100.0%	540,606	100.0%	582,438
Allocated to:														
OM&A	86.1%	510,659	85.2%	505,986	82.2%	444,991	85.1%	480,003	91.4%	548,202	85.1%	459,963	91.7%	534,064
Capital	13.9%	82,438	14.8%	88,218	17.8%	96,583	14.9%	83,967	8.6%	51,553	14.9%	80,643	8.3%	48,374
Total OPEB Costs ($)		593,097		594,204		541,574		563,970		599,755		540,606		582,438

<u>Most Recent Actuarial Report</u>

GSHi has included the exhibits from the most recent actuarial reports in Exhibit 9, Tab 1, Schedule 1, Attachments 2 through 6, covering the years 2019, 2020, 2021, 2022, and 2023. Attachment 6 in this section contains the exhibits from the actuarial report prepared for the 2023 fiscal year-end in February 2024. Projections for the 2025 year are also included in these exhibits. On the Greater Sudbury Hydro Inc. page of Attachment 6, the "Estimated Benefit Expense" column titled "Projected CY 2025" indicates that the sum of the "Current Service Cost" ($45,938) and "Interest Cost" ($536,583) equals $582,521. This amount closely aligns with the budgeted amount for the 2025 test year ($582,438), with an insignificant difference of $83.

Basis of Forecasts for Pension and OPEB Amounts

The basis for forecasting pension (OMERS) amounts for the bridge and test years involves using the detailed labor budget by employee to project OMERS expenses based on budgeted labor. GSHi identifies which employees are enrolled in OMERS and, based on the budgeted labor, projects the OMERS expense that GSHi will incur during these years. The projections are based on OMERS contribution rates of 9.0% on earnings up to the Yearly Maximum Pensionable Earnings Level (YMPE) and 14.6% on earnings over the YMPE.

The basis for forecasting OPEB amounts is prepared by a third-party actuary. As part of the 2023 fiscal year-end, RSM prepared an updated actuarial valuation for GSHi and its affiliated companies. This update included projections for fiscal years 2024 and 2025. For details, see Exhibit 9, Tab 1, Schedule 1, Attachment 6, titled "RSM Actuarial Valuation Report – Exhibit Summaries 2023." GSHi used these projected values for 2025 as the basis for including OPEB costs in the test year.

Full-Time Equivalents (FTEs)

GSHi has prepared Appendix 2-K, included as Exhibit 4, Tab 4, Schedule 1, Attachment 1, based on the total full-time equivalents (FTEs). This includes FTEs directly employed by GSHi as well as those allocated through shared services and corporate cost allocations described in Exhibit 4, Tab 4, Schedule 2. GSHi notes that the 2020 Board Approved figures have been adjusted for the FTEs and the amount of the General Expense Reduction from GSHi’s 2020 Cost of Service Application (EB-2019-0037) settlement agreement that was allocated to compensation. This reduction, as related to

Appendix 2K, is shown below in Table 1. Table 1 also corrects a classification error made in 2020 where one employee was misclassified as Management instead of Non-Union. The adjusted figures have been used for the variance analysis that follows below.

Table 1 – Adjusted 2020 Board Approved Appendix 2K

	2020 Test Year per EB-2019-0037 Appendix 2-K	General Expense Reduction and Adjustment	Adjusted 2020 Board Approved
Number of Employees (FTEs including Part-Time)[1]			
Management (including executive)	18	- 0.2	17.5
Non-Management (union and non-union)	88	- 2.8	85.4
Total	106	- 3.0	102.89
Total Salary and Wages including ovetime and incentive pay			
Management (including executive)	$ 2,401,357	-$ 3,040	$ 2,398,316
Non-Management (union and non-union)	$ 7,640,201	-$ 237,061	$ 7,403,141
Total	$ 10,041,558	-$ 240,101	$ 9,801,457
Total Benefits (Current + Accrued)			
Management (including executive)	$ 737,905	-$ 2,685	$ 735,220
Non-Management (union and non-union)	$ 2,331,664	-$ 71,818	$ 2,259,846
Total	$ 3,069,569	-$ 74,503	$ 2,995,066
Total Compensation (Salary, Wages, & Benefits)			
Management (including executive)	$ 3,139,262	-$ 5,726	$ 3,133,536
Non-Management (union and non-union)	$ 9,971,865	-$ 308,879	$ 9,662,986
Total	$ 13,111,127	-$ 314,604	$ 12,796,523

Table 2 demonstrates the variation in total FTE count when comparing each year with its preceding year. The FTEs for the 2025 Test Year have grown by 4.77 from the adjusted 2020 Board Approved figures, marking a 4.6% increase.

Table 2 – Change in FTE Count Year Over Year

Year	FTE Count	Change Year Over Year
2020 Board Approved	102.89	
2020 Actuals	96.46	- 6.43
2021 Actuals	97.89	1.43
2022 Actuals	97.57	- 0.32
2023 Actuals	96.09	- 1.47
2024 Bridge Year	105.26	9.17
2025 Test Year	107.66	2.39
Total Change 2025 Test Year vs 2020 Adjusted Board Approved		**4.77**

Temporary Leaves

Between 2020 and 2024, GSHi experienced a significant number of temporary leaves, particularly parental leaves, as many young employees started families, with most opting for at least six months of leave. For instance, among the Powerline Electricians, there were eight instances of parental leave, resulting in partial vacancies over the years. Filling these vacancies, especially in roles requiring specialized technical skills, proved particularly challenging. The limited availability of skilled workers made it difficult to find qualified candidates willing to take on short-term roles, as most professionals prefer the stability of long-term positions. Additionally, the costs associated with training and onboarding temporary employees in technical fields were often not justified for such a brief period. Due to the reluctance of many skilled professionals to accept temporary roles and the potential disruptions to productivity, hiring temporary replacements for short-term absences, such as parental leave, often proved to be an impractical solution, especially in technical fields.

2020 Board Approved vs 2020 Actuals

FTE Count Change -6.43

Due to COVID and the predominantly remote work setup for our staff, GSHi did not fill many of its Summer Student or Powerline Co-Op placement positions. Furthermore, there were two vacancies: a Power System Inspector and a Technical Services Supervisor. These vacancies were somewhat mitigated by an overlap of the Vice-President Engineering and Operations for succession planning for part of 2020.

<u>2021 vs 2020 Actuals</u>

FTE Count change +1.43

The increase in the number of full-time employees is primarily due to the hiring of a Human Resources Manager, in preparation for the retirement of GSHi's Vice-President of Human Resources and Safety in 2024. This rise was partially offset by the temporary overlap in the Vice-President of Engineering and Operations role during part of 2020. Furthermore, a Supervisor for Utility Billing was added to the FTE count, with a partial allocation to GSHi. The return of summer students and Powerline Co-Op placements also affected the FTE count, surpassing some partial vacancies (including a System Operator due to retirement) and temporary leaves (as discussed above) across the organization.

<u>2022 vs 2021 Actuals</u>

FTE Count Change -0.32

The FTE count remained mostly unchanged from 2021 to 2022. Although there were some vacancies and leaves across the organization, they balanced each other out. Additionally, there were decreases in the allocation of certain Corporate Services from GSHPi.

<u>2023 vs 2022 Actuals</u>

FTE Count Change -1.47

The Operations Department had vacancies in positions such as Crew Leader, Powerline and Substations Electricians and a Power System Inspector, which were somewhat balanced by an increase in Powerline Co-Op Positions. Many of these were due to temporary parental leaves. The Control Room experienced another vacancy after several years of being staffed by a non-permanent employee. Additionally, a Protection and Control Technologist departed from the organization part way through the year. Several persisting vacancies from earlier years were filled in 2023 but were only filled part way or late in the year.

2024 Bridge Year vs 2023 Actuals

FTE Count Change +9.17

The differences between 2024 and 2023 stem from the additions of a Senior Accountant, General Counsel, and Administrative Assistant, all partly assigned to GSHI. Additionally, the 2024 FTE count is affected by the budgeted filling of vacancies for a Technical Services Supervisor (filled September 2024), Control Room Supervisor (filled September 2024), Chief System Operator, Distribution Engineer, Project Coordinator (2 filled in June 2024, one in lieu of a Distribution Engineer) and Powerline Electricians (2 filled, January 2024 and June 2024) and Co-Op Placements some of which became vacant during 2023. These additions have been partially offset by the retirement of the Vice-President of Human Resources and Safety. In addition, GSHi experienced many six month parental leaves in 2023 that have the full impact of their returns budgeted in 2024.

2025 Test Year vs 2024 Bridge Year

FTE Count Change +2.39

The growth from the 2024 Bridge Year to the 2025 Test Year is due to having the Technical Services Supervisor for the entire year in 2025, as opposed to only half the year in 2024. A Customer Service Representative and an IT Service Desk Support have been added, both partially assigned to GSHI. The rest of the increase comes from the conclusion of three leaves of absence that impacted 2024 for half a year.

New, Eliminated and Filled Positions since 2020

1) **Supervisor Utility Billing** - 0.6 FTE

Due to the growing complexity of electricity billing and the launch of various programs like ULO, customer choice, and Green button, GSHi decided it was essential to hire a Supervisor of Utility Billing, who is partly assigned to GSHi, to assist in navigating these intricate changes.

2) **CSR/Biller/Admin** – 1.22 FTEs

As part of the General Expense Reduction from GSHi's 2020 Cost of Service Application Settlement Agreement (EB-2019-0037), the Customer Service complement was reduced by 1.46 FTEs. GSHi managed this reduction for the first two years post-settlement by not filling existing vacancies, as its offices were closed to the public during the Covid shutdown. However, by 2023, with the reopening of the front doors and the growing complexities in the industry the vacancies were required to be filled to provide necessary assistance.

3) **Senior Accountant** – 0.68 FTE

Hiring an additional senior accountant as a permanent full-time employee in November 2023 was a strategic decision that ensures continuity and stability within the accounting department. While the immediate need arose from the requirement to cover a parental leave, the long-term vision anticipates upcoming retirements within the management team. By bringing in a highly skilled senior accountant now, GSHi not only addresses the short-term gap but also proactively prepares for the future transition.

4) **General Counsel** – 0.79 FTE (hired January 2024) and **General Counsel Assistant** (hired August 2024) – 0.79 FTE

As a result of growing complexities of corporate dealings and legal and regulatory requirements, a mid-size utility like Greater Sudbury Hydro Inc. (GSHi) benefits significantly from having an in-house general counsel at their disposal. As the regulatory landscape continues to evolve, businesses must navigate various legal frameworks, compliance issues, and sector-specific regulations. An in-house counsel provides real-time legal guidance, helping the company stay compliant and mitigate risks associated with non-compliance or unforeseen regulatory changes. This is crucial for businesses operating in highly regulated sectors where failure to meet legal obligations can result in costly fines, reputational damage, and operational disruptions.

Additionally, having an in-house general counsel helps the business manage increased liability risks and complex employment matters. In-house counsel can proactively address employment/labour issues and corporate governance concerns, ensuring the company follows best practices and maintains a healthy workplace culture. They also play a key role in safeguarding sensitive business data, helping the company meet changing privacy regulations and frameworks, and protecting the organization from data breaches or legal consequences of non-compliance. Ultimately, an in-house counsel provides ongoing legal oversight that is crucial to managing risk and supporting long-term business growth. At Greater Sudbury Utilities, the role of General Counsel is allocated between both the regulated GSHi and the competitive companies, therefore lessening the burden on any one company.

5) **IT Support Desk** – 0.72 FTE

The IT Support Desk was hired in March of 2024 to help fill the gap developed by a vacancy for a parental leave of an IT Specialist. GSHi has decided to retain the IT Support Desk as it allows the organization to handle routine IT tasks efficiently, freeing up IT Specialists to focus on more complex issues. This improves overall operational efficiency and reduces costs by having lower-level tasks managed at a lower rate. It also enhances service delivery by providing quicker support for day-to-day issues, reducing downtime.

6) **Manager of Engineering and Asset Management** – 1.0 FTE

In the evolving electric utility sector, maintaining operational excellence and ensuring infrastructure reliability are critical. The creation of the Manager of

Engineering and Asset Management position in July 2020 was a strategic move to address these needs by integrating engineering expertise with comprehensive asset management practices. This role is essential for optimizing the lifecycle of utility assets, improving operational efficiency, and meeting regulatory and industry standards. The Manager is responsible for developing and implementing long-term asset management strategies that align with the utility's strategic goals, including planning for future infrastructure needs and adapting to industry trends. This position represents a strategic investment in the future, aimed at improving asset reliability, optimizing costs, ensuring regulatory compliance, and fostering innovation. The Manager role allows for dedicated attention to asset management processes and systems while still maintaining responsibility for all distribution system engineering and the overall Distribution System Plan (DSP). While this position was created in July 2020, the promotion of the Engineering Supervisor to this role, left a vacancy in the Supervisor position until it was filled in August 2023.

7) **Control Room Operator** – 1.0 FTE
It has become Increasingly difficult to attract and hire qualified control room operators. This is a problem across the industry as whole. GSHi has historically relied on retirees to fill gaps and provide mentorship to apprentices as they develop, however, this is not a sustainable practice. GSHi has adopted the practice of training interested internal candidates that meet the educational requirements as operators. This position allows GSHi to return to a full complement of control room operators which will be required for any future DSO initiatives.

8) **Project Coordinator** – 1.0 FTE
Hired in June 2024, the new project coordinator brings GSHi's team to five members. This addition is crucial for managing the increased complexities of asset construction in today's environment. As legal and regulatory requirements continue to evolve, it is essential to develop compliant work instructions for field

crews. The new project coordinator will oversee various projects related to the expansion and renewal of our distribution system, as detailed in our Distribution System Plan. Responsibilities include technical analysis, design, customer engagement, financial analysis, economic evaluation, procurement of external services such as contract labor, and overall project oversight.

9) **Power System Inspector** – Reduction (1.0 FTE)
This position has historically been filled by someone requiring an accommodation. The employee occupying this position has recently retired and the position will remain unfilled until another employee requires modified work. In the interim, contract labour will be utilized to complete the work of this position.

10) Students and Co-Op Placements – Reduction (2.39 FTE)
GSHi has faced challenges in securing Co-Op placements in recent years, resulting in a decrease. Additionally, some tasks traditionally handled by students have been outsourced to improve operational efficiency.

Attachment 1 (of 1):

OEB Appendix 2-K Employee Costs

File Number:	EB-2024-0026
Exhibit:	4
Tab:	4
Schedule:	1
Page:	1
Date:	30-Oct-24

TO BE UPDATED AT THE DRAFT RATE ORDER STAGE

Appendix 2-K
Employee Costs

	Last Rebasing Year 2020 - OEB Approved	Last Rebasing Year (2020 Actuals)	2021 Actuals	2022 Actuals	2023 Actuals	2024 Bridge Year	2025 Test Year
Number of Employees (FTEs including Part-Time)[1]							
Management (including executive)	17.5	17.6	18.2	17.5	18.1	19.4	19.8
Non-Management (union and non-union)	85.4	78.8	79.7	80.1	78.0	85.8	87.9
Total	102.9	96.5	97.9	97.6	96.1	105.3	107.7
Total Salary and Wages including ovetime and incentive pay							
Management (including executive)	$ 2,398,316	$ 2,481,824	$ 2,550,294	$ 2,546,584	$ 2,792,157	$ 3,064,980	$ 3,181,226
Non-Management (union and non-union)	$ 7,403,141	$ 7,269,645	$ 7,270,989	$ 7,447,174	$ 7,440,082	$ 8,408,253	$ 8,820,921
Total	$ 9,801,457	$ 9,751,469	$ 9,821,283	$ 9,993,758	$ 10,232,239	$ 11,473,233	$ 12,002,146
Total Benefits (Current + Accrued)							
Management (including executive)	$ 735,220	$ 634,402	$ 736,709	$ 742,278	$ 767,437	$ 834,767	$ 894,408
Non-Management (union and non-union)	$ 2,259,846	$ 1,784,452	$ 2,325,505	$ 2,382,475	$ 2,239,559	$ 2,264,280	$ 2,365,467
Total	$ 2,995,066	$ 2,418,855	$ 3,062,214	$ 3,124,753	$ 3,006,995	$ 3,099,048	$ 3,259,875
Total Compensation (Salary, Wages, & Benefits)							
Management (including executive)	$ 3,133,536	$ 3,116,226	$ 3,287,003	$ 3,288,862	$ 3,559,594	$ 3,899,748	$ 4,075,633
Non-Management (union and non-union)	$ 9,662,986	$ 9,054,098	$ 9,596,494	$ 9,829,649	$ 9,679,641	$ 10,672,533	$ 11,186,388
Total	$ 12,796,523	$ 12,170,324	$ 12,883,497	$ 13,118,511	$ 13,239,235	$ 14,572,281	$ 15,262,021
Total Compensation Breakdown (Capital, OM&A)							
OM&A	$ 10,067,874	$ 9,412,507	$ 9,749,070	$ 10,286,633	$ 10,148,841	$ 11,509,491	$ 12,176,241
Capital	$ 2,728,649	$ 2,757,817	$ 3,134,427	$ 2,831,878	$ 3,090,393	$ 3,266,332	$ 3,085,780
Total	$ 12,796,523	$ 12,170,324	$ 12,883,497	$ 13,118,511	$ 13,239,235	$ 14,775,823	$ 15,262,021

SHARED SERVICES & CORPORATE COST ALLOCATIONS

GSHi is a wholly-owned subsidiary of Greater Sudbury Utilities (GSU). It shares employees with, and provides services to, affiliates in an effort to benefit from economies of scope and scale by sharing costs that would otherwise be passed on to ratepayers. GSU's business units are as follows:

- Greater Sudbury Hydro Plus Inc.
- Greater Sudbury Hydro Inc.
- Greater Sudbury Telecommunications Inc. (operated as Agilis Networks)
- 1627596 Ontario Inc. (operated as @home Energy)
- ConverGen Inc.

GSHi is not a virtual utility in that it does have its own employees and only some, not all, services are provided by an affiliate.

As per the 2020 Cost of Service Application Settlement Agreement (EB-2019-0037), GSHi agreed to conduct a shared services and cost allocation review to be completed before the next rebasing. GSHi has submitted the completed study with its 2025 Cost of Service Application (EB-2024-0026). A copy of the final report ("The KPMG Report") is included in Exhibit 4, Tab 4, Schedule 2, Attachment 2. The reasonableness of the allocation methodology of the shared services has been reviewed by KPMG, an independent third party, and the results are included in their report. The report also includes descriptions as to how each Cost Driver is derived. While the review found the allocation methodologies sound, a key recommendation included the addition of a market rent charge to GSHPi to be in line with the Affiliates' Relationships Code. Any recommended changes from the review were integrated in 2023 and forward up to and including the 2025 Test Year. A high-level summary of the impact of the improvements suggested and implemented from the KPMG report is provided in Table 1 below.

Table 1 – Summary of Impacts of the KPMG Report

Fair Market Rent Charged to GSHPi (Corporate Services Departments)	$ 334,016
Amount Charged Back to GSHi through Corporate Services SLA	-$ 220,847
Fair Market Rent Charged to GSHPi (Streetlights Inventory)	$ 46,532
Reduction in GSHi costs for indirect costs charged to Streetlights	$ 27,894
Net Reduction in GSHi Revenue Requirement (2025 Test Year)	**$ 187,595**

Shared Services to Affiliates

GSHi owns and maintains a building at 500 Regent Street in the City of Greater Sudbury providing a centralized space and operations center for GSHi and its affiliates. GSHi also maintains a full-service garage for its vehicle fleet which is also used by the affiliates. Finally, GSHi provides streetlight maintenance services to Greater Sudbury Hydro Plus Inc. Detailed methodology for cost allocation can be found in the KPMG Report included as Exhibit 4, Tab 4, Schedule 2, Attachment 2 as well as described in Appendix 2-N Shared Services and Corporate Cost Allocation included as Exhibit 4, Tab 4, Schedule 2, Attachment 1. Table 2 provides a summary of the services provided by GSHi to Affiliates from 2020 Board Approved to 2025 Test Year as well as a summary description of the cost allocation methodology.

Table 2 – Summary of Services Provided by GSHi to Affiliates

Service Provided	Garage/Fleet Services - Hourly charge out rate based on full cost recovery			Streetlight Maintenance - Time of staff as recorded in the work order system * 2023-2025 also includes commercial rent			Building Services and Occupancy Costs - cost recovery based on square footage * 2023-2025 also includes commercial rent		
Years	% Cost Allocation	Price for the Service	Cost for the Service	% Cost Allocation	Price for the Service	Cost for the Service	% Cost Allocation	Price for the Service	Cost for the Service
2020 BA	7%	$104,738	$1,347,616	100%	$441,246	$441,246	26%	$194,008	$755,178
2020 Actual	8%	$111,628	$1,311,737	100%	$382,451	$382,451	26%	$190,823	$736,290
2021 Actual	11%	$174,102	$1,398,577	100%	$282,015	$282,015	26%	$199,353	$773,760
2022 Actual	11%	$162,323	$1,365,762	100%	$267,131	$267,131	27%	$224,297	$831,926
2023 Actual	10%	$150,054	$1,419,508	118%	$318,725	$270,970	65%	$612,084	$937,971
2024 Bridge Year	9%	$151,476	$1,453,257	113%	$396,337	$349,805	70%	$610,036	$874,433
2025 Test Year	10%	$170,287	$1,486,986	112%	$432,468	$385,936	66%	$625,085	$950,541

Revenue included in Other Revenue

For the services GSHi provides to its Affiliates, revenue is recorded in some cases.

For Garage/Fleet services, there is no revenue recorded as it is a burden calculation and is charged based on the number of vehicles hours charged by each company. The charges offset the cost centre reducing it to zero.

For Streetlight Maintenance, Table 3 details the items in the Streetlight Maintenance service.

Table 3 – Streetlight Maintenance Price Details

Item	Amount	Account
Fair Market Rent	46,532	4210
Direct Costs	334,724	4375
Building Operating Costs	23,319	5675
Indrect Costs	27,894	Reduction of Allocated Costs
Total	**432,469**	

Fair Market Rent charged is included in account 4210. All revenue associated with other direct costs is included in account 4375. Building Operating Costs which as discussed below, are reductions to the Building Cost Centre. The final $27,894 of the price charged to GSHPi for Streetlight Maintenance relates to indirect costs from GSHPi. One of the recommendations from the KPMG Report was that some of the indirect costs from GSHPi should be allocated to Streetlight Maintenance in GSHi and then charged back to GSHPi. In order to avoid increasing complexity and creating more circular calculations around the SLA calculations, the allocation within GSHPi to Streetlight Maintenance was increased so that they would be charged some of the indirect costs without charging it to GSHi and then back to GSHPi. By increasing the allocation of the indirect costs within GSHPi to Streetlight Maintenance, it reduces the overall costs of Corporate Services being charged to GSHi.

For Building Service and Occupancy Costs – only the amount of Fair Market rent of $441,782 has been included in account 4210. The remaining amounts are reductions within the cost centre.

Shared Services from Affiliates

Greater Sudbury Hydro Plus Inc. provides the following services to GSHi: Corporate Services (which includes Financial, Human Resources, Communications, Information Technology, Customer Billing and related services, President and CEO, Risk Management, Payroll, Accounts Payable, Regulatory, Accounting, Innovation and Quality Management) Board of Directors and Procurement and Stores. The detailed cost allocation methodology for each of these services can be found in the Shared Services and Cost Allocations Review included in Exhibit 4, Tab 4, Schedule 2, Attachment 2 as well as described in Appendix 2-N Shared Services and Corporate Cost Allocation included as Exhibit 4, Tab 4, Schedule 2, Attachment 1. Table 4 provides a summary of the services provided by GSHi to Affiliates from 2020 Board Approved to 2025 Test Year as well as a simplified description of the cost allocation methodology.

Table 4 - Summary of Services Provided to GSHi to Affiliates

Service Provided	Shared Corporate Services - fully allocated costs			Board of Directors - 50% cost of two boards, (GSHi and GSU), plus direct assignment of 4 independent directors			Stores/Procurement - Materials Issued		
Years	% Cost Allocation	Price for the Service	Cost for the Service	% Cost Allocation	Price for the Service	Cost for the Service	% Cost Allocation	Price for the Service	Cost for the Service
2020 BA	69%	$5,805,882	$8,416,470	50%	$109,675	$219,350	91%	$527,359	$580,080
2020 Actual	75%	$6,090,168	$8,110,034	50%	$85,745	$171,512	92%	$409,656	$443,363
2021 Actual	75%	$6,500,235	$8,670,258	50%	$59,469	$118,939	92%	$420,899	$459,322
2022 Actual	74%	$6,683,823	$8,975,634	50%	$64,870	$129,739	89%	$447,197	$499,982
2023 Actual	77%	$7,162,329	$9,248,572	50%	$69,674	$139,348	92%	$422,620	$458,704
2024 Bridge Year	78%	$7,680,656	$9,805,551	50%	$101,387	$202,774	87%	$461,252	$529,708
2025 Test Year	78%	$8,220,748	$10,589,892	50%	$102,280	$204,559	90%	$488,302	$541,362

Variance Analysis

A table highlighting the variances has been included as Table 5 below. An explanation has been provided below any variances in excess of $150,000 when comparing 2023

Actuals and 2025 Test Year budget as well as 2020 Board Approved and 2025 Test Year budget.

Table 5 – Shared Services Variances

Service Provided	2020 OEB-Approved	2023 Actuals	2025 Test Year	Variance Test Year 2025 vs. 2023 Actuals	Variance Test Year vs. 2020 OEB-Approved
Services Provided by GSHi to Affiliates					
Garage/Fleet Services	104,738	150,054	170,287	20,233	65,549
Streetlight Maintenance	441,246	318,725	432,468	113,743	-8,778
Building Services/Occupancy	194,008	612,084	625,085	13,001	431,077
Services Provided to GSHi from Affiliates					
Corporate Services	5,805,882	7,162,329	8,220,748	1,058,419	2,414,866
Board of Directors	109,675	69,674	102,280	32,606	-7,395
Stores/Procurement	527,359	422,620	488,302	65,682	-39,057

Building Services and Occupancy Costs

2025 Test Year vs 2020 Board Approved: Price charged to Affiliates increased by $431,077

This variance stems from the recommendation by KPMG in their review of the Shared Services and Cost Allocation Review found Exhibit 4, Tab 4, Schedule 2, Attachment 2. It was recommended that GSHi begin charging fair market rent to the GSHPi for their occupancy of 500 Regent Street, Sudbury – a building owned by GSHi. This has provided additional revenue to GSHi which is offset by the additional costs allocated through the shared services agreement.

Shared Corporate Services Variances

2025 Test Year vs 2023 Actuals: Increase of $1,058,419 charged to GSHi

These variances are primarily due to two years of general wage increases and a General Counsel hired in early 2024. Increased IT costs due to increasing Cyber

Security costs and the industry's move to more subscription based software as a service has steadily increased the IT costs in OM&A since the last rebasing. Increases were offset by the retirement of the Vice-President of Human Resources in 2024. With the expected retirement of the VP of Human Resources, the department costs included an additional FTE for succession planning which is included in the 2023 Actuals. With the retirement in 2024, the additional costs are not included in the test year. Customer Billing and related services had increases in stationary and postage costs, software support and general wage and progression increases.

2025 Test Year vs 2020 Board Approved: Increase of $2,414,866 charged to GSHi

These increases are primarily due to two major factors, the introduction of fair market rent to each of the corporate services departments that reside at 500 Regent Street in Sudbury and general wage and progression increases across all the corporate services departments. With the changing business landscape, additional positions were needed in the Corporate Services company to support GSHi including the hiring of General Counsel and their assistant, an additional senior accountant and an IT help desk position. See Exhibit 4, Tab 4, Schedule 1 for further details on positions that have been added since 2020. At the time of the 2020 Cost of Service settlement, a reduction of the OM&A costs included a reduction of 1.46 in FTEs in the Customer Service department. GSHi was able to manage this reduction for the first 2 years after settlement as GSHi closed its doors to the public during the Covid shutdown which allowed not filling current vacancies at the time. By 2023, the front doors were reopened requiring an additional .5 FTE to assist. Over the last 5 years, several initiatives were introduced into the billing of hydro including OER, Covid relief rates, ULO, customer choice, Green Button, GSHi felt it necessary to hire .6 of a FTE utility billing supervisor to help manage the complex changes. As well, increases in postage, stationery and software maintenance costs were of the greater changes since 2020. Some corporate restructuring occurred where mapping and GIS costs that were in GSHi at the time of the

2020 Cost of Service application, moved to the affiliate and, beginning in 2023, were included in the shared services cost.

A quarter of the overall increase in corporate services was in the IT department at 26% of the change. This is mainly due to the IT industry's move from software purchases to software as a subscription service. This department also increased costs with .72 FTE to assist with help desk calls which allows for the IT professionals to work on more complex issues.

Streetlight Maintenance

Despite Streetlight Maintenance not driving a material variance, GSHi provides the following explanation for the variation in the amounts charged over the last 5 years.

The City of Greater Sudbury began a streetlight conversion project where the streetlights were converted to LED lights. This caused a reduction in maintenance requirements from 2020 through to 2023 where the costs have gradually increased each year since.

As well, in 2023 after receiving the Shared Services and Cost Allocation Review report from KPMG, it was determined GSHi was required to charge fair market rent for the space leased for an inventory of streetlight fixtures along with a portion of indirect costs. These additional costs were included starting in 2023.

The streetlight maintenance charges to Greater Sudbury Hydro Plus Inc since 2020 are as follows:

Table 6 Streetlight Maintenance Charges

Year	Actual/Estimate
2020	$ 382,451
2021	$ 252,015
2022	$ 267,131
2023	$ 318,725
2024 budget	$ 396,337
2025 budget	$ 432,468

Board of Directors Costs in GSHi

GSHi and GSU have two equally sized boards consisting each of seven members. Their meetings run contiguously. All Board of Directors costs are in Greater Sudbury Hydro Plus Inc. and 50% of those costs are attributed to GSHi.

Attachment 1 (of 2):

OEB Appendix 2-N Shared Services & Corporate Cost Allocations

Appendix 2-N
Shared Services and Corporate Cost Allocation [1]

Note:

1 **This appendix must be completed in relation to each service provided or received for the Historical (actuals), Bridge and Test years. The required information includes:**

· ***Type of Service:***
Services such as billing, accounting, payroll, etc. The applicant must identify any costs related to the Board of Directors of the parent company that are allocated to the applicant.

· ***Pricing Methodology:***

Pricing Methodology includes approaches such as cost-base, market-base, tendering, etc. The applicant must provide evidence demonstrating the pricing methodology used. The applicant must also provide a description of why that pricing methodology was chosen, whether or not it is in conformity with ARC, and why it is appropriate.

· ***% Allocation:***

The applicant must provide the percentage of the costs allocated to the entity for the service being offered. The Applicant must also provide a description of the allocator and why it is an appropriate allocator.

Year: 2020

Shared Services

Name of Company: From	Name of Company: To	Service Offered	Pricing Methodology	% Cost Allocation	Price for the Service $	Cost for the Service $
Affiliate	Greater Sudbury Hydro	Executive/Finance/Communications/Innovation	Time Records	73%	$1,261,064	$1,733,406
Affiliate	Greater Sudbury Hydro	Regulatory	No current activities identifiable with affiliates; therefore 100% assigned to Greater Sudbury	100%	$374,764	$374,764
Affiliate	Greater Sudbury Hydro	HR	HR - Directly assigned where possible, number of employees for other costs; 2nd tier allocation to reallocate portionassociated with shared services/	74%	$283,597	$383,239
Affiliate	Greater Sudbury Hydro	Risk Management	97% of costs allocated to Greater Sudbury, based on time records	98%	$249,172	$253,482
Affiliate	Greater Sudbury Hydro	Quality Management	QMS - Costs of the Plus Company directly assigned to Greater Sudbury, as the other affiliates pay for their own programs directly	74%	$72,438	$97,890
Affiliate	Greater Sudbury Hydro	CDM	No current activities identifiable with affiliates; therefore 100% assigned to Greater Sudbury	100%	$64,630	$64,630
Affiliate	Greater Sudbury Hydro	Insurance	Revenue	79%	$212,120	$268,638
Affiliate	Greater Sudbury Hydro	IT	Telephone systems, PCs and ERP, by unweighted number of users; telephone sets by weighted number of users reflecting complexity of the units; systems for customer information and billing by factors related to that function; costs directly assigned where specifically identified with an affiliate or function.	73%	$918,827	$1,254,374
Affiliate	Greater Sudbury Hydro	Accounts Payable/Payroll/Accounting	AP - Time tracking for activities identifiable with one affiliate; number of invoices for other costs Payroll - Time tracking for activities identifiable with one affiliate; number of employees for other costs Accounting - A time estimate for forecast; time records for actual	57%	$456,810	$806,167
Affiliate	Greater Sudbury Hydro	Customer Billing and related services	Detailed analysis of each costcomponent, with different allocation methods, including number of bills, call volumes, number of meters, and space occupied on the shared bill. Direct assignment where applicable.	76%	$2,054,245	$2,700,900
Affiliate	Greater Sudbury Hydro	Any costs of the Plus Company not otherwise allocated	For redistribution of costs which were allocated by other methodologies to the Plus Company. In proportion to the allocation of other costs.	83%	$142,501	$172,544
Affiliate	Greater Sudbury Hydro	Board of Directors	50% cost of two boards, (GSHi and GSU), plus direct assignment of four independent directors	50%	$85,746	$171,512
Affiliate	Greater Sudbury Hydro	Stores/Procurement	Materials Issued/Time record of staff	92%	$409,656	$443,363
Greater Sudbury Hydro	Affiliate	Garage/Fleet Services	Hourly charge out rate based on full cost recovery	8%	$111,628	$1,311,737
Greater Sudbury Hydro	Affiliate	Streetlight Maintenance	Time of staff as recorded in the work order system	100%	$382,451	$382,451
Greater Sudbury Hydro	Affiliate	Building Services and Occupancy Costs	Market Rate applied to square footage	100%	$61,234	
Greater Sudbury Hydro	Affiliate	Building Services and Occupancy Costs	Cost recovery based on square footage	15%	$129,589	$736,290

Corporate Cost Allocation

Name of Company: From	Name of Company: To	Service Offered	Pricing Methodology	% of Corporate Costs Allocated %	Amount Allocated $

Year: 2021

Shared Services

Name of Company		Service Offered	Pricing Methodology	% Cost Allocation	Price for the Service	Cost for the Service
From	To				$	$
Affiliate	Greater Sudbury Hydro	Executive/Finance/Communications/Innovation	Time Records	72%	$1,321,958	$1,837,433
Affiliate	Greater Sudbury Hydro	Regulatory	No current activities identifiable with affiliates; therefore 100% assigned to Greater Sudbury	100%	$308,171	$308,171
Affiliate	Greater Sudbury Hydro	HR	HR - Directly assigned where possible, number of employees for other costs; 2nd tier allocation to reallocate portionassociated with shared services/	74%	$403,941	$545,865
Affiliate	Greater Sudbury Hydro	Risk Management	97% of costs allocated to Greater Sudbury, based on time records	98%	$315,153	$320,603
Affiliate	Greater Sudbury Hydro	Quality Management	QMS - Costs of the Plus Company directly assigned to Greater Sudbury, as the other affiliates pay for their own programs directly	74%	$109,780	$148,352
Affiliate	Greater Sudbury Hydro	Insurance	Revenue	78%	$217,473	$280,420
Affiliate	Greater Sudbury Hydro	CDM	No current activities identifiable with affiliates; therefore 100% assigned to Greater Sudbury	100%	$91,564	$91,564
Affiliate	Greater Sudbury Hydro	IT	Telephone systems, PCs and ERP, by unweighted number of users; telephone sets by weighted number of users reflecting complexity of the units; systems for customer information and billing by factors related to that function; costs directly assigned where specifically identified with an affiliate or function.	73%	$871,151	$1,200,092
Affiliate	Greater Sudbury Hydro	Accounts Payable/Payroll/Accounting	AP - Time tracking for activities identifiable with one affiliate; number of invoices for other costs Payroll - Time tracking for activities identifiable with one affiliate; number of employees for other costs Accounting - A time estimate for forecast; time records for actual	56%	$459,142	$817,601
Affiliate	Greater Sudbury Hydro	Customer Billing and related services	Detailed analysis of each costcomponent, with different allocation methods, including number of bills, call volumes, number of meters, and space occupied on the shared bill. Direct assignment where applicable.	77%	$2,252,357	$2,921,610
Affiliate	Greater Sudbury Hydro	Any costs of the Plus Company not otherwise allocated	For redistribution of costs which were allocated by other methodologies to the Plus Company. In proportion to the allocation of other costs.	75%	$149,545	$198,547
Affiliate	Greater Sudbury Hydro	Board of Directors	50% cost of two boards, (GSHi and GSU), plus direct assignment of four independent directors	50%	$59,469	$118,939
Affiliate	Greater Sudbury Hydro	Stores/Procurement	Materials Issued/Time record of staff	92%	$420,899	$459,322
Greater Sudbury Hydro	Affiliate	Garage/Fleet Services	Hourly charge out rate based on full cost recovery	11%	$174,102	$1,398,577
Greater Sudbury Hydro	Affiliate	Streetlight Maintenance	Time of staff as recorded in the work order system	100%	$282,015	$282,015
Greater Sudbury Hydro	Affiliate	Building Services and Occupancy Costs	Market Rate applied to square footage	100%	$62,583	
Greater Sudbury Hydro	Affiliate	Building Services and Occupancy Costs	Cost recovery based on square footage	15%	$136,770	$773,760

Year: 2022

Shared Services

Name of Company		Service Offered	Pricing Methodology	% Cost Allocation	Price for the Service	Cost for the Service
From	To				$	$
Affiliate	Greater Sudbury Hydro	Executive/Finance/Communications/Innovation	Time Records	68%	$1,308,464	$1,931,156
Affiliate	Greater Sudbury Hydro	Regulatory	No current activities identifiable with affiliates; therefore 100% assigned to Greater Sudbury	100%	$304,479	$304,479
Affiliate	Greater Sudbury Hydro	HR	HR - Directly assigned where possible, number of employees for other costs; 2nd tier allocation to reallocate portionassociated with shared services/	76%	$534,039	$702,684
Affiliate	Greater Sudbury Hydro	Risk Management	97% of costs allocated to Greater Sudbury, based on time records	98%	$355,878	$362,032
Affiliate	Greater Sudbury Hydro	Quality Management	QMS - Costs of the Plus Company directly assigned to Greater Sudbury, as the other affiliates pay for their own programs directly	76%	$62,274	$81,939
Affiliate	Greater Sudbury Hydro	Insurance	Revenue	90%	$278,777	$310,314
Affiliate	Greater Sudbury Hydro	CDM	No current activities identifiable with affiliates; therefore 100% assigned to Greater Sudbury	100%	$3,380	$3,380
Affiliate	Greater Sudbury Hydro	IT	Telephone systems, PCs and ERP, by unweighted number of users; telephone sets by weighted number of users reflecting complexity of the units; systems for customer information and billing by factors related to that function; costs directly assigned where specifically identified with an affiliate or function.	74%	$1,020,022	$1,378,203
Affiliate	Greater Sudbury Hydro	Accounts Payable/Payroll/Accounting	AP - Time tracking for activities identifiable with one affiliate; number of invoices for other costs Payroll - Time tracking for activities identifiable with one affiliate; number of employees for other costs Accounting - A time estimate for forecast; time records for actual	60%	$488,842	$810,243
Affiliate	Greater Sudbury Hydro	Customer Billing and related services	Detailed analysis of each costcomponent, with different allocation methods, including number of bills, call volumes, number of meters, and space occupied on the shared bill. Direct assignment where applicable.	75%	$2,236,238	$2,971,895
Affiliate	Greater Sudbury Hydro	Any costs of the Plus Company not otherwise allocated	For redistribution of costs which were allocated by other methodologies to the Plus Company. In proportion to the allocation of other costs.	77%	$91,430	$119,309
Affiliate	Greater Sudbury Hydro	Board of Directors	50% cost of two boards, (GSHi and GSU), plus direct assignment of four independent directors	50%	$64,870	$129,739
Affiliate	Greater Sudbury Hydro	Stores/Procurement	Materials Issued/Time record of staff	89%	$447,197	$499,982
Greater Sudbury Hydro	Affiliate	Garage/Fleet Services	Hourly charge out rate based on full cost recovery	11%	$162,323	$1,365,762
Greater Sudbury Hydro	Affiliate	Streetlight Maintenance	Time of staff as recorded in the work order system	100%	$267,131	$267,131
Greater Sudbury Hydro	Affiliate	Building Services and Occupancy Costs	Market Rate applied to square footage	100%	$61,235	
Greater Sudbury Hydro	Affiliate	Building Services and Occupancy Costs	Cost recovery based on square footage	16%	$163,062	$831,926

Corporate Cost Allocation

Name of Company		Service Offered	Pricing Methodology	% of Corporate Costs Allocated	Amount Allocated
From	To			%	$

Year: 2023

Shared Services

Name of Company From	Name of Company To	Service Offered	Pricing Methodology	% Cost Allocation	Price for the Service $	Cost for the Service $
Affiliate	Greater Sudbury Hydro	Executive/Finance/Communications/Innovation	Time Records	79%	$1,657,537	$2,098,932
Affiliate	Greater Sudbury Hydro	Regulatory	No current activities identifiable with affiliates; therefore 100% assigned to Greater Sudbury	100%	$290,175	$290,175
Affiliate	Greater Sudbury Hydro	HR	HR - Directly assigned where possible, number of employees for other costs; 2nd tier allocation to reallocate portionassociated with shared services/	76%	$682,203	$897,635
Affiliate	Greater Sudbury Hydro	Risk Management	97% of costs allocated to Greater Sudbury, based on time records	98%	$313,710	$319,136
Affiliate	Greater Sudbury Hydro	Quality Management	QMS - Costs of the Plus Company directly assigned to Greater Sudbury, as the other affiliates pay for their own programs directly	76%	$38,832	$51,095
Affiliate	Greater Sudbury Hydro	Insurance	Revenue	89%	$329,636	$369,032
Affiliate	Greater Sudbury Hydro	IT	Telephone systems, PCs and ERP, by unweighted number of users; telephone sets by weighted number of users reflecting complexity of the units; systems for customer information and billing by factors related to that function; costs directly assigned where specifically identified with an affiliate or function.	74%	$1,116,059	$1,502,888
Affiliate	Greater Sudbury Hydro	Accounts Payable/Payroll/Accounting	AP - Time tracking for activities identifiable with one affiliate; number of invoices for other costs Payroll - Time tracking for activities identifiable with one affiliate; number of employees for other costs Accounting - A time estimate for forecast; time records for actual	61%	$483,332	$798,184
Affiliate	Greater Sudbury Hydro	Customer Billing and related services	Detailed analysis of each costcomponent, with different allocation methods, including number of bills, call volumes, number of meters, and space occupied on the shared bill. Direct assignment where applicable.	77%	$2,125,867	$2,759,449
Affiliate	Greater Sudbury Hydro	Any costs of the Plus Company not otherwise allocated	For redistribution of costs which were allocated by other methodologies to the Plus Company. In proportion to the allocation of other costs.	77%	$124,978	$162,046
Affiliate	Greater Sudbury Hydro	Board of Directors	50% cost of two boards, (GSHi and GSU), plus direct assignment of four independent directors	50%	$69,674	$139,348
Affiliate	Greater Sudbury Hydro	Stores/Procurement	Materials Issued/Time record of staff	92%	$422,620	$458,704
Greater Sudbury Hydro	Affiliate	Garage/Fleet Services	Hourly charge out rate based on full cost recovery	10%	$150,054	$1,419,508
Greater Sudbury Hydro	Affiliate	Streetlight Maintenance	Time of staff as recorded in the work order system, fully allocated indirect costs, commercial rent	118%	$318,725	$270,970
Greater Sudbury Hydro	Affiliate	Building Services and Occupancy Costs	Market Rate applied to square footage	100%	$434,394	
Greater Sudbury Hydro	Affiliate	Building Services and Occupancy Costs	Cost recovery based on square footage	16%	$177,690	$937,971

Corporate Cost Allocation

Name of Company From	Name of Company To	Service Offered	Pricing Methodology	% of Corporate Costs Allocated %	Amount Allocated $

Year: 2024

Shared Services

Name of Company		Service Offered	Pricing Methodology	% Cost Allocation	Price for the Service	Cost for the Service
From	To				$	$
Affiliate	Greater Sudbury Hydro	Executive/Finance/Communications/Innovation	Time Records	79%	$1,832,030	$2,313,492
Affiliate	Greater Sudbury Hydro	Regulatory	No current activities identifiable with affiliates; therefore 100% assigned to Greater Sudbury	100%	$347,525	$347,525
Affiliate	Greater Sudbury Hydro	HR	HR - Directly assigned where possible, number of employees for other costs; 2nd tier allocation to reallocate portionassociated with shared services/	90%	$674,708	$749,312
Affiliate	Greater Sudbury Hydro	Risk Management	97% of costs allocated to Greater Sudbury, based on time records	98%	$378,526	$385,072
Affiliate	Greater Sudbury Hydro	Quality Management	QMS - Costs of the Plus Company directly assigned to Greater Sudbury, as the other affiliates pay for their own programs directly	76%	$45,071	$59,304
Affiliate	Greater Sudbury Hydro	Insurance	Revenue	84%	$338,740	$402,812
Affiliate	Greater Sudbury Hydro	IT	Telephone systems, PCs and ERP, by unweighted number of users; telephone sets by weighted number of users reflecting complexity of the units; systems for customer information and billing by factors related to that function; costs directly assigned where specifically identified with an affiliate or function.	71%	$1,140,374	$1,599,403
Affiliate	Greater Sudbury Hydro	Accounts Payable/Payroll/Accounting	AP - Time tracking for activities identifiable with one affiliate; number of invoices for other costs Payroll - Time tracking for activities identifiable with one affiliate; number of employees for other costs Accounting - A time estimate for forecast; time records for actual	60%	$516,131	$853,563
Affiliate	Greater Sudbury Hydro	Customer Billing and related services	Detailed analysis of each costcomponent, with different allocation methods, including number of bills, call volumes, number of meters, and space occupied on the shared bill. Direct assignment where applicable.	78%	$2,316,088	$2,978,141
Affiliate	Greater Sudbury Hydro	Any costs of the Plus Company not otherwise allocated	For redistribution of costs which were allocated by other methodologies to the Plus Company. In proportion to the allocation of other costs.	78%	$91,463	$116,927
Affiliate	Greater Sudbury Hydro	Board of Directors	50% cost of two boards, (GSHi and GSU), plus direct assignment of four independent directors	50%	$101,387	$202,774
Affiliate	Greater Sudbury Hydro	Stores/Procurement	Materials Issued/Time record of staff	87%	$461,252	$529,708
Greater Sudbury Hydro	Affiliate	Garage/Fleet Services	Hourly charge out rate based on full cost recovery	9%	$151,476	$1,453,257
Greater Sudbury Hydro	Affiliate	Streetlight Maintenance	Time of staff as recorded in the work order system, fully allocated indirect costs, commercial rent	113%	$396,337	$349,805
Greater Sudbury Hydro	Affiliate	Building Services and Occupancy Costs	Market Rate applied to square footage	100%	$441,782	
Greater Sudbury Hydro	Affiliate	Building Services and Occupancy Costs	Cost recovery based on square footage	16%	$168,254	$874,433

Corporate Cost Allocation

Name of Company		Service Offered	Pricing Methodology	% of Corporate Costs Allocated	Amount Allocated
From	To			%	$

Year: 2025

Shared Services

Name of Company		Service Offered	Pricing Methodology	% Cost Allocation	Price for the Service	Cost for the Service
From	To				$	$
Affiliate	Greater Sudbury Hydro	Executive/Finance/Communications/Innovation	Time Records	80%	$1,950,952	$2,434,994
Affiliate	Greater Sudbury Hydro	Regulatory	No current activities identifiable with affiliates; therefore 100% assigned to Greater Sudbury	100%	$344,602	$344,602
Affiliate	Greater Sudbury Hydro	HR	HR - Directly assigned where possible, number of employees for other costs; 2nd tier allocation to reallocate portionassociated with shared services/	71%	$505,434	$711,118
Affiliate	Greater Sudbury Hydro	Risk Management	97% of costs allocated to Greater Sudbury, based on time records	93%	$383,231	$412,945
Affiliate	Greater Sudbury Hydro	Quality Management	QMS - Costs of the Plus Company directly assigned to Greater Sudbury, as the other affiliates pay for their own programs directly	71%	$47,080	$66,239
Affiliate	Greater Sudbury Hydro	Insurance	Revenue	86%	$353,595	$412,621
Affiliate	Greater Sudbury Hydro	IT	Telephone systems, PCs and ERP, by unweighted number of users; telephone sets by weighted number of users reflecting complexity of the units; systems for customer information and billing by factors related to that function; costs directly assigned where specifically identified with an affiliate or function.	73%	$1,353,810	$1,860,761
Affiliate	Greater Sudbury Hydro	Accounts Payable/Payroll/Accounting	AP - Time tracking for activities identifiable with one affiliate; number of invoices for other costs Payroll - Time tracking for activities identifiable with one affiliate; number of employees for other costs Accounting - A time estimate for forecast; time records for actual	69%	$675,944	$981,213
Affiliate	Greater Sudbury Hydro	Customer Billing and related services	Detailed analysis of each costcomponent, with different allocation methods, including number of bills, call volumes, number of meters, and space occupied on the shared bill. Direct assignment where applicable.	77%	$2,438,533	$3,148,114
Affiliate	Greater Sudbury Hydro	Any costs of the Plus Company not otherwise allocated	For redistribution of costs which were allocated by other methodologies to the Plus Company. In proportion to the allocation of other costs.	77%	$167,567	$217,285
Affiliate	Greater Sudbury Hydro	Board of Directors	50% cost of two boards, (GSHi and GSU), plus direct assignment of four independent directors	50%	$102,280	$204,559
Affiliate	Greater Sudbury Hydro	Stores/Procurement	Materials Issued/Time record of staff	90%	$488,302	$541,362
Greater Sudbury Hydro	Affiliate	Garage/Fleet Services	Hourly charge out rate based on full cost recovery	10%	$170,287	$1,486,986
Greater Sudbury Hydro	Affiliate	Streetlight Maintenance	Time of staff as recorded in the work order system, fully allocated indirect costs, commercial rent	112%	$432,468	$385,936
Greater Sudbury Hydro	Affiliate	Building Services and Occupancy Costs	Market Rate applied to square footage	100%	$441,782	$0
Greater Sudbury Hydro	Affiliate	Building Services and Occupancy Costs	Cost recovery based on square footage	16%	$183,303	$950,541

Corporate Cost Allocation

Name of Company		Service Offered	Pricing Methodology	% of Corporate Costs Allocated	Amount Allocated
From	To			%	$

Attachment 2 (of 2):

KPMG Report on Shared Services and Cost Allocations Review

Greater Sudbury Hydro Inc.

Shared Services and Cost Allocations Review

KPMG LLP

March 9, 2023

This report contains 93 pages

Notice to Reader

This Report has been prepared by KPMG LLP ("KPMG") for the internal use of Greater Sudbury Hydro Inc. ("GSHI" or the Client") pursuant to the terms of KPMG's engagement agreement with the Client dated May 18, 2022 (the "Engagement Agreement"). Except as required by applicable law or regulation, this Report may not be disclosed to any other person or entity without the express written consent of KPMG and the Client. KPMG neither warrants nor represents that the information contained in this Report is accurate, complete, sufficient or appropriate for use by any person or entity other than the GSHI or for any purpose other than set out in the Engagement Agreement. This Report may not be relied upon by any person or entity other than GSHI, and KPMG hereby expressly disclaims any and all responsibility or liability to any person or entity other than the Client in connection with their use of this Report.

KPMG's role in this review was to: review GSHI's shared services arrangement and cost allocation methodology; and offer our comments and recommendations for the GSHI's consideration. These comments, by their nature, largely relate to opportunities for change or enhancement.

KPMG's report is intended for the internal use of GSHI management as outlined in KPMG's Engagement Agreement and it is not intended for general circulation or publication. KPMG does not assume any responsibility or liability for losses occasioned to GSHI, its directors, or to any other parties as a result of the circulation, publication, reproduction, or use of this report contrary to the provisions of this paragraph.

The services provided in connection with this engagement comprise an advisory engagement, which is not subject to assurance or other standards issued by the Canadian Auditing and Assurance Standards Board and, consequently no opinions or conclusions intended to convey assurance have been expressed. KPMG relied on information and documentation that was provided to us by GSHI at the date of this report. KPMG has not audited or otherwise attempted to independently verify the information provided unless otherwise indicated. The procedures KPMG carried out do not constitute an audit, and as such, the content of this Report should not be considered as providing the same level of assurance as an audit. Should additional information be provided to KPMG after the issuance of this report, KPMG reserves the right (but will be under no obligation) to review this information and adjust its comments accordingly.

Through normal processes, GSHI will be responsible for the:

- Assessment of observations;
- The decision to implement any recommendations, and
- Consideration of impacts that may result from the implementation of recommendations.

Implementation will require the Client to plan and evaluate any changes to make sure that satisfactory results are realized.

KPMG accepts no responsibility for loss or damages to any party as a result of decisions based on the information presented. Parties using this information assume all responsibility for any decisions made based on the information.

KPMG is under no obligation in any circumstance to update this Report, in either oral or written form, for events occurring after the report has been issued in final form.

Greater Sudbury Hydro Inc.
Shared Services & Cost Allocations Review
Date of Issue: March 9, 2023

Contents

Glossary

Term	Description
@Home	1627596 Ontario Inc o/a @home Energy
Agilis	Greater Sudbury Telecommunications Inc o/a Agilis Networks
APH	Accounting Procedures Handbook for Electricity Distributors (issued December 2011)
ARC	Affiliate Relationship Code for Electricity Distributors and Transmitters (revised March 15, 2010)
ConverGen	ConverGen Inc.
GIS	Geographic Information System
GSHI	Greater Sudbury Hydro Inc.
GSHI or the Client	Greater Sudbury Hydro Inc.
GSHP	Greater Sudbury Hydro Plus Inc.
GSU	Greater Sudbury Utilities Inc.
GSU Group	Collectively: Greater Sudbury Utilities Inc., Greater Sudbury Hydro Plus Inc., Greater Sudbury Hydro Inc., Greater Sudbury Telecommunications Inc o/a Agilis Networks, 1627596 Ontario Inc o/a @home Energy, and ConverGen Inc.
GSU Management	GSU's Chief Financial Officer and the Supervisor of Regulatory & Internal Audit, GSHI's executive team and Board of Directors, and other GSU personnel
LDC	Local Electricity Distribution Company
OEB	Ontario Energy Board
OECD	Organization for Economic Co-operation and Development
OECD Guidelines	OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (January 2022)
The City	City of Greater Sudbury
The Service Agreement	The intercompany agreement for the provision of shared services by GSHP to GSHI

Greater Sudbury Hydro Inc.
Shared Services & Cost Allocations Review
Date of Issue: March 9, 2023

1 Executive Summary

1.1 Project Background

Greater Sudbury Hydro Inc. ("**GSHI**" or the "Client") is a local electricity distribution company ("**LDC**") and a subsidiary of the holding company, Greater Sudbury Utilities Inc. ("**GSU**"). GSU is a municipal corporation owned by the City of Greater Sudbury ("**the City**"). The table below provides a summary of the business activities of GSU and its relevant affiliates, including GSHI:

Exhibit 1: Relevant Affiliates

The Relevant Affiliate Entities		
Acronym	**Name**	**Summary of Business**
GSU	Greater Sudbury Utilities Inc.	The parent company and an investment holding company with its wholly owned subsidiaries involved in the distribution of electricity, provision of broadband telecommunications services, competitive rental and customer support services.
GSHP	Greater Sudbury Hydro Plus Inc.	A corporate services company providing executive leadership, IT services, human resources, accounting, finance, utility customer billing and account maintenance and purchasing and inventory services.
GSHI	Greater Sudbury Hydro Inc.	An LDC serving approximately 48,000 consumers within the City of Greater Sudbury and the Municipality of West Nipissing.
Agilis	Greater Sudbury Telecommunications Inc o/a Agilis Networks	A telecommunications company with a fibre-optic network that provides business and organizations with telecommunication services.
@Home	1627596 Ontario Inc o/a @home Energy	A water heater rental business.
ConverGen	ConverGen Inc.	An energy business company with a Landfill Gas generator.

Source: Exhibit prepared by KPMG based on information provided by GSU Management.

All entities in the table above are collectively referred to as the "**GSU Group**" throughout this report.

GSHI is an electricity distributor licensed by the Ontario Energy Board ("**OEB**") to provide service to consumers within the City of Greater Sudbury and the Municipality of West Nipissing. GSHI provides and procures services to and from related companies. As stated by GSHI, the intention of this arrangement is to reduce costs to electricity consumers through efficiencies of scale and scope.

The table below provides a summary of GSHI's shared services arrangements reviewed in this report:

Exhibit 2: Shared Services Arrangements

Summary of Shared Services				
#	**Transaction Name**	**Provider/ Payee**	**Recipient(s)/ Payor(s)**	**Description of Services**
1	The Provision of Services by GSHP	GSHP	GSHI	GSHP provides shared services to GSHI, including information technology, accounting, business execution, human resources & safety, communications & marketing, administrative services, innovation, President & CEO, Board of Directors, purchasing & procurement, finance, regulatory, and customer service & billing.
2	The Provision of Services by GSHI	GSHI	GSHP	GSHI provides street light maintenance services to the City, on behalf of GSHP, under an agreement between GSHP and the City.
		GSHI	GSHP, Agilis, @Home, and ConverGen	GSHI operates and leases building space to GSHP, Agilis, @Home, and ConverGen at its property located at 500 Regent Street.
		GSHI	GSHP, Agilis and @Home	GSHI provides maintenance and garage services, as well as the use of its vehicles to GSHP, Agilis, and @Home.
		GSHI	Agilis and @Home	GSHI provides space at its facilities to Agilis and @Home for storage of equipment and inventory.
		GSHI	Agilis	GSHI provides its network of poles to Agilis for its telecommunication attachments.
3	The Provision of Services by Agilis	Agilis	GSHI	Agilis provides various telecommunications services to GSHI.

Source: Exhibit prepared by KPMG based on information provided by GSU Management.

1.2 Project Scope

GSHI engaged KPMG LLP ("**KPMG**") to provide an independent assessment of GSHI's and GSHP's current and historic shared services arrangements and related cost allocation methodology. The scope of this project is to:

1. Review and gain an understanding of GSHI/GSHP's historical cost allocation approach;
2. Assess whether the shared services provided to GSHI are charged at market rates for the same services.

3. Evaluate the historical cost allocation approach in consideration of OEB regulatory requirements, including in adherence to the Affiliate Relationship Code for Electricity Distributors and Transmitters[1] ("**ARC**") and outlined in Article 340 *Allocation of Costs and Transfer Pricing* of the Accounting Procedures Handbook for Electricity Distributors[2] ("**APH**"), as well as consideration for transfer pricing guidance set out in the Organisation for Economic Co-operation and Development's *Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations* (the "**OECD Guidelines**")[3];
4. Review and analyze the current costs incurred by GSHI/GSHP in their provision of shared services to affiliates compared to arm's-length rates for provision of the same services; and
5. Identify potential refinements to GSHI/GSHP's cost allocation methodologies based on leading practices for consideration by GSU Management.

It is KPMG's understanding that recommendations could be used by GSU's Chief Financial Officer and the Supervisor of Regulatory & Internal Audit, GSHI's executive team and Board of Directors, and other GSU personnel (collectively referred to as "**GSU Management**") for forecasting and budgeting purposes, as well as in support of GSHI's next rate rebasing application.

Through normal processes, GSU Management will be responsible for the:

- Assessment of observations;
- The decision to implement any recommendations, and
- Consideration of impacts that may result from the implementation of recommendations.

Implementation will require GSU Management to plan and evaluate any changes to make sure that satisfactory results are realized.

1.3 Analysis Approach

KPMG's analysis approach covered the following four key phases:

1.3.1 Phase 1: Discovery

In this phase, KPMG met with GSU to understand the key objectives of the project and reviewed information and data provided by GSU.

[1] Ontario Energy Board (March 15, 2010), *Affiliate Relationship Code for Electricity Distributors and Transmitters, Revised March 15, 2010*, https://www.oeb.ca/sites/default/files/uploads/documents/regulatorycodes/2019-01/Affiliate-Relationships-Code-ARC-Electricity-20100315.pdf
[2] Ontario Energy Board (December 2011), *Accounting Procedures Handbook for Electricity Distributors, Issued December 2011*, https://www.oeb.ca/sites/default/files/uploads/documents/regulatorycodes/2019-01/Accounting-Procedures-Handbook-Elec-Distributors-20120101.pdf
[3] OECD (2022), *OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations 2022*, OECD Publishing, Paris, https://doi.org/10.1787/0e655865-en.

1.3.2 Phase 2: Evaluation of Cost Allocation Methodology

In this phase, KPMG conducted functional interviews with key department representatives, reviewed GSHI's current cost allocation model, held discussions with GSHI to understand the cost sources for the cost allocation, and the cost drivers used in the allocation.

KPMG then assessed whether the shared services charges determined using GSHI's cost allocation model were comparable to market rates based on a benchmarking comparison of GSHI's administrative costs to the administrative costs incurred by comparable Ontario LDCs.

Additionally, KPMG evaluated GSHI's cost allocation model against ARC and OEB regulatory requirements, and with consideration for transfer pricing guidance set out in the OECD Guidelines.

KPMG relied on information and documentation that was provided to us by GSHI at the date of this report. KPMG has not audited or otherwise attempted to independently verify the information provided unless otherwise indicated. The procedures KPMG carried out do not constitute an audit, and as such, the content of this Report should not be considered as providing the same level of assurance as an audit.

1.3.3 Phase 3: Arm's-length Rates Analysis

In this phase, KPMG assessed if a competitive market exists for each service function, including assessing the availability information for comparable arm's-length prices between arm's-length parties.[4] For shared service functions assessed as having existing competitive markets with available arm's-length information, benchmarking analysis was performed by KPMG to determine arm's-length prices. For shared service functions assessed as not having existing competitive markets or pricing information between arm's-length parties was not available, a cost allocation approach was considered permissible based on Section 2.3.4 of the ARC, which is also consistent with guidance provided in paragraph 7.31 of the OECD Guidelines.

The following shared service functions provided by GSHI and by Agilis were assessed as having existing competitive markets with available arm's-length information, the arm's-length results for the benchmarking analysis performed by KPMG are summarized in the table below.

Exhibit 3: Summary of Arm's-length Results from Benchmarking Analyses

Summary of Arm's-length Results by Service Function	
Description of Services	**Arm's-length Results**
Leasing of building space owned by GSHI to the affiliated entities	• Annual arm's-length lease rates for commercial office properties in the Greater Sudbury Area range from \$12.00/SqFt to \$16.00/SqFt, with a median of 12.50/SqFt.(1) • Monthly arm's-length lease rates for commercial office properties in the Greater Sudbury Area range from \$1.00/SqFt to \$1.33/SqFt, with a median of \$1.04/SqFt.(1)

[4] OECD Guidelines, Chapter I, section B, paragraph 1.13.

Summary of Arm's-length Results by Service Function	
Description of Services	**Arm's-length Results**
Leasing of space at various facilities owned by GSHI to the affiliated entities	• Annual arm's-length lease rates for commercial industrial properties in the Greater Sudbury Area range from \$10.50/SqFt to \$11.40/SqFt, and a median of \$10.50/SqFt.(1) • The monthly arm's-length lease rates for commercial industrial properties in the Greater Sudbury Area range from \$0.88/SqFt to \$0.95/SqFt, and a median of \$0.88/SqFt.(1)
Provision of telecommunications services by Agilis	• Based on the information provided by GSU Management, the prices charged by Agilis to GSHI are consistent with or significantly discounted below the arm's-length prices offered by Agilis for similar services to its arms-length customers.(2)

Sources: (1) Arm's-length lease rate information for office and industrial space leased in the Greater Sudbury region is based on market research performed by KPMG.
(2) Arm's-length pricing information for Agilis was provided by GSU Management.

1.3.4 Phase 4: Reporting

In this phase, KPMG documented its analysis and recommendations for consideration by GSU Management.

1.4 Summary of Key Findings and Recommendations

1.4.1 Key Findings

Based on KPMG's review:

- The shared services charges from GSHP to GSHI were assessed to be consistent with market rates based on a benchmarking analysis comparing the administrative costs incurred by GSHI to the administrative costs borne by comparable Ontario LDCs. As illustrated below, GSHI incurs a ratio of Administrative Expenses (inclusive of the cost allocations charged from GSHP) as a percent of its Total Expenses that falls within the range of administrative to total expenses ratios incurred by peer Ontario LDCs.

Exhibit 4: Summary of Administrative Cost Ratios for Peer Ontario LDCs for 2019 to 2021

Administrative Cost Ratios				
Peer Ontario LDCs	**2019**	**2020**	**2021**	**Average**
Minimum	**24.0%**	**23.5%**	**25.7%**	**24.4%**
1st Quartile	**36.3%**	**36.3%**	**37.2%**	**36.6%**
Median	**38.6%**	**40.6%**	**40.9%**	**40.0%**
3rd Quartile	**46.4%**	**47.2%**	**46.9%**	**46.8%**
Maximum	**49.3%**	**54.0%**	**51.4%**	**51.6%**
Greater Sudbury Hydro Inc.	**32.4%**	**30.7%**	**32.4%**	**31.8%**

- The overall cost allocation approach applied by GSHI for its shared services arrangements with affiliates is predominantly consistent with requirements in the ARC and transfer pricing guidance set out in OECD Guidelines[5]. Specifically:
  – The shared services were assessed as providing a benefit to the affiliate service recipients, in that, had the shared services not been provided, the affiliate service recipients would have had to contract with a third-party service provider to obtain the services or hire additional staff to provide the relevant service.
  – The cost base calculated by GSU Management for each shared services function is predominantly representative of both direct and indirect costs associated with providing the shared services to affiliates, and is consistent with the definition for fully-allocated cost provided in the ARC and the OECD Guidelines.
  – The allocation approach applied by GSU Management to the cost base of each shared service function generally reflects the nature and use made of the service, and is reasonably representative of a fair and equitable split between affiliates.
  – Although the ARC provides for the option to apply a profit return on GSHP's fully allocated costs to its affiliate service recipients, GSU Management's approach is to simply recover GSHP's costs without a profit component. Based on discussions with GSU Management, the provision of centralized corporate and administrative support services by GSHP allows for efficiencies and results in cost savings to the overall GSU Group, including GSHI. This approach is consistent with information in the OECD Guidelines regarding group synergies and resulting economies of scale often being favourable to the group as a whole, as well as the aggregate cost savings received by each group member.[6]

1.4.2 Recommendations

While KPMG's review concluded that the quantum of the shared services charges to GSHI reflect market value fees and that the cost allocation methodology was generally consistent with the relevant transfer pricing legislation and guidance, KPMG identified areas for refinement in respect of the cost allocation methodology for GSU Management's consideration, based on requirements in the ARC and the transfer pricing guidance set out in the OECD Guidelines. GSU Management will be responsible for the assessment of observations, the decision to implement any recommendations, and consideration of impacts that may result from the implementation of recommendations.

[5] OECD (2022), *OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations 2022*, OECD Publishing, Paris, https://doi.org/10.1787/0e655865-en.
[6] OECD (2022). Paragraph 1.177.

Exhibit 5: Summary of Recommendations and Identified Opportunities for Consideration by GSU Management

<table>
<tr><th colspan="4">Summary of Recommendations and Identified Opportunities for Consideration by GSU Management</th></tr>
<tr><th rowspan="2"></th><th rowspan="2">Leading Practice</th><th colspan="2">Details</th></tr>
<tr><th>Description of Service(s)</th><th>Recommendation/Opportunity for Consideration</th></tr>
<tr><td rowspan="2">1</td><td rowspan="2">Completeness</td><td>Shared services (information technology, accounting, business execution, human resources & safety, communications & marketing, administrative services, innovation, president & CEO, board of directors, purchasing & procurement, finance, regulatory, and customer service & billing).</td><td>• In accordance with the requirements of the ARC, KPMG recommend GSHP consider including office lease expense to the fully allocated costs of the shared services to GSHI.[7]
• Under the ARC, GSHP has the option (though is not required) to add a profit component to the fully allocated costs of the shared services it provides to GSHI. [8] Currently GSHP does not add a profit component to the shared services costs, meaning that the charges to GSHI from GSHP may be lower than the charges that would be expected at fair market value from an arm's length service provider providing comparable services. Based on discussions with GSU Management, it is KPMG's understanding that GSHP's choice to not include a profit component on its shared services charge to GSHI is on the basis that this provides value to GSHI's customers.</td></tr>
<tr><td>Street light maintenance services.</td><td>• In accordance with the requirements of the ARC, KPMG recommends GSHI consider including its indirect overhead costs (e.g., costs allocated from GSHP for corporate and administrative support services for accounting, HR & safety, communications & marketing, President & CEO, finance, and purchasing & procurement; and GSHI's retained portion of building operation costs and building depreciation) to the fully allocated costs.[9] This will have the benefit of adding revenue to GSHI.
• Under the ARC, GSHI's fully allocated costs are also required to include a return on its invested capital for assets utilized in respect of the street light maintenance services.[10] The inclusion of a profit component to be in compliant with the ARC will also have the added benefit of increasing GSHI's revenue.</td></tr>
</table>

[7] Section 1.2 of the ARC provides that the "fully-allocated cost" means the sum of direct costs plus a proportional share of indirect costs; "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

[8] Section 2.3.4.1 of the ARC provides that "The fully- allocated cost may include a return on the affiliate's invested capital."

[9] Section 1.2 of the ARC provides that the "fully-allocated cost" means the sum of direct costs plus a proportional share of indirect costs; "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

[10] Section 2.3.4.2 of the ARC provides that "The fully-allocated cost shall include a return on the utility's invested capital."

Summary of Recommendations and Identified Opportunities for Consideration by GSU Management			
	Leading Practice	Details	
		Description of Service(s)	Recommendation/Opportunity for Consideration
		Building operation services.	• Under the ARC, GSHI's fully allocated costs are also required to include a return on its invested capital for assets utilized in respect of the building operation services.[11]
		Use of building space.	• Given that they are beneficiaries of these services, KPMG recommends GSHI consider the inclusion of GSHP as a recipient of the cost allocation for these services.[12] • In accordance with the requirements of the ARC, KPMG recommends that GSU Management consider performing a comparison of the quantum of the intercompany charge calculated using the market-based approach and the fully-allocated cost approach to determine the appropriate transfer price, which would be the greater of the fees determined using the two approaches.[13] This analysis would have the benefit of ensuring that GSHI is achieving the maximum possible revenues for these services.
		Maintenance and garage services, use of vehicles.	• In accordance with the requirements of the ARC, KPMG recommends GSHI consider the inclusion of indirect overhead costs (e.g., costs allocated to GSHI from GSHP for corporate and administrative support services for accounting, HR & safety, communications & marketing, President & CEO, finance, and purchasing & procurement; and garage overhead costs, such as GSHI's garage building depreciation) to the fully allocated costs.[14] This will have the benefit of additional revenue to GSHI. • Under the ARC, GSHI's fully allocated costs are also required to include a return on its invested capital for assets utilized in respect of these services.[15] Including a profit component will also have the added benefit of increasing GSHI's revenue.

[11] Section 2.3.4.2 of the ARC provides that "The fully-allocated cost shall include a return on the utility's invested capital."
[12] ARC, Section 1.1, paragraph b) discusses the prevention of cross-subsidization between affiliates.
[13] ARC, Section 2.3.3.6
[14] ARC, Section 1.2: "fully-allocated cost" means the sum of direct costs plus a proportional share of indirect costs; "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
[15] ARC, Section 2.3.4.2: "The fully-allocated cost shall include a return on the utility's invested capital."

Summary of Recommendations and Identified Opportunities for Consideration by GSU Management			
	Leading Practice	Details	
		Description of Service(s)	Recommendation/Opportunity for Consideration
		Use of space at various GSHI facilities.	• Given that they are beneficiaries of these services, KPMG recommends that GSU Management consider the inclusion of Agilis and @Home as recipients of the cost allocation for these services.[16] • In accordance with the requirements of the ARC, KPMG recommends that GSU Management consider performing a comparison of the quantum of the intercompany charge calculated using the market-based approach and the fully-allocated cost approach to determine the appropriate transfer price, which would be the greater of the fees determined using the two approaches.[17] This analysis would have the benefit of ensuring that GSHI is achieving the maximum possible revenues for these services.
		Telecommunications services.	• Currently GSHI receives a discount from Agilis's prices that is greater than the arm's-length discounts provided by Agilis to its third-party customers. Meaning that the amounts charged to GSHI from Agilis may be lower than the market price. Under the ARC, Agilis may charge an amount to GSHI that is "no more than" the market price.[18] In this case, Agilis has the option to increase the amount charged to GSHI up to the market price inclusive of comparable arm's-length discounts provided to its third-party customers; However, this would result in increasing the costs incurred by GSHI.

[16] ARC, Section 1.1, paragraph b) discusses the prevention of cross-subsidization between affiliates.
[17] ARC, Section 2.3.3.6
[18] ARC, Section 2.3.3.1

Summary of Recommendations and Identified Opportunities for Consideration by GSU Management			
	Leading Practice	Details	
		Description of Service(s)	Recommendation/Opportunity for Consideration
2	Transparency	Transparency may be improved in respect of the source data figures and calculations of the composition of the allocable indirect costs accumulated in each cost centre/department (other than salaries/payroll costs), as well as the actual figures that are used by GSHP Finance personnel to calculate the benefits burden rate, vehicle rates, and the allocation drivers applied in the cost allocation model. For example, for each GSHP cost centre/department (i.e., Finance, Human Resources, Accounting, etc.) it may be helpful to have a schedule that summarizes the details of the general and administrative expenses accumulated in the cost centre, such as the IT, HR, and building reallocations, and any other miscellaneous expenses (e.g., landlines, office supplies, postage, bank charges, insurance, employee training, etc.) that are accumulated in the cost base prior to allocation. In addition, it may be helpful to combine all source data sheets into a single file for the cost allocation model, such that the calculations for the cost base, burden rates, allocation drivers, and (if relevant) profit components can be easily traced to the actual figures used in the calculations located in each source data worksheet within the single cost allocation model file.	
3	Accuracy and Reliability	Accuracy and reliability may be improved by establishing a specific pre-determined materiality threshold for the review of budgeted versus actual figures used by GSU Management in its cost allocation model. In the case of variances that exceed the materiality threshold, KPMG recommends GSU Management consider true-up or true-down adjustments.	
4	Sustainability and Practicality	Sustainability may be improved by preparing documentation explaining how the cost allocation model works including data sources, key assumptions and overall methodology.	
5	Auditability	Auditability may be improved by preparing documentation explaining how the cost allocation model works, and by maintaining key supporting information and data such as calculations for allocation drivers and rates (e.g., benefits burden, overhead burden, charge-out rates, etc.).	

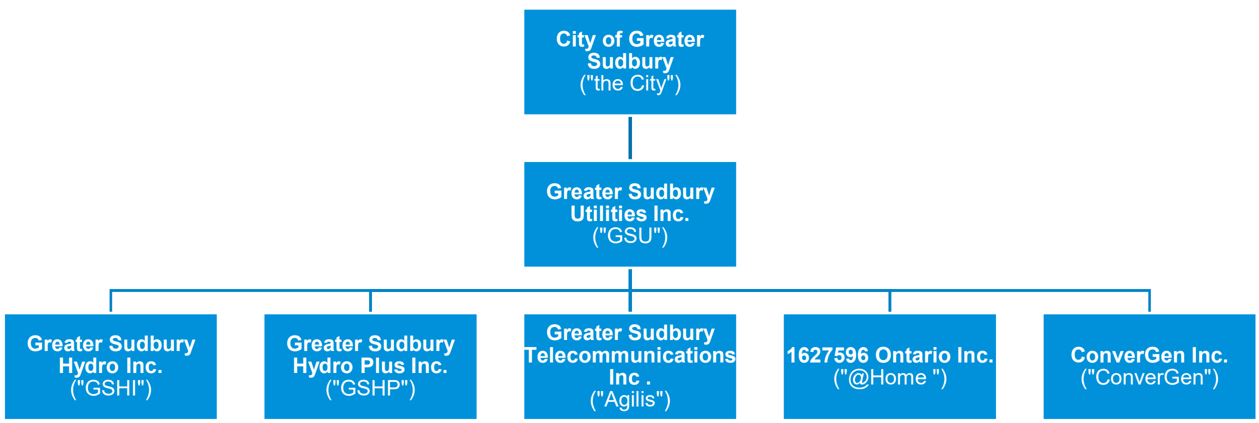
Source: Exhibit prepared by KPMG.

2 Project Objectives

2.1 Project Background

GSHI is an electricity distributor licensed by the OEB to provide electricity service to consumers within the City of Greater Sudbury and the Municipality of West Nipissing. GSHI is a subsidiary of the holding company, GSU. GSU is a municipal corporation owned by the City. The exhibit below provides the organizational structure for the GSU Group:

Exhibit 6: Organizational Structure



Source: Exhibit prepared by KPMG based on information provided by GSU Management.

All entities in the exhibit above are incorporated under the laws of Ontario Business Corporations Act and are 'for profit' corporations.

2.1.1 A Description of the Relevant Affiliate Entities[19]

2.1.1.1 Greater Sudbury Utilities Inc.

GSU is an investment holding company and the parent entity of the GSU Group. Its wholly owned subsidiaries are involved in the distribution of electricity, provision of broadband telecommunications services, competitive rental operations, and customer support services.

GSU is wholly owned by the City. GSU became a business corporation under the rules of the Ontario Business Corporations Act in January 2000 and is governed by a Board of Directors appointed by the

[19] The descriptions provided within Section 2.1.1 of this Report were prepared by KPMG based on information provided by GSU Management.

City. Three Councillors (which may include the Mayor) and four community members sit on the Board of GSU.[20]

2.1.1.2 Greater Sudbury Hydro Inc.

GSHI is an LDC providing electricity to approximately 48,000 residential and commercial customers within the City of Greater Sudbury and the Municipality of West Nipissing.[21] GSHI's workforce is comprised entirely of engineering and operational personnel, with the exception of two administrative clerks and one corporate management staff member. GSHI owns the building and property that houses GSU's employees and maintains 30 substations and a fleet of vehicles and equipment.

GSHI is governed by a Board of Directors appointed by the City. Three Councillors (which may include the Mayor) and four community members sit on the Board of GSHI, which is separate from the Board of GSU. GSHI is licensed and regulated by the OEB. No other affiliate in the GSU Group is an OEB regulated business.

2.1.1.3 Greater Sudbury Hydro Plus Inc.

GSHP is a corporate services company that provides management and administrative services to its affiliates, including executive leadership, IT services, human resources and safety, accounting, finance, communications, marketing, innovation, utility customer billing and account maintenance, purchasing and inventory, and other support services.

2.1.1.4 Greater Sudbury Telecommunications Inc. (Agilis)

Greater Sudbury Telecommunications Inc., doing business as "Agilis Networks", is a telecommunications company with a fibre-optic network that provides telecommunications services to businesses and organizations, including fibre internet, transparent LAN services, mobile and desktop phone, email, and web hosting services.

2.1.1.5 1627596 Ontario Inc. (@Home)

1627596 Ontario Inc., doing business as "@home Energy", operates a water heater and combi-boilers rental and maintenance business under the @home Energy brand.

2.1.1.6 ConverGen Inc.

ConverGen Inc. is an energy business company that operates a Landfill Gas generation facility that converts gasses into electricity. The company also owns commercial real estate.

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[20] https://sudburyhydro.com/corporate/, accessed June 1, 2022.
[21] https://sudburyhydro.com/, accessed June 1, 2022.

2.1.2 Workforce Headcount for the Relevant Affiliate Entities

The approximate employee headcount for the workforces of each affiliate entity in the GSU Group is provided below:

Exhibit 7: Workforce and Capital Assets by Affiliate

Relevant Affiliate Entity	Workforce (headcount)	Capital Assets ($000s)
GSHI	59	$115,769
GSHP	56	$606
Agilis	14	$11,085
@Home	6	$3,620
ConverGen	1	$3,344
Total GSU Group	**136**	**$134,424**

Source: Exhibit prepared by KPMG based on information provided by GSU Management.

Approximately 86% of the GSU Group's total Capital Assets are owned by GSHI. In terms the GSU Group's core business operations (i.e., excluding GSHP's 56 personnel from the total workforce headcount), 74% of the GSU Group's core business headcount is employed by GSHI. As stated by GSU Management, the sole purpose of GSHP's workforce is to provide centralized support services to its affiliates, including GSHI.

2.2 Project Scope

GSHI engaged KPMG to provide an independent assessment of GSHI's and GSHP's current and historic shared services arrangements and related cost allocation methodology. The scope of this project is to:

1. Review and gain an understanding of GSHI/GSHP's historical cost allocation approach;
2. Assess whether the shared services provided to GSHI are charged at market rates for the same services;
3. Evaluate the historical cost allocation approach in consideration of OEB regulatory requirements, including adherence to the ARC and outlined in the APH, as well as consideration for transfer pricing guidance set out in the OECD Guidelines;
4. Review and analyze the current costs incurred by GSHI/GSHP in their provision of shared services to affiliates compared to arm's-length rates for provision of the same services; and
5. Identify potential refinements to GSHI/GSHP's cost allocation methodologies based on leading practices for consideration by GSU Management.

It is KPMG's understanding that recommendations could be used by GSU Management for forecasting and budgeting purposes, as well as in support of GSHI's next rate rebasing application. Through normal processes, GSU Management will be responsible for the:

- Assessment of observations;
- The decision to implement any recommendations, and
- Consideration of impacts that may result from the implementation of recommendations.

Implementation will require GSU Management to plan and evaluate any changes to make sure that satisfactory results are realized.

3 Analysis Approach

KPMG’s analysis approach covered the following four phases as outlined below.

3.1 Phase 1: Discovery

The key activities KPMG performed under this phase are summarized below.

3.1.1 Kick-off Meeting & Defining Project Objectives

KPMG’s analysis began with a kick-off meeting with the Chief Financial Officer, the Supervisor of Regulatory & Internal Audit, and other project team members at GSU. The purpose of this meeting was to understand the key objectives and project expectations behind the Cost Allocation Methodology review, obtain high-level background on the GSU Group’s shared services arrangement and cost allocation methods, and requested interviews of representatives of different departments.

3.1.2 Information Gathering

KPMG reviewed the following information requested from GSU Management:

1. The following cost allocation and cost reallocation internal working papers for the month of November 2021 and for the month of April 2022:
    a) Building Costs,
    b) IT Costs,
    c) Corporate Services Allocations, and
    d) Streetlight Maintenance;
2. A listing of the description of current allocation drivers by cost centre;
3. GSHI’s Transfer Pricing Study dated June 30, 2019;
4. The intercompany corporate services agreement between GSHI and GSHP Dated as of August 1, 2012;
5. Legal entity organizational chart for the GSU Group of entities as of May 24, 2022;
6. Detailed personnel organization chart with names and roles of all employees as of May 24, 2022;
7. A listing of various facilities owned by GSHI;
8. Details of the amounts charged to GSHI for telecommunications services provided by Agilis;
9. A listing of the prices offered by Agilis to third-party customers; and
10. Email correspondence with GSU Management discussing:

e) GSHI's weighted average cost of capital;

f) The payroll benefits burden rate;

g) Details of the building operating expenses;

h) Time tracking and work order system; and

i) Calculations of vehicle charge-out rates.

3.2 Phase 2: Evaluation of Cost Allocation Methodology

The second phase of the engagement was comprised of three key tasks.

1. The first task was the evaluation of the actual historical cost allocations from GSHI and from GSHP to affiliate recipients based on the nature and benefit of shared services being provided to recipients.

2. The second task was the assessment of whether the shared services charges determined using GSHI's cost allocation model were comparable to market rates based on a benchmarking comparison of GSHI's administrative costs to the administrative costs incurred by comparable Ontario LDCs.

3. The third task was the evaluation of the historical cost allocation approach against OEB regulatory requirements and transfer pricing guidance provided in the OECD Guidelines.

KPMG relied on information and documentation that was provided to us by GSU Management at the date of this report. KPMG has not audited or otherwise attempted to independently verify the information provided unless otherwise indicated. The procedures KPMG carried out do not constitute an audit, and as such, the content of this Report should not be considered as providing the same level of assurance as an audit.

3.2.1 Evaluation of Shared Services Arrangements

During this phase, KPMG interviewed key employees at GSHI to identify/confirm the nature of the shared services provided, the value or benefit to the service recipient(s), and to confirm the shared services cost pools identified by GSU Management. KPMG interviewed the following personnel:

1. President & Chief Executive Officer
2. Supervisor of Regulatory and Internal Audit
3. Health and Safety Officer
4. Vice President of Human Resources and Safety
5. Human Resources Manager
6. Vice President of Strategy and Growth/General Manager for Agilis, @Home, and ConverGen
7. Manager of Information Security and Technology

8. Director of Communications
9. Innovation Officer
10. Manager of Customer Service and Billing
11. Superintendent - Operations
12. Purchasing Agent Stores
13. Senior Accountants
14. Manager - Engineering

3.2.2 Assessment of Whether Shared Services Charges are Representative of Market Rates

During this phase, KPMG assessed whether the shared services charges determined using GSHI's cost allocation model were comparable to market rates based on a benchmarking comparison of GSHI's administrative costs to the administrative costs incurred by comparable Ontario LDCs.

The detailed analysis performed under this phase is documented within the following sections:

- Section 5 Overall Cost Allocation Approach; and
- Section 6 Assessment of the Shared Services Charges with Market Rates.

3.2.3 Evaluation of Cost Allocation Methodology

During this phase, KPMG reviewed the OEB regulatory requirements for Electricity Distributors outlined in the ARC and in Article 340 of the APH. KPMG reviewed GSHI's cost allocation methodology with consideration for OEB regulatory requirements for Ontario LDCs.

In addition to standards relevant to the OEB regulatory requirements, KPMG evaluated the current cost allocation process in consideration of transfer pricing guidance set out in the OECD Guidelines, including completeness of the cost allocation methodology, transparency of the costs (direct or indirect), accuracy and reliability of the cost allocation methodology, the sustainability of the cost allocation methodology, and the auditability of the cost allocation methodology.

The detailed analysis performed under this phase is documented within the following sections:

- Section 4 Summary of the OEB Transfer Pricing Standards for Shared Services;
- Section 7 Cost Allocation by Services Function; and
- Section 8 Evaluation of Cost Allocation Methodology.

3.3 Phase 3: Arm's-length Rates Analysis

During this phase, KPMG performed benchmarking analyses for arm's-length rates for shared services functions identified as having existing competitive markets, including available information for comparable arm's-length prices between arm's-length parties, as well as comparability between the intercompany transaction with GSHI and the comparable arm's-length transactions.

The benchmarking analysis performed under this phase is detailed in the following sections:

- Section 7.3.2.3.3;
- Section 7.3.4.3.1;
- Section 7.3.5.2.1; and
- Section 7.4.1.3.1.

3.4 Phase 4: Report

During this phase, KPMG documented the findings, analysis, and recommendations for consideration by GSU Management regarding GSHI's cost allocation model and shared services arrangements.

4 Summary of OEB Transfer Pricing Standards for Shared Services

4.1 Overview of the OEB

The OEB regulates Ontario LDCs under provincial legislation. The OEB is responsible for setting rates and licensing all of Ontario's electricity sector participants, including transmission system operators, generators, distributors, transmitters, and electricity wholesalers.[22] As a government agency, the OEB is financially responsible and acts in the public interest. [23]

The OEB has regulated the electricity sector since 1999. Their mandate and authority are set out in legislation, regulations and directives including the *Ontario Energy Board Act, 1998*, the *Electricity Act, 1998*, and several other provincial statutes including: the *Energy Consumer Protection Act, 2010*, the *Municipal Franchises Act*, the *Oil, Gas and Salt Resources Act*, the *Assessment Act*, and the *Toronto District Heating Corporation Act*. [24]

The OEB issues rules and codes that energy companies must follow. These rules and codes define their responsibilities and obligations to consumers, other energy companies, and energy-related agencies.[25]

4.2 Summary of the Affiliate Relationships Code for Electricity Distributors and Transmitters

The *Affiliate Relationships Code for Electricity Distributors and Transmitters* ("**ARC**"), issued by the OEB, sets out the standards and conditions for intercompany transactions between LDCs and their respective affiliated companies, with the objective of:[26]

a) protecting ratepayers from harm that may arise as a result of dealings between an LDC and its affiliate;

b) preventing an LDC from cross-subsidizing affiliate activities;

c) protecting the confidentiality of information collected by an LDC during provision of LDC services;

d) ensuring there is no preferential access to LDC services;

e) preventing an LDC from acting in a manner that provides an unfair business advantage to an affiliate that is an energy service provider; and

[22] https://munkschool.utoronto.ca/mowatcentre/wp-content/uploads/publications/134_EET_background_report_on_the_ontario_energy-sector.pdf
[23] https://www.oeb.ca/regulatory-rules-and-documents/rules-codes-and-requirements
[24] https://www.oeb.ca/regulatory-rules-and-documents/rules-codes-and-requirements
[25] https://www.oeb.ca/regulatory-rules-and-documents/rules-codes-and-requirements
[26] ARC, Section 1.1.

f) preventing customer confusion that may arise from the relationship between an LDC and its affiliate.

Since transfer prices for transactions between affiliate entities provide a potential opportunity for a shareholder to benefit inappropriately at the expense of electricity ratepayers, the OEB has implemented ARC to establish requirements for intercompany transactions, including shared services arrangements. Transfer pricing for intercompany transactions may be reviewed by the OEB, on a compliance basis, and the appropriateness of costs and revenues from intercompany transactions may also be reviewed as part of the LDC's distribution rate application.

4.2.1 Transfer Pricing Standards

The transfer pricing standards outlined in section 2.3 of the ARC are summarized below: [27]

1. Market Pricing: An electricity transmitter or distributor shall pay no more than a market price when acquiring a service, product, resource or use of asset from an affiliate.[28] When an electricity transmitter or distributor is providing a service, product, resource or use of asset to an affiliate, the electricity transmitter or distributor shall charge no less than the greater of,

   (i) a market price, and

   (ii) the electricity transmitter or distributor's fully allocated cost to provide service, product, resource or use of asset, when selling that service, product, resource or use of asset to an affiliate.[29]
2. Fully Allocated Cost-based Pricing: If a competitive market does not exist, the transfer price for providing or acquiring a service, product, resource or use of asset from an affiliate shall reflect the affiliate provider's fully allocated cost.[30] When an LDC is providing the service, product, resource or use of asset to affiliate, the fully allocated cost shall also include a return on the LDC's invested capital that is no less than the LDC's approved weighted average cost of capital.[31]

In summary, the determination of transfer prices for intercompany transactions between LDCs and their affiliates must first consider arm's-length prices for comparable transactions between arm's-length parties. When arm's-length prices for comparable arm's-length transactions do exist, the transfer price charged by the LDC to its affiliate(s) will be the greater of the arm's-length rate and the LDC's fully allocated cost of providing the service.[32] When the LDC is the recipient, the transfer price paid to its affiliate shall not be greater than the arm's-length rate.[33]

When arm's-length prices for comparable arm's-length transactions do not exist, the transfer price should be no more than the affiliate's fully allocated cost of providing the service, product, resource or use of asset.[34] The fully allocated cost should include a profit return in the case where the provider is the LDC.[35] A return on invested capital is allowed if a non-LDC affiliate is the provider of the shared service but is not

[27] ARC, Section 2.3
[28] ARC, Section 2.3.3.1
[29] ARC, Section 2.3.3.6
[30] ARC, Section 2.3.4.1
[31] ARC, Section 2.3.4.2
[32] ARC, Section 2.3.3.6
[33] ARC, Section 2.3.3.1
[34] ARC, Section 2.3.4.1
[35] ARC, Section 2.3.4.2

a requirement.[36] Implicit in this is the notion that the affiliate service provider has the option to charge the LDC an amount that is less than the relevant market rate or the fully allocated cost to provide the service.

4.2.1.1 Shared Corporate Services

The ARC provides the following definition for shared corporate services:

> "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;[37]

The ARC allows for shared corporate services meeting the definition above to be charged between affiliate entities solely based on Fully Allocated Cost-Based Pricing as summarized previously within Section 4.2.1 of this Report.[38] In other words, a shared corporate service provider transacting with an affiliate entity can charge a service fee that reflects the recovery of its fully-loaded cost (direct and indirect) of providing the shared corporate services and must include a return on invested capital specifically in transactions when the LDC is the provider of the shared corporate service.[39] A return on invested capital is allowed if a non-LDC affiliate is the provider of the shared corporate service, but is not a requirement.[40]

4.3 Summary of OEB Transfer Pricing Guidance

The OEB also provides additional guidance for the allocation of costs and transfer pricing in its *Accounting Procedures Handbook for Electricity Distributors* ("APH"), last revised January 1, 2012.[41] Within Article 340 of the APH, the OEB provides specific guidance for intercompany transactions between regulated electricity distributors and their affiliates for the purpose of preventing cross-subsidization between regulated and non-regulated lines of business, products, or services.[42]

The APH provides that the general method for charging or allocating indirect costs between regulated and non-regulated lines of business, products or services should be on a fully allocated cost basis. To the extent possible, all direct and allocated costs between regulated and non-regulated lines of business, services or products should be traceable on the books of the regulated business to the Uniform System of Accounts.[43]

Where a distributor incurs costs (e.g., general administration, office staff salaries, and rent) jointly with another distributor or with its local municipality, the method of splitting the joint costs should be calculated

[36] ARC, Section 2.3.4.1
[37] ARC, Section 1.2.
[38] ARC, Section 2.3.5
[39] ARC, Section 2.3.4.2
[40] ARC, Section 2.3.4.1
[41] Ontario Energy Board (December 2011), *Accounting Procedures Handbook for Electricity Distributors, Issued December 2011*, https://www.oeb.ca/sites/default/files/uploads/documents/regulatorycodes/2019-01/Accounting-Procedures-Handbook-Elec-Distributors-20120101.pdf
[42] APH, Article 340
[43] APH, Article 340

in accordance with some reasonable method of determining a fair and equitable split. For example, the distributor's share of general administration costs could be determined based on its estimated percentage use of general administration services. Shared office staff salaries could be split based on the proportion of time spent by staff on each entity's business. As another example, where rent is a shared accommodation, it could be allocated based on the floor area occupied by each entity's operations.[44]

4.4 Considerations for Assessment of GSU Group Cost Allocations

The overriding general principle in the determination of transfer prices for intercompany transactions between affiliates is that the charge must reflect that which would have been agreed to by arm's-length parties. For example, the amount charged to the recipient entity must reflect that which would have been negotiated by two arm's-length parties.[45]

The determination of transfer prices for intercompany transactions between GSHI and its affiliates must first consider arm's-length prices for comparable transactions between arm's-length parties.[46] When arm's-length prices for comparable arm's-length transactions do not exist, the transfer price should reflect the affiliate's fully allocated cost of providing the service, product, resource or use of asset, and must include a profit return in the case where the service provider is GSHI.[47,48]

In lieu of the above approach, if the intercompany transaction meets the ARC's definition for "shared corporate services" as summarized previously within Section 4.2.1.1 of this Report, then the transfer price charged between affiliate entities may be determined solely based on the fully allocated cost approach without consideration for arm's-length prices.[49]

To assess whether the approach applied by the GSU group for determining its transfer prices for the shared services arrangements with GSHI, KPMG considered the following:

1. If the nature of the shared services provided to/from GSHI meets the ARC's definition for "shared corporate services", the method for determining the transfer price can be the fully allocated cost approach;[50]
2. If a competitive market exists, including available information for comparable arm's-length prices between arm's-length parties, as well as comparability between the intercompany transaction with GSHI and the comparable arm's-length transaction(s), then the quantum of the intercompany charge is calculated using both the market-based approach as well as the fully-allocated cost approach and then compared to determine the transfer price based on the requirements in section 2.3.3 of the ARC; and
3. If a competitive market does not exist, the method for determining the transfer price is the fully allocated cost to provide that service, product, resource or use of asset.[51]

[44] APH, Article 340
[45] OECD Guidelines, Chapter VII: Intra-Group Services, paragraph 7.19
[46] ARC, Section 2.3.3
[47] ARC, Section 2.3.4
[48] ARC, Section 2.3.4.2

[50] ARC, Section 2.3.5.1
[51] ARC, Section 2.3.4

- For services provided by GSHI, the fully allocated cost must include a return on invested capital which is no less than GSHI's approved weighted average cost of capital.[52]
- A return on invested capital is allowed if a non-LDC affiliate is the provider of the shared service, but it is not a requirement.[53]

[52] ARC, Section 2.3.4.2
[53] ARC, Section 2.3.4.1

5 Overall Cost Allocation Approach

5.1 Overview of Shared Services Arrangements

As stated by GSHI, certain affiliates within the GSU Group provide shared services to other affiliates with the intent to reduce costs to electricity consumers through efficiencies of scale and sharing of employees and resources. The table below provides a summary of GSHI's shared services arrangements reviewed in this report:

Exhibit 8: Shared Services Arrangements

Summary of Shared Services				
#	**Transaction Name**	**Provider/ Payee**	**Recipient(s)/ Payor(s)**	**Description of Services**
1	The Provision of Services by GSHP	GSHP	GSHI	GSHP provides shared services to GSHI, including information technology, accounting, business execution, human resources & safety, communications & marketing, administrative services, innovation, president & CEO, board of directors, purchasing & procurement, finance, regulatory, and customer service & billing.
2	The Provision of Services by GSHI	GSHI	GSHP	GSHI provides street lighting services to the City on behalf of GSHP under an agreement between GSHP and the City.
		GSHI	GSHP, Agilis, @Home, and ConverGen	GSHI operates and leases building space to GSHP, Agilis, @Home, and ConverGen at its property located at 500 Regent Street.
		GSHI	GSHP, Agilis and @Home	GSHI provides maintenance and garage services, as well as the use of its vehicles to GSHP, Agilis, and @Home.
		GSHI	Agilis and @Home	GSHI provides space at its various facilities to Agilis and @Home for storage of equipment and inventory.
		GSHI	Agilis	GSHI provides its network of poles to Agilis for its telecommunication attachments.
3	The Provision of Services by Agilis	Agilis	GSHI	Agilis provides telecommunications services to GSHI, including interconnection of facilities in West Nippissing, telecommunications to support smart metering, and internet services.

Source: Exhibit prepared by KPMG based on information provided by GSU Management.

5.2 Summary of Cost Allocation Approach

Based on KPMG's review of the information and data provided by GSHI and gathered during meetings with GSU Group employees, the costs incurred by the organization for shared services are allocated to each affiliate by applying the following approach (as established and implemented by the GSU Group):

1. ***Direct Charges***: First, revenue and expenses are identified and directly assigned to the relevant affiliate within the GSU Group, each of which is set up with its own separate set of accounts.
2. ***Allocation of GSHI Building Costs***: Second, GSHI charges its affiliates for building occupancy and building operating costs for its property located at 500 Regent Street:
   a) GSHI's total monthly actual building operating costs are identified.
   b) The total building operating costs are allocated and charged to Agilis, @Home, and each of the relevant cost centres (i.e., departments) at GSHP and at GSHI based on their respective proportion of occupied space, using a combination of two cost allocation drivers: (1) occupied square footage, and (2) headcount for common areas.
   c) Agilis and @Home are also each charged a lease rate by GSHI for occupancy of the building that is based on arm's-length rental rates obtained historically by GSU Management.
3. ***Allocation of GSHP IT Costs***: Third, GSHP charges its affiliates for IT costs incurred in its provision of IT support services:
   a) The total monthly actual IT department costs are identified and subtotalled based on five cost allocation drivers (i.e., help desk tickets, PC units, printers, phone users, and Central Square users).
   b) The subtotalled IT department costs are allocated and charged between Agilis, @Home, and each of the relevant cost centres (i.e., departments) at GSHP and at GSHI by applying the relevant assigned allocation driver.
4. ***Allocation of GSHP Service Costs***: Fourth, GSHP charges its affiliates for its costs incurred in the provision of shared services for the following cost centres: accounting, business execution, human resources & safety, communications & marketing, administrative services, innovation, President & CEO, Board of Directors, purchasing & procurement, finance, regulatory, and customer service & billing. Each GSHP cost centre's costs are allocated and charged to GSHI, Agilis, @Home, ConverGen, GSU, and the City (for the water and streetlight contracts) by applying various allocation drivers that vary based on the activities of the cost centre.
5. ***Allocation of GSHI Streetlighting and Vehicle Costs***: GSU Group employees use a work order system to record their time where it can be directly identified to a specific project by affiliate (E.g., work orders for streetlight services performed by GSHI for the City). The time record data from the work order system are used to allocate charges to the relevant fund/affiliate based on the employee's hourly rate and the specific hours recorded by the employee in the work order system. The employee hourly rates are set to recover actual payroll costs including the employee's salary/wages plus a benefits burden.

   In addition, when an employee records time to the work order system, the associated use of any vehicles owned by GSHI are also tracked by work order and directly charged to the relevant affiliate within the GSU Group. Vehicle rates are set to recover actual costs when applied to all vehicle hours, where actual cost includes fuel, maintenance, insurance, and amortization. Different rates are set for each of the various vehicle classes in the fleet and based on the relative cost of each vehicle class.

6. ***Charges Between GSHI and Agilis***: Finally, Agilis charges GSHI for telecommunications services that is discounted, some up to 100%, at a rate that is based on arm's-length rates charged by Agilis to third parties. Agilis also uses GSHI's network of poles for its attachments, for which it pays a pole attachment rate to GSHI that has been approved by the OEB for use of LDC poles by arms-length telecommunications attachments across Ontario.

5.2.1 Cost Allocation Drivers

Based on information provided by GSU Management, cost allocations for many of GSHI's shared services arrangements are driven primarily by budgeted time estimates and actual time recorded in GSU's work order system. Other cost allocation drivers are applied by GSU Management for certain departments/cost centres and accounts (e.g., square footage, number of tickets, call volumes, number of invoices, number of users, headcount, etc.). The table below provides a summary of cost allocation drivers applied by GSU Management for GSHI's shared services arrangements (as established and implemented by the GSU Group):

Exhibit 9: GSU Cost Allocation Drivers by Service Cost Description

Summary of Cost Allocation Drivers Applied by GSU Management	
Cost Description	**Allocation Driver**
Accounting	Time records
Business Execution	Time records
Information Technology	Number of tickets; number of PC units; number of printers; number of phone users; number of Central Square users; and direct assignment where applicable.
Human Resources	Number of employees
Safety	Time records
Communications & Marketing	Time records
Administrative Services	Number of bills
Innovation	Time records
President & CEO	Time records
Board of Directors	50% of the cost of two boards (GSHI and GSU)
Purchasing & Procurement	Time records
Payroll	Time records; number of employees for other general costs
Accounts Payable	Time records; number of invoices for other general costs
Regulatory	100% assigned to GSHI
Customer Service & Billing	Number of bills; call volumes; number of meters; space occupied on the shared bill; and direct assignment where applicable.
Inventory Management (Stores)	A markup to the value of the goods (an allocation based on value of the inventories).
Streetlight	Time records
Building	Square footage for occupied space
Vehicle	Vehicle usage hours recorded through the work order system.
Pole Attachments	Number of poles

Source: Exhibit prepared by KPMG based on information provided by GSU Management.

As stated by GSU Management, budget/estimated allocation drivers are calculated at the beginning of each year based on a combination of history and expectations of future levels of activity. This also includes time tracking, which is compared by GSU Management with actual time recorded by GSU's employees at the end of each year. It is KPMG's understanding from GSU that GSHP Finance personnel review whether the allocation drivers calculated using actual figures reflected during the fiscal year were consistent with the budgeted figures established at the beginning of the year. In the case of material variances, true-up or true-down adjustments may be booked by GSU Management.

5.2.2 Applied Transfer Pricing Approach by Service Function

The table below provides a summary of the transfer pricing approach applied by GSU Management for each of the intercompany shared services transactions involving GSHI and its affiliates:

Exhibit 10: Applied Transfer Pricing Approach by Service Function

Applied Transfer Pricing Approach by Service Function	
Description of Services	**Applied Transfer Pricing Approach**
Shared services (information technology, accounting, business execution, human resources & safety, communications & marketing, administrative services, innovation, president & CEO, board of directors, purchasing & procurement, finance, regulatory, and customer service & billing).	Fully Allocated Cost-Based Pricing
Street lighting services.	Fully Allocated Cost-Based Pricing
Building operation services.	Fully Allocated Cost-Based Pricing for services provided to GSHP, Agilis, and @Home
Use of building space.	Market-Based Pricing, based on arm's-length lease rates, for lease charges to Agilis and @Home
Maintenance and garage services, use of vehicles.	Fully Allocated Cost-Based Pricing
Use of space at certain GSHI facilities.	Facility use by Agilis compensated through discounted prices charged for telecommunications services provided to GSHI
Pole attachments.	Pole attachment fee based on OEB approved rates
Telecommunications services.	Discounted rate, based on arm's-length prices charged by Agilis to its third-party customers with the applicable discount then applied

Source: Exhibit prepared by KPMG based on information provided by GSU Management.

6 Assessment of the Shared Services Charges with Market Rates

6.1 Overview of Cost Allocation Approach for Shared Services

GSHP provides centralized corporate and administrative support services to GSHI, as well as to other affiliates in the GSU Group. GSHP determines its charges to affiliate service recipients based on the Fully Allocated Cost-Based Pricing approach.

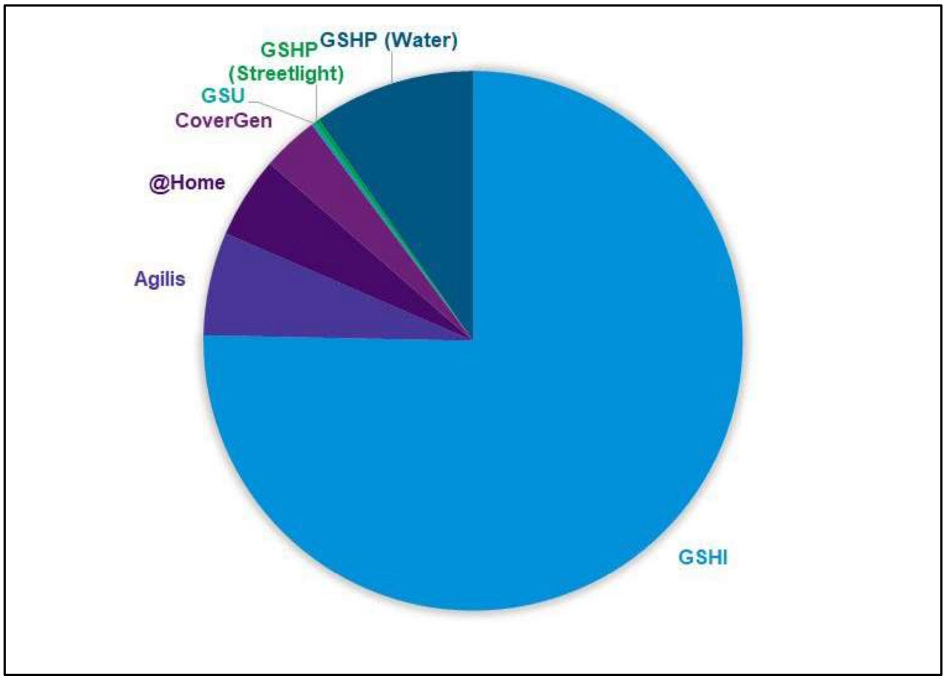
Even though ARC section 2.3.4.1 allows for the application of a profit return on GSHP's fully allocated costs, GSU Management's approach is to simply recover GSHP's costs without a profit component. Based on discussions with GSU Management, it is KPMG's understanding that the provision of centralized corporate and administrative support services by GSHP allows for efficiencies and results in cost savings to the overall GSU Group, including GSHI. This approach is consistent with information in the OECD Guidelines regarding group synergies and resulting economies of scale often being favourable to the group as a whole, as well as the aggregate cost savings received by each group member.[54]

[54] OECD (2022). Paragraph 1.177.

6.1.1 Summary of Cost Allocations to Affiliates

The pie chart below illustrates the approximate portions of GSHP's total costs allocated to each affiliate based on the existing cost allocation methodology for shared services described within section 5.2 of this Report.[55]

Exhibit 11: Summary of Cost Allocations to GSU Affiliates for the Provision of Services by GSHP



Source: Exhibit prepared by KPMG based on information provided by GSU Management.

As depicted in the pie chart above, GSHI is allocated approximately three quarters of GSHP's total costs for its provision of shared services to GSU affiliates. By comparison, GSHI owns 86% of the GSU Group's total Capital Assets and 74% of the GSU Group's workforce for its core business operations (i.e., excluding GSHP personnel from the total headcount) is employed by GSHI.

[55] The pie chart was derived using the total allocations to GSU affiliates for the month of April 2022 calculated by GSU Management in the file entitled *SLA Corporate Services - April 2022*.

6.2 Selection of Approach for the Assessment of Market Rates

In order to perform an assessment of GSHP's shared service charges, KPMG considered the following approaches for the evaluation of whether GSHP's charges to GSHI are consistent with market rates:

- An explicit approach involving a comparison of GSHP's shared service charges with market rates charged for the provision of comparable services between independent arm's-length parties (based on an application of the comparable uncontrolled price method or CUP method summarized in the OECD Guidelines). Where differences exist between the two prices, this could be indicative that the pricing conditions between the affiliate entities are not arm's length, and that the charge for the shared services may need to be substituted with the market price in the comparable arm's-length transaction.[56]; and
- An implicit approach may be applied from the perspective of the service recipient by comparing the ratio of administrative costs incurred by GSHI (inclusive of the shared service charges from GSHP) with the administrative cost ratios exhibited by comparable peer Ontario LDCs. Where differences exist between the administrative cost ratios, this could imply that the pricing conditions between the affiliate entities are not arm's length, and that the charge for the shared services may need to be adjusted to result in GSHI incurring an administrative cost ratio that comparable to those exhibited by its peer Ontario LDCs.

In considering of the explicit approach, KPMG first determined whether internal arm's-length transactions exist that could be potentially comparable to the provision of share services by GSHP. Based on information gathered by KPMG through functional interviews with GSU employees, GSHP does not provide shared services to third parties, and GSHI is not the recipient of services from third parties that are similar to the shared services provided from GSHP. Therefore, it was not possible to obtain internal comparable market rates.

Next, KPMG considered whether independent companies could be identified that were providing services comparable to the shared services provided by GSHP to GSHI. KPMG observed that although independent companies do exist that provide arm's-length services that are similar to the shared services provided by GSHP, information and data is not publicly available to allow for an evaluation of the following economically relevant comparability factors that could influence the market price:[57]

- Contractual terms and conditions of the arm's-length arrangement (e.g., posted pricing information, discounts provided, payment terms, etc.)
- The functions performed, risks assumed, and assets employed by the independent service provider and by the independent service recipient (e.g., roles and responsibilities of each party and the capabilities they provide to the service arrangement).
- The economic circumstances of the independent service provider and independent service recipient, and the markets in which each operates (e.g., market rates for services may vary across different regional markets within the province of Ontario).

[56] OECD Guidelines (2022). Chapter II: *Transfer Pricing Methods*; paragraph 2.14.
[57] OECD Guidelines (2022). Chapter I: *The Arm's Length Principle*; paragraph 1.36.

- Any business strategies pursued by the independent service provider and the independent service recipient (e.g., duration of arrangement, market penetration strategies, loss leader, timing issues, centralization synergies, etc.).

Therefore, due to unavailability of the public data and information described above, it was not possible for KPMG to evaluate the comparability of market rates charged by independent service providers. As such, an explicit approach was not selected by KPMG for the assessment of market rates.

In consideration of the application of an implicit approach, KPMG was able to identify comparable peer Ontario LDCs. Summary financial information for GSHI and peer Ontario LDCs is also available in the OEB 2021 Electricity Distributor Yearbook, dated September 29, 2022 ("OEB Yearbook").[58] Consequently, an implicit approach was selected by KPMG for the assessment of market rates.

6.3 Assessment of Market Rates

KPMG was able to identify comparable peer Ontario LDCs based on the following selection criteria:

- Similar volume of total customers.
- Customer base composition is predominantly residential.
- Similar levels of Total Assets, Total Liabilities, and Shareholder's Equity

Based on the above criteria, the following set of peer Ontario LDCs were selected as being sufficiently comparable to GSHI:

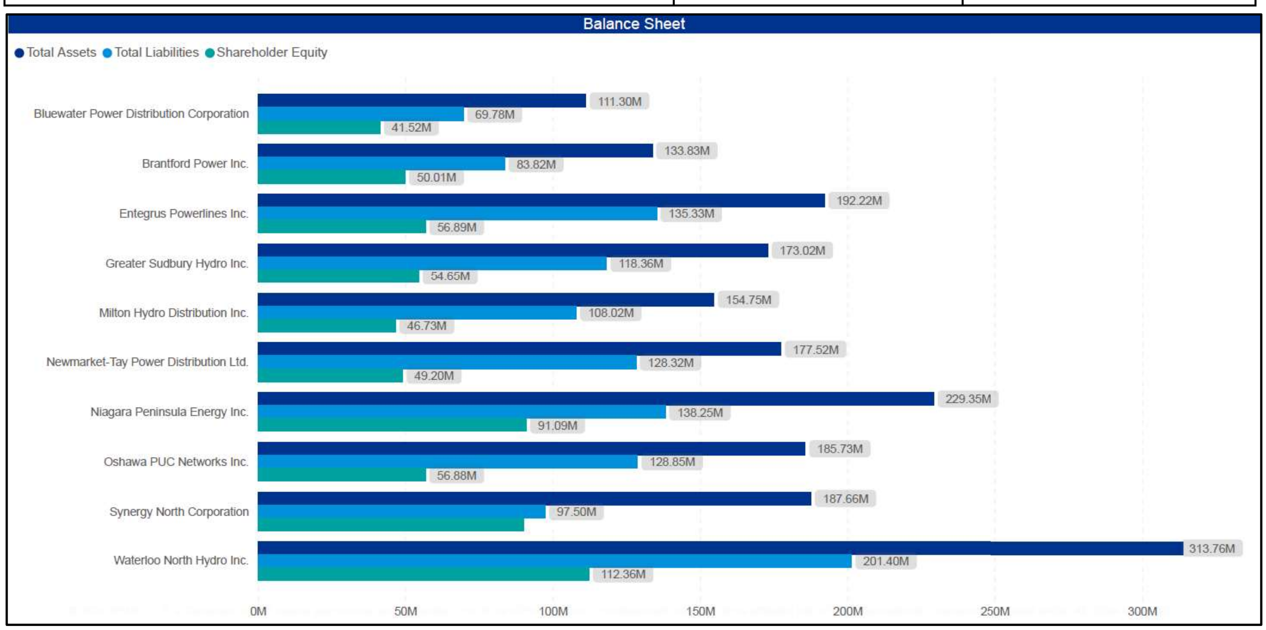
1. Bluewater Power Distribution Corporation
2. Brantford Power Inc.
3. Entegrus Powerlines Inc.
4. Milton Hydro Distribution Inc.
5. Newmarket-Tay Power Distribution Ltd.
6. Niagara Peninsula Energy Inc.
7. Oshawa PUC Networks Inc.
8. Synergy North Corporation
9. Waterloo North Hydro Inc.

[58] Ontario Energy Board website (2022). *2021 Electricity Distributor Yearbook*. 29 September. https://www.oeb.ca/ontarios-energy-sector/performance-assessment/natural-gas-and-electricity-utility-yearbooks#elec

KPMG reviewed the 2021 summary financial information reported in the OEB Yearbook for GSHI and the selected peer Ontario LDCs.[59] As depicted in the exhibit below, the comparable peer Ontario LDCs have a similar customer base and levels of Total Assets, Total Liabilities, and Shareholder's Equity as GSHI:

Exhibit 12: 2021 Summary Information from OEB Yearbook for Selected Peer Ontario LDCs

Customer Base		
Ontario LDC	**Residential Customers**	**Total Customers**
Bluewater Power Distribution Corporation	33,176	37,016
Brantford Power Inc.	37,730	41,065
Entegrus Powerlines Inc.	55,226	61,507
Greater Sudbury Hydro Inc.	**43,103**	**47,865**
Milton Hydro Distribution Inc.	38,823	42,082
Newmarket-Tay Power Distribution Ltd.	39,961	44,519
Niagara Peninsula Energy Inc.	52,347	57,765
Oshawa PUC Networks Inc.	55,351	60,031
Synergy North Corporation	50,961	56,945
Waterloo North Hydro Inc.	52,096	58,746



Source: Exhibit prepared by KPMG based on information obtained from the Ontario Energy Board 2021 Yearbook of Electricity Distributors, dated September 29, 2022.

[59] Ontario Energy Board website (2022). *2021 Electricity Distributor Yearbook*. 29 September. https://www.oeb.ca/ontarios-energy-sector/performance-assessment/natural-gas-and-electricity-utility-yearbooks#elec

Next, KPMG performed a high-level expense analysis that compared GSHI's total incurred administrative expenses (inclusive of the cost allocations charged from GSHP) relative to its total expenses, compared with the same information for the selected peer Ontario LDCs. The 3-year (2019-2021) administrative expense ratios were computed for GSHI and for each of the selected peer Ontario LDCs. The table below displays these results.

Exhibit 13: Administrative Cost Ratios for Peer Ontario LDCs for 2019 to 2021

Administrative Cost Ratios				
Ontario LDC	**2019**	**2020**	**2021**	**Average**
Bluewater Power Distribution Corporation	49.3%	47.2%	44.8%	47.1%
Brantford Power Inc.	46.4%	50.3%	46.9%	47.9%
Entegrus Powerlines Inc.	43.5%	44.4%	40.9%	42.9%
Milton Hydro Distribution Inc.	35.7%	35.2%	37.2%	36.0%
Newmarket-Tay Power Distribution Ltd.	38.1%	40.6%	50.6%	43.1%
Niagara Peninsula Energy Inc.	38.6%	37.8%	40.0%	38.8%
Oshawa PUC Networks Inc.	48.0%	54.0%	51.4%	51.2%
Synergy North Corporation	36.3%	36.3%	35.2%	36.0%
Waterloo North Hydro Inc.	24.0%	23.5%	25.7%	24.4%
Minimum	**24.0%**	**23.5%**	**25.7%**	**24.4%**
1st Quartile	**36.3%**	**36.3%**	**37.2%**	**36.0%**
Median	**38.6%**	**40.6%**	**40.9%**	**42.9%**
3rd Quartile	**46.4%**	**47.2%**	**46.9%**	**47.1%**
Maximum	**49.3%**	**54.0%**	**51.4%**	**51.2%**
Greater Sudbury Hydro Inc.	**32.4%**	**30.7%**	**32.4%**	**31.8%**

Source: Exhibit prepared by KPMG based on information obtained from the Ontario Energy Board 2021 Yearbook of Electricity Distributors, dated September 29, 2022.

Based on the results in the table above, the 2021 range of administrative expense ratios established by the selected comparable peer Ontario LDCs ranged from 25.7% to 51.4%, with a median of 40.9%. The three-year (2019-2021) average range of administrative expense ratios established by these companies ranged from 24.4% to 51.2%, with a median of 42.9%.

GSHI incurred administrative expense ratios of 32.4% and 31.8%, respectively, for 2021 and the three-year period which are both within the lower quartile of the 2021 and three-year average ranges presented above for the comparable peer Ontario LDCs.

Based on the benchmarking analysis performed by KPMG, GSHI exhibits a ratio of Administrative Expenses (inclusive of the cost allocations charged from GSHP) as a percent of its Total Expenses that is consistent with the administrative expense ratios exhibited by comparable peer LDCs.

7 Cost Allocation by Service Function

7.1 Overview

In this section, KPMG provides a description of the following analyses performed to assess the reasonableness of GSHI's shared services arrangements with its affiliates and the corresponding transfer pricing charges:

– Based on interviews with key employees at GSHP/GSHI, KPMG reviewed the nature of the shared services provided and the benefit to the service recipient(s); and
– KPMG assessed the cost allocation method applied by GSU Management for each shared service functional area with consideration for OEB regulatory requirements and transfer pricing guidance set out in the OECD Guidelines and by gathering information from GSU Management regarding the composition of the allocable cost base, the associated cost allocation drivers applied, and the application of a profit component for each of the shared services provided to and from GSHI within the GSU Group.
– Benchmarking analyses were performed by KPMG for arm's-length rates for certain shared services functions identified as having existing competitive markets.

Descriptions detailing the above analyses for each shared service function are provided in the sections that follow.

7.2 The Provision of Services by GSHP

As stated in the Corporate Services Agreement (dated August 1, 2012) provided by GSU Management, GSHP and GSHI entered into an intercompany agreement for the provision of shared services by GSHP to GSHI (the "Service Agreement"). The Service Agreement provides details of the calculation of the service fee to be charged from GSHP to GSHI each month based on a reasonable allocation of GSHP's costs incurred in providing services to GSHI. The Service Agreement also includes a schedule summarizing the allocation driver to be applied based on the nature of service provided by GSHP.

7.2.1 Accounting

7.2.1.1 Service Description

Based on information gathered by KPMG through functional interviews with the Senior Accountants, and the Supervisor, Regulatory & Internal Audit, the following accounting support services are provided to GSHI by a team of approximately five GSHP accounting personnel:

– Determining accounting policies and requirements.
– Preparing capital and variance reports.
– Preparing internal and external financial statements and reports.
– Managing, organizing, and reviewing accuracy of work order files.

- Overseeing cost centers and corresponding time allocations.
- Billing and cost calculations/reconciliations for hydro bills.
- Overseeing and preparing the journal entries of all financial transactions.
- Performing tax planning and compliance activities.

With respect to the accounting services described above, GSU Management has stated that GSHI does not employ any personnel that perform the functions listed above; and therefore, relies entirely on GSHP for the provision of these services. Based on discussions with GSU Management, if these accounting support services were not provided by GSHP, GSHI would either have had to contract with a third-party provider to obtain these services or hire additional staff to provide these services.

7.2.1.2 Cost Allocation Method

7.2.1.2.1 Cost Base

Section 2.3.4.1 of the ARC provides for the allocation of fully-allocated costs by service provider (i.e., GSHP in this case) to an affiliate-LDC (i.e., GSHI in this case), inclusive of the following:[60]

- Direct costs, such as actual payroll costs and benefits burden;[61] and
- Indirect costs, such as overhead costs and administrative and general expenses.

Based on discussions with GSU Management, it is KPMG's understanding that all actual costs (i.e., salaries, benefits burden, and indirect expenses, including building operation and IT reallocations) incurred by the accounting department at GSHP are allocated to affiliates, including GSHI, on a monthly basis.

A cost base that is representative of both direct and indirect costs associated with the GSHP employees providing accounting services to affiliates, including GSHI, is consistent with the definition for fully-allocated cost provided in Section 1.2 of the ARC, as well as guidance provided in the APH, that is summarized above.

7.2.1.2.2 Allocation Driver

The APH provides for the allocation of joint costs (e.g., general administration, office staff salaries and rent) based on a reasonable method of determining a fair and equitable split between affiliates.[62] In addition, the APH explicitly provides percentage of time spent by staff on each entity's business as an example allocation driver for joint costs.[63]

[60] ARC, Section 1.2
[61] APH, Article 340, *Payroll Burden*
[62] APH, Article 340, *Allocation of Joint Costs*
[63] APH, Article 340, *Allocation of Joint Costs*

The allocable accounting costs incurred by GSHP are allocated by GSU Management to the affiliates based on percentage of time spent recorded by the employees in the accounting department, which would be consistent with the transfer pricing guidance provided in the APH that is summarized above.[64]

7.2.1.2.3 Profit Component

Although it is not required, section 2.3.4.1 of the ARC allows for the application of a profit component to a service provider's fully-allocated cost to provide a shared service to its affiliate-LDC.[65]

As stated by GSU Management, the fee for accounting services charged by GSHP to GSHI is intended to recover GSHP's incurred costs, without a profit return, as the centralization of corporate and administrative support services allows for efficiencies and cost savings to the overall GSU Group, including GSHI. The method of cost recovery without a profit component is for shared services provided to an LDC (i.e., GSHI), is permissible based on section 2.3.4.1 of the ARC.

7.2.1.3 Competitive Market Assessment

The nature of the accounting services provided by GSHP to GSHI meets the definition for "shared corporate services" provided by the ARC[66] and, therefore, based on Section 2.3.5.1 of the ARC the fully allocated cost approach is permissible for determining the transfer price charged to GSHI for receipt of shared corporate services.

7.2.2 Business Execution

7.2.2.1 Service Description

Based on information gathered by KPMG through functional interviews with the Vice President of Strategy and Growth, the Vice President of Strategy and Growth at GSHP provides the following Business Execution support to GSHI:

- Developing GSHI's long-term vision and corporate objectives in collaboration with GSHI's executive team.
- Developing, monitoring, and updating GSHI's 5-year business plan in collaboration with GSHI's executive team.
- Monitoring and analyzing data to determine progress toward the long-term plan and objectives.
- Development and monitoring of corporate scorecard and progress within it in collaboration with GSHI's executive team and board of directors.
- Coordinating and participating in quarterly meetings and weekly tactical meetings regarding corporate strategy, trends, and culture.

With respect to the business execution services described above, GSU Management has stated that GSHI does not employ any personnel that perform the functions listed above; and therefore, relies entirely

[64] APH, Article 340, *Allocation of Joint Costs*
[65] ARC, Section 2.3.4.1
[66] ARC, Section 2.3.5.1

on GSHP for the provision of these services. Based on discussions with GSU Management, if these services were not provided by GSHP, GSHI would either have had to contract with a third-party provider to obtain these services or hire additional staff to provide these services.

7.2.2.2 Cost Allocation Method

7.2.2.2.1 Cost Base

Section 2.3.4.1 of the ARC provides for the allocation of fully-allocated costs by service provider (i.e., GSHP in this case) to an affiliate-LDC (i.e., GSHI in this case), inclusive of the following:[67]

- Direct costs, such as actual payroll costs and benefits burden;[68] and
- Indirect costs, such as overhead costs and administrative and general expenses.

Based on discussions with GSU Management, it is KPMG's understanding that all actual salary costs (including benefit burden) and indirect IT reallocation costs incurred by GSHP for the VP of Strategy and Growth are allocated to affiliates, including GSHI, on a monthly basis.[69]

A cost base that is representative of both direct and indirect costs associated with the GSHP employee providing business execution services to affiliates, including GSHI, is consistent with the definition for fully-allocated cost provided in Section 1.2 of the ARC, as well as guidance provided in the APH, that is summarized above.

7.2.2.2.2 Allocation Driver

The APH provides for the allocation of joint costs (e.g., general administration, office staff salaries and rent) based on a reasonable method of determining a fair and equitable split between affiliates.[70] In addition, the APH explicitly provides percentage of time spent by staff on each entity's business as an example allocation driver for joint costs.[71]

The allocable Business Execution costs incurred by GSHP are allocated by GSU Management to the affiliates based on percentage of time spent recorded by the VP of Strategy and Growth, which would be consistent with the transfer pricing guidance provided in the APH that is summarized above.[72]

7.2.2.2.3 Profit Component

Although it is not required, section 2.3.4.1 of the ARC allows for the application of a profit component to a service provider's fully-allocated cost to provide a shared service to its affiliate-LDC.[73]

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[67] ARC, Section 1.2
[68] APH, Article 340, *Payroll Burden*
[69] The cost base for the VP of Strategy and Growth does not include a reallocation for building allocations because this cost is absorbed by Agilis networks as the VPs office is physically in Agilis' space.
[70] APH, Article 340, *Allocation of Joint Costs*
[71] APH, Article 340, *Allocation of Joint Costs*
[72] APH, Article 340, *Allocation of Joint Costs*
[73] ARC, Section 2.3.4.1

As stated by GSU Management, the fee for business execution services charged by GSHP to GSHI is intended to recover GSHP's incurred costs, without a profit return, as the centralization of corporate and administrative support services allows for efficiencies and cost savings to the overall GSU Group, including GSHI. The method of cost recovery without a profit component for shared services provided to an LDC (i.e., GSHI) is permissible based on section 2.3.4.1 of the ARC. .

7.2.2.3 Competitive Market Assessment

The nature of the Business Execution services provided by GSHP to GSHI meets the definition for "shared corporate services" provided by the ARC[74] and, therefore, based on Section 2.3.5.1 of the ARC, the fully allocated cost approach is permissible for determining the transfer price charged to GSHI for receipt of shared corporate services.

7.2.3 Information Technology

7.2.3.1 Service Description

Based on information gathered by KPMG through functional interviews with the Supervisor of Information Technology, the IT department at GSHP provides the following IT support services to GSHI:

- Determining IT policies and requirements.
- Negotiating and managing contracts with external IT vendors.
- Overseeing and supporting all software and applications used by GSHI, including billing, settlement, IMS, Central Square, CRM, network, and mapping systems.
- Providing a help desk function to assist with technical support and trouble shooting (e.g., setting up or disabling devices and applications, password resets, etc.).
- Procuring, maintaining, supporting and monitoring IT hardware systems, such as laptops and desktop computers, monitors, printers, scanners, mobile, desktop and soft phones, meeting/conference room hardware, and servers, etc.
- Arranging for technical training, as necessary, for software and hardware.
- Evaluating system deficiencies and incorporating new IT systems and/or hardware, as appropriate.
- Providing programming and data services.
- Managing and maintaining approximately 70 servers for network storage.
- Auditing and monitoring network security software and systems and prevention controls. (e.g., virus control and containment, security incidents, etc.)
- In addition to the above GSHI and GSHP share the same telephone system.

These services are provided by a team of approximately five GSHP IT personnel with backgrounds in information systems, servers, networks, and computer science. With respect to the IT services described above, GSU Management has stated that GSHI does not employ any personnel that perform the functions listed above; and therefore, relies entirely on GSHP for the provision of these services. Based on discussions with GSU Management, if these services were not provided by GSHP, GSHI would either

[74] ARC, Section 2.3.5.1

have had to contract with a third-party provider to obtain these services or hire additional staff to provide these services.

7.2.3.2 Cost Allocation Method

7.2.3.2.1 Cost Base

Section 2.3.4.1 of the ARC provides for the allocation of fully-allocated costs by service provider (i.e., GSHP in this case) to an affiliate-LDC (i.e., GSHI in this case), inclusive of the following:[75]

– Direct costs, such as actual payroll costs and benefits burden;[76] and
– Indirect costs, such as overhead costs and administrative and general expenses.

Based on discussions with and GSU Management and review of GSU Management IT allocation internal working papers, it is KPMG's understanding that all actual direct and indirect costs incurred by the IT department at GSHP are allocated to affiliates, including to other GSHP cost centres, on a monthly basis. As stated by GSU Management, the IT costs that are allocated to other GSHP departments are then incorporated into the total costs of those service functions and allocated on the same basis as the corresponding costs of those departments.

A cost base that is representative of both direct and indirect costs associated with the GSHP employees providing IT services to affiliates, including GSHI, is consistent with the definition for fully-allocated cost provided in Section 1.2 of the ARC, as well as guidance provided in the APH, that is summarized above.

7.2.3.2.2 Allocation Drivers

For the allocation of joint costs (e.g., general administration, office staff salaries and rent) the guidance in the APH suggests that the allocation approach be based upon a reasonable method of determining a fair and equitable split between affiliates.[77] The definition for "cost allocator" provided within the APH sets out that a cost allocator can be based on the cause-and-effect relationship between the costs incurred and the activities undertaken to provide the services.[78]

The allocable IT costs were then grouped and assigned to each of the following allocation drivers by GSU Management:

– Combined factor of number of tickets (applied to 70% of cost base) and the number of PC units (applied to remaining 30% of cost base) is used to allocate IT employee costs and building overhead, whereby the 30/70% split is based on historical time spent
– Number of PC units is used to allocate IT hardware, software, and related costs.
– Number of printers in each department is used to allocate printer costs.
– Number of phone users is used to allocate phone system costs.

[75] ARC, Section 1.2
[76] APH, Article 340, *Payroll Burden*
[77] APH, Article 340, *Allocation of Joint Costs*
[78] APH, Article 340, *Definitions*

– Number of Central Square users is used to allocate cost related to the Central Square system.

The table below summarizes the IT cost groupings by allocation driver (as established and implemented by the GSU Group):

Exhibit 14: Summary of Allocation Driver for Components of IT Department Costs

Allocation Driver Grouping by IT Cost Account	
Allocation Driver	**Account Description**
Tickets/ PC units	Payroll Benefits Burden Labour On-call and Standby Costs Building costs
PC units	Contract Labour Professional Development Conferences Freight Stationary Subscriptions/Reference Material Software Parts & Accessories Cyber Security Insurance IT Equipment Amortization Equipment Repairs/Maintenance
Printers	Printer Leases/Rentals
Phone Users	Telephone system/connectivity Telephone Equipment Repairs/Maintenance
Central Square users	Central Square System Repairs/Maintenance

Source: Exhibit prepared by KPMG based on information provided by GSU Management.

Allocating IT costs based on number of tickets, users and equipment units appears to be consistent with the "cause-and-effect" relationship between the IT costs incurred and the activities undertaken to perform the IT services, as defined in the *Definitions* section of Article 340 of the APH guidance for cost allocators.[79]

7.2.3.2.3 Profit Component

As stated by GSU Management, the fee for IT services charged by GSHP to GSHI is intended to recover GSHP's incurred costs, without a profit return, as the centralization of corporate and administrative support services allows for efficiencies and cost savings to the overall GSU Group, including GSHI. The

[79] APH, Article 340, *Definitions*

method of cost recovery without a profit component for shared services provided to an LDC (i.e., GSHI) is permissible based on section 2.3.4.1 of the ARC.

7.2.3.3 Competitive Market Assessment

The nature of the IT services provided by GSHP to GSHI meets the definition for "shared corporate services" provided by the ARC[80] and, therefore, based on Section 2.3.5.1 of the ARC, the fully allocated cost approach is permissible for determining the transfer price charged to GSHI for receipt of shared corporate services.

7.2.4 Human Resources and Safety

7.2.4.1 Service Description

Based on information gathered by KPMG through functional interviews with the Human Resources Manager, Health & Safety Officer, and the Vice President of Human Resources & Safety, the following human resources and safety services are provided to GSHI by a team of approximately five personnel at GSHP:

- Determining and keeping updated Human Resources and Safety policies and requirements.
- Ensuring all profession competencies are met and up to date.
- Providing recruitment, onboarding, training/development, succession planning, and performance management for employees.
- Determination of employee job title, job description, and job responsibilities.
- Negotiation and determination of employee compensation and benefits, as well as union negotiations.
- Organization and planning for employee leave and return to work plans, as well as injury/disability management.
- Maintaining and enforcing compliance to industry regulations regarding work procedure and building safety.
- Coordinating onboarding and safety training amongst staff and new hires.
- Ensuring that the required equipment, safety equipment, and safety procedures are in place and followed.
- Administration and processing of any legal liabilities that arise on job sites or on customer sites (e.g., damage to customer property).
- Management of insurance policies and responding to/reporting of any incidents (investigation, route cause analysis, etc.)
- Evaluation of building and work procedure safety through the coordination of compliance audits.
- Receiving and responding to information required by safety/job site auditors.
- Ensuring building and work areas meet ISO standards.

[80] ARC, Section 2.3.5.1

With respect to the Human Resources and Safety services described above, GSU Management has stated that GSHI does not employ any personnel that perform the functions listed above; and therefore, relies entirely on GSHP for the provision of these services. Based on discussions with GSU Management, if these services were not provided by GSHP, GSHI would either have had to contract with a third-party provider to obtain these services or hire additional staff to provide these services.

7.2.4.2 Cost Allocation Method

7.2.4.2.1 Cost Base

Section 2.3.4.1 of the ARC provides for the allocation of fully-allocated costs by service provider (i.e., GSHP in this case) to an affiliate-LDC (i.e., GSHI in this case), inclusive of the following:[81]

- Direct costs, such as actual payroll costs and benefits burden;[82] and
- Indirect costs, such as overhead costs and administrative and general expenses.

Based on discussions with GSU Management, it is KPMG's understanding that all actual costs (i.e., salaries, benefits burden, and indirect expenses, including building operating and IT reallocations) incurred by the HR & Safety department at GSHP are allocated to affiliates, including GSHI, on a monthly basis. Where specific program costs are incurred for a specific affiliate (for example – training and development) these costs are assigned directly to the relevant affiliate. The allocable costs for the HR & Safety department identified by GSU Management are listed below:

- Human Resources - Salaries & Expenses
- Human Resources - Miscellaneous Expenses
- QMS - Miscellaneous Expenses
- Other Post-Employment Benefits (OPEB) Interest
- Safety Officer - Miscellaneous Expenses
- Safety Officer - Salaries & Expenses

A cost base that is representative of both direct and indirect costs associated with the GSHP employees providing human resources and safety services to affiliates, including GSHI, is consistent with the definition for fully-allocated cost provided in Section 1.2 of the ARC, as well as guidance provided in the APH, that is summarized above.

7.2.4.2.2 Allocation Drivers

For the allocation of joint costs (e.g., general administration, office staff salaries and rent) the guidance in the APH suggests that the allocation approach be based upon a reasonable method of determining a fair and equitable split between affiliates.[83] The definition for "cost allocator" provided within the APH sets out that a cost allocator can be based on the cause-and-effect relationship between the costs incurred and the

[81] ARC, Section 1.2
[82] APH, Article 340, *Payroll Burden*
[83] APH, Article 340, *Allocation of Joint Costs*

activities undertaken to provide the services.[84] The OECD guidelines provides share of total group headcount as an example allocation driver that could be applied for shared services related to people employed by each affiliate.[85] The APH also provides percentage of time spent by staff on each entity's business as an example allocation driver for joint costs.[86]

The allocable HR, QMS, OPEB costs incurred by GSHP are allocated by GSU Management to the affiliates based on the proportion of the number of employees at each affiliate, which would be consistent with the transfer pricing guidance provided in the OECD Guidelines that is summarized above.[87,88]

The allocable Safety costs incurred by GSHP are allocated by GSU Management to the affiliates based on percentage of time spent recorded by the Safety Officer in the department, which would be consistent with the transfer pricing guidance set out in the APH that is summarized above.[89]

7.2.4.2.3 Profit Component

Although it is not required, section 2.3.4.1 of the ARC allows for the application of a profit component to a service provider's fully-allocated cost to provide a shared service to its affiliate-LDC.[90]

As stated by GSU Management, the fee for HR and safety services charged by GSHP to GSHI is intended to recover GSHP's incurred costs, without a profit return, as the centralization of corporate and administrative support services allows for efficiencies and cost savings to the overall GSU Group, including GSHI. The method of cost recovery without a profit component for shared services provided to an LDC (i.e., GSHI) is permissible based on section 2.3.4.1 of the ARC.

7.2.4.3 Competitive Market Assessment

The nature of the HR and Safety services provided by GSHP to GSHI meets the definition for "shared corporate services" provided by the ARC[91] and, therefore, based on Section 2.3.5.1 of the ARC, the fully allocated cost approach is permissible for determining the transfer price charged to GSHI for receipt of shared corporate services.

7.2.5 Communications & Marketing

7.2.5.1 Service Description

Based on information gathered by KPMG through functional interviews with the Director of Communications, the following marketing and communications support services are provided to GSHI by a team of approximately two GSHP Communications & Marketing personnel:

– Maintain and update websites and social media channels.

[84] APH, Article 340, *Definitions*
[85] OECD Guidelines, Chapter VII. *Special Considerations for Intra-group Services*; Paragraph 7.59.
[86] APH, Article 340, *Allocation of Joint Costs*
[87] APH, Article 340, *Allocation of Joint Costs*
[88] OECD Guidelines, Chapter VII. *Special Considerations for Intra-group Services*; Paragraph 7.59.
[89] APH, Article 340, *Allocation of Joint Costs*
[90] ARC, Section 2.3.4.1
[91] ARC, Section 2.3.5.1

- Provide and manage public relation services.
- Manage and carry-out ad hoc surveys (e.g., mandatory bi-annual electrical safety survey)
- Communicate messages and create notifications for planned and unplanned outages.
- Provide and create promotional activities for the company and its services.
- Managing and creating marketing and branding campaigns.
- Managing certain government relations though trouble shooting customer issues from MP or city councillor levels.
- Coordination of media crew access and media releases of field work and safety trainings.
- Maintenance of internal intranet SharePoint site that supports IMS system and internal communications.
- Management of outsourced advertisement campaigns and advertisement buys.

With respect to the marketing and communications services described above, GSU Management has stated that GSHI does not employ any personnel that perform the functions listed above; and therefore, relies entirely on GSHP for the provision of these services. Based on discussions with GSU Management, if these services were not provided by GSHP, GSHI would either have had to contract with a third-party provider to obtain these services or hire additional staff to provide these services.

7.2.5.2 Cost Allocation Method

7.2.5.2.1 Cost Base

Section 2.3.4.1 of the ARC provides for the allocation of fully-allocated costs by service provider (i.e., GSHP in this case) to an affiliate-LDC (i.e., GSHI in this case), inclusive of the following:[92]

- Direct costs, such as actual payroll costs and benefits burden;[93] and
- Indirect costs, such as overhead costs and administrative and general expenses.

Based on discussions with GSU Management, it is KPMG's understanding that all actual costs (i.e., salaries, benefits burden, and indirect expenses, including building operation and IT reallocations) incurred by the communications and marketing department at GSHP are allocated to affiliates, including GSHI, on a monthly basis.

A cost base that is representative of both direct and indirect costs associated with the GSHP employees providing communications and marketing services to affiliates, including GSHI, is consistent with the definition for fully-allocated cost provided in Section 1.2 of the ARC, as well as guidance provided in the APH, that is summarized above.

[92] ARC, Section 1.2
[93] APH, Article 340, *Payroll Burden*

7.2.5.2.2 Allocation Driver

The APH provides for the allocation of joint costs (e.g., general administration, office staff salaries and rent) based on a reasonable method of determining a fair and equitable split between affiliates.[94] In addition, the APH explicitly provides percentage of time spent by staff on each entity's business as an example allocation driver for joint costs.[95]

The allocable communications and marketing costs incurred by GSHP are allocated by GSU Management to the affiliates based on percentage of time spent recorded by the employees in the communications and marketing department, which would be consistent with the transfer pricing guidance provided in the APH that is summarized above.[96]

7.2.5.2.3 Profit Component

Although it is not required, section 2.3.4.1 of the ARC allows for the application of a profit component to a service provider's fully-allocated cost to provide a shared service to its affiliate-LDC.[97]

As stated by GSU Management, the fee for communications and marketing services charged by GSHP to GSHI is intended to recover GSHP's incurred costs, without a profit return, as the centralization of corporate and administrative support services allows for efficiencies and cost savings to the overall GSU Group, including GSHI. The method of cost recovery without a profit component for shared services provided to an LDC (i.e., GSHI) is permissible based on section 2.3.4.1 of the ARC.

7.2.5.3 Competitive Market Assessment

The nature of the communications and marketing services provided by GSHP to GSHI meets the definition for "shared corporate services" provided by the ARC[98] and, therefore, based on Section 2.3.5.1 of the ARC, the fully allocated cost approach is permissible for determining the transfer price charged to GSHI for receipt of shared corporate services.

7.2.6 Administration Services

7.2.6.1 Service Description

Based on information gathered by KPMG through functional interviews with the Senior Accountants, and the Supervisor, Regulatory & Internal Audit, the following administrative services are provided to GSHI by a team of approximately three GSHP administrative personnel:

- Providing office reception at GSHI's office building.
- Providing payment processing and related support services.
- Managing and receiving customer payments and related invoices/receipts.

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[94] APH, Article 340, *Allocation of Joint Costs*
[95] APH, Article 340, *Allocation of Joint Costs*
[96] APH, Article 340, *Allocation of Joint Costs*
[97] ARC, Section 2.3.4.1
[98] ARC, Section 2.3.5.1

- Providing and administering cheques related to transactions regarding GSHI.
- Receiving and sorting mail.

With respect to the administration services described above, GSU Management has stated that GSHI does not employ any personnel that perform the functions listed above; and therefore, relies entirely on GSHP for the provision of these services. Based on discussions with GSU Management, if these services were not provided by GSHP, GSHI would either have had to contract with a third-party provider to obtain these services or hire additional staff to provide these services.

7.2.6.2 Cost Allocation Method

7.2.6.2.1 Cost Base

Section 2.3.4.1 of the ARC provides for the allocation of fully-allocated costs by service provider (i.e., GSHP in this case) to an affiliate-LDC (i.e., GSHI in this case), inclusive of the following:[99]

- Direct costs, such as actual payroll costs and benefits burden;[100] and
- Indirect costs, such as overhead costs and administrative and general expenses.

Based on discussions with GSU Management, it is KPMG's understanding that all actual costs (i.e., salaries, benefits burden, and expenses) incurred by the administrative services employees at GSHP are allocated to affiliates, including GSHI, on a monthly basis.

A cost base that is representative of both direct and indirect costs associated with the GSHP employees providing administrative services to affiliates, including GSHI, is consistent with the definition for fully-allocated cost provided in Section 1.2 of the ARC, as well as guidance provided in the APH, that is summarized above.

7.2.6.2.2 Allocation Driver

For the allocation of joint costs (e.g., general administration, office staff salaries and rent) the guidance in the APH suggests that the allocation approach be based upon a reasonable method of determining a fair and equitable split between affiliates.[101] The definition for "cost allocator" provided within the APH sets out that a cost allocator can be based on the cause-and-effect relationship between the costs incurred and the activities undertaken to provide the services.[102]

As stated by GSU Management, since this service function primarily relates to payment processing, the allocable Administrative costs incurred by GSHP are allocated by GSU Management to the affiliates based on the number of bills processed for each affiliate. The number of invoices is estimated annually by GSU Management at the beginning of each year and then the percentage calculations are compared at the end of each year based on the actual invoices processed for each affiliate.

[99] ARC, Section 1.2
[100] APH, Article 340, *Payroll Burden*
[101] APH, Article 340, *Allocation of Joint Costs*
[102] APH, Article 340, *Definitions*

Allocating costs for administrative services based on the number of bills processed appears to be consistent with the "cause-and-effect" relationship between the administrative costs incurred and the payment processing activities undertaken to perform the administrative services, as defined in the *Definitions* section of Article 340 of the APH guidance for cost allocators.

7.2.6.2.3 Profit Component

As stated by GSU Management, the fee for administrative services charged by GSHP to GSHI is intended to recover GSHP's incurred costs, without a profit return, as the centralization of corporate and administrative support services allows for efficiencies and cost savings to the overall GSU Group, including GSHI. The method of cost recovery without a profit component for shared services provided to an LDC (i.e., GSHI) is permissible based on section 2.3.4.1 of the ARC.

7.2.6.3 Competitive Market Assessment

The nature of the Administrative services provided by GSHP to GSHI meets the definition for "shared corporate services" provided by the ARC[103] and, therefore, based on Section 2.3.5.1 of the ARC, the fully allocated cost approach is permissible for determining the transfer price charged to GSHI for receipt of shared corporate services.

7.2.7 Innovation

7.2.7.1 Service Description

Based on information gathered by KPMG through functional interviews with the Innovation Officer, the following innovation, location, and business intelligence services are provided to GSHI by approximately three GSHP Innovation team members:

– Streamlining location intelligence processes by transitioning from manual mapping and leveraging new geographic information system ("GIS") capabilities.
– Providing and facilitating employees with migration of desktop GIS applications to web and mobile GIS capable devices.
– Providing maintenance improvements through extended GSHI asset inspection.
– Providing and coordinating workshops for employees (including components of new employee onboarding) for data literacy, self-service location platforms, and other data/GIS tools.
– Providing extensive GIS work including related data management and process changes.
– Responding to support requests from field crews to help with GIS capable devices.
– Providing solutions for legacy IT issues, data warehousing, data integration, and data viewing/flow.
– Analyzing and measuring data maturity of entity wide processes and determining areas for improvement.
– Providing data visualization and improving data communication for management.

[103] ARC, Section 2.3.5.1

– Researching and completing grant applications available for energy purposes and business opportunities, writing cost of service applications, and assisting in the development of employee training.

Based on discussions with GSU employees, GSHI does employ two technicians who report to the Innovation Officer at GSHP, and who work collaboratively within the Innovation team primarily on activities with respect to the GIS. While GSHI does employ personnel that assist, in part, with the GIS services described above, GSU Management has stated that GSHI also relies on and benefits from functions performed by the GSHP Innovation Office and two Innovation team members for many of these activities. Based on discussions with GSU Management, if these services were not provided by GSHP, GSHI would either have had to contract with a third-party provider to obtain these services or hire additional staff to provide these services.

7.2.7.2 Cost Allocation Method

7.2.7.2.1 Cost Base

Section 2.3.4.1 of the ARC provides for the allocation of fully-allocated costs by service provider (i.e., GSHP in this case) to an affiliate-LDC (i.e., GSHI in this case), inclusive of the following:[104]

– Direct costs, such as actual payroll costs and benefits burden;[105] and
– Indirect costs, such as overhead costs and administrative and general expenses.

Based on discussions with GSU Management, it is KPMG's understanding that all actual costs (i.e., salaries, benefits burden, and indirect expenses, including building operation and IT reallocations) incurred by the Innovation department at GSHP are allocated to affiliates, including GSHI, on a monthly basis.

A cost base that is representative of both direct and indirect costs associated with the GSHP employees providing innovation services to affiliates, including GSHI, is consistent with the definition for fully-allocated cost provided in Section 1.2 of the ARC, as well as guidance provided in the APH, that is summarized above.

7.2.7.2.2 Allocation Driver

The APH provides for the allocation of joint costs (e.g., general administration, office staff salaries and rent) based on a reasonable method of determining a fair and equitable split between affiliates.[106] In addition, the APH explicitly provides percentage of time spent by staff on each entity's business as an example allocation driver for joint costs.[107]

The allocable innovation costs incurred by GSHP are allocated by GSU Management to the affiliates based on percentage of time spent recorded by the employees in the innovation department.

[104] ARC, Section 1.2
[105] APH, Article 340, *Payroll Burden*
[106] APH, Article 340, *Allocation of Joint Costs*
[107] APH, Article 340, *Allocation of Joint Costs*

The allocable accounting costs incurred by GSHP are allocated by GSU Management to the affiliates based on percentage of time spent recorded by the employees in the innovation department, which would be consistent with the transfer pricing guidance provided in the APH that is summarized above.[108]

7.2.7.2.3 Profit Component

Although it is not required, section 2.3.4.1 of the ARC allows for the application of a profit component to a service provider's fully-allocated cost to provide a shared service to its affiliate-LDC.[109]

As stated by GSU Management, the fee for innovation services charged by GSHP to GSHI is intended to recover GSHP's incurred costs, without a profit return, as the centralization of corporate and administrative support services allows for efficiencies and cost savings to the overall GSU Group, including GSHI. The method of cost recovery without a profit component for shared services provided to an LDC (i.e., GSHI) is permissible based on section 2.3.4.1 of the ARC.

7.2.7.3 Competitive Market Assessment

The nature of the innovation services provided by GSHP to GSHI primarily relates to the GIS, which meets the definition for "shared corporate services" provided by the ARC[110] and, therefore, based on Section 2.3.5.1 of the ARC, the fully allocated cost approach is permissible for determining the transfer price charged to GSHI for receipt of shared corporate services.

7.2.8 President & CEO

7.2.8.1 Service Description

Based on information gathered by KPMG through functional interviews with the President & CEO, the President & CEO employed by GSHP reports to both Boards of Directors, and provides the following services to GSHI:

- Provide information with respect to the finances of the corporations and to make a recommendation with respect to the ability to pay a dividend.
- Develops the Corporation's strategic direction in collaboration with the Board of Directors (including the plan, mission, vision, values and objectives) and executes and achieves the approved direction.
- Establishes a strong and cohesive management team.
- Develops the annual Business Plan in keeping with the Corporation's strategic direction and executes and achieves approved goals and objectives.
- Clearly and constantly communicates the Corporations' strategic direction and annual Business Plan to all GSU staff.
- Develops products and services.
- Identifies acquisition and merger opportunities, and directs implementation activities.

[108] APH, Article 340, *Allocation of Joint Costs*
[109] ARC, Section 2.3.4.1
[110] ARC, Section 2.3.5.1

- Directs and oversees the Corporation on a day-to-day basis, and ensures efficiency, quality, service, and cost effective management of resources.
- Sets an operational philosophy that is performance driven and customer oriented, and develops and maintains a high level of employee engagement.
- Sets the right “tone at the top”, fostering a culture of integrity and respect, and meets the highest ethical standards.
- Allocates and uses resources effectively.
- Appoints and terminates all employees (other than Officers) and agents of the Corporation.
- Ensures succession plans are in place to provide continuity of leadership for the future.
- Develops and implements policies, procedures, systems and practices.
- Ensures that sound financial management and controls are in place.
- Ensures that performance measures are in place and monitors performance regularly.
- Oversee operations of the Corporation to achieve budget goals.
- Ensures accurate and timely reporting to the Board of Directors on matters necessary to permit effective decision-making and accountability.
- Ensures that all directions and resolutions of the Board are implemented.
- Safeguards the assets and resources of the Corporation and ensures prudent risk management.
- Ensures full compliance with all legal, regulatory and fiduciary requirements and the Code of Conduct of GSU.
- Champions and serves as the chief spokesperson for the Corporation, representing and communicating effectively with all external constituencies including customers, suppliers, partners, shareholders, key stakeholders, governments, regulators and any other key publics.
- Provide information with respect to the finances of the corporations and to make a recommendation with respect to the ability to pay a dividend.

With respect to the services described above, GSU Management has stated that GSHI does not employ any personnel that perform the President & CEO functions listed above; and therefore, relies entirely on GSHP for the provision of these services. Based on discussions with GSU Management, if these services were not provided by GSHP, GSHI would either have had to contract with a third-party provider to obtain these services or hire its own President & CEO to perform these services.

7.2.8.2 Cost Allocation Method

7.2.8.2.1 Cost Base

Section 2.3.4.1 of the ARC provides for the allocation of fully-allocated costs by service provider (i.e., GSHP in this case) to an affiliate-LDC (i.e., GSHI in this case), inclusive of the following:[111]

- Direct costs, such as actual payroll costs and benefits burden;[112] and
- Indirect costs, such as overhead costs and administrative and general expenses.

[111] ARC, Section 1.2
[112] APH, Article 340, *Payroll Burden*

Based on discussions with GSU Management, it is KPMG's understanding that all actual costs (i.e., salaries, benefits burden, and indirect expenses, including building operation and IT reallocations) incurred by the President & CEO are allocated to affiliates on a monthly basis.

A cost base that is representative of both direct and indirect costs associated with the President & CEO providing services to affiliates, including GSHI, is consistent with the definition for fully-allocated cost provided in Section 1.2 of the ARC, as well as guidance provided in the APH, that is summarized above.

7.2.8.2.2 Allocation Driver

The APH provides for the allocation of joint costs (e.g., general administration, office staff salaries and rent) based on a reasonable method of determining a fair and equitable split between affiliates.[113] In addition, the APH explicitly provides percentage of time spent by staff on each entity's business as an example allocation driver for joint costs.[114]

As stated by GSU Management, while certain LDCs may have one dedicated CEO, they would also bear the entire cost of their CEO, whereas GSHI benefits from only being allocated a portion of the cost of the CEO for the GSU Group. The allocable President & CEO costs incurred by GSHP are allocated by GSU Management to the affiliates based on percentage of time spent recorded by the President & CEO, which would be consistent with the transfer pricing guidance provided in the APH that is summarized above.[115]

7.2.8.2.3 Profit Component

Although it is not required, section 2.3.4.1 of the ARC allows for the application of a profit component to a service provider's fully-allocated cost to provide a shared service to its affiliate-LDC.[116]

As stated by GSU Management, the fee for services provided by the President & CEO charged by GSHP to GSHI is intended to recover GSHP's incurred costs, without a profit return, as the centralization of corporate and administrative support services allows for efficiencies and cost savings to the overall GSU Group, including GSHI. The method of cost recovery without a profit component for shared services provided to an LDC (i.e., GSHI) is permissible based on section 2.3.4.1 of the ARC.

7.2.8.3 Competitive Market Assessment

The nature of the President & CEO services provided by GSHP to GSHI meets the definition for "shared corporate services" provided by the ARC[117] and, therefore, based on Section 2.3.5.1 of the ARC, the fully allocated cost approach is permissible for determining the transfer price charged to GSHI for receipt of shared corporate services.

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[113] APH, Article 340, *Allocation of Joint Costs*
[114] APH, Article 340, *Allocation of Joint Costs*
[115] APH, Article 340, *Allocation of Joint Costs*
[116] ARC, Section 2.3.4.1
[117] ARC, Section 2.3.5.1

7.2.9 Board of Directors

7.2.9.1 Service Description

Based on information gathered by KPMG through functional interviews with the President & CEO, the corporate governance structure for the GSU Group is comprised of an executive management team and the following two Boards:

(1) Board of Directors for the GSU Group, and

(2) Board of Directors for GSHI (the LDC).

There are seven members on each Board of Directors, all of which are appointed by City council. Each Board contains four independent directors from the community and three members are municipal councillors that sit on both Boards. Based on discussions with GSU Management, KPMG understands that GSHP incurs the compensation and expenses related to all GSU and GSHI Board members. As stated by GSU Management, the GSU Board is almost entirely involved with the governance of the GSU Group affiliates, as GSHI has its own dedicated Board .

As stated by GSU Management, the mandate of the GSHI Board of Directors is to provide consideration and oversight that is always in the interest of the rate payers. Based on information gathered by KPMG through functional interviews with GSU employees, the GSHI Board is responsible for the following activities:

- Monitoring organizational performance and risk and guiding long-term strategy.
- Approving board level policies and providing advice to the executive management team.
- Reviewing and approval of budgets and major business decisions.
- Reviewing and approval of rate applications.
- Reviewing GSU financial statements, corporate score card, and discussing any potential changes with the executive management team.
- Ensuring value and advantage to the rate bearer is always top of mind.

With respect to the services described above, GSU Management has stated that GSHI does not employ any personnel that perform the functions listed above; and therefore, relies entirely on GSHP for the provision of these services. If GSHI were a stand-alone company, it would incur corresponding costs for its own Board of Directors to attend to the roles and responsibilities currently assumed by GSHP.

7.2.9.2 Cost Allocation Method

7.2.9.2.1 Cost Base

Section 2.3.4.1 of the ARC provides for the allocation of fully-allocated costs by service provider (i.e., GSHP in this case) to an affiliate-LDC (i.e., GSHI in this case), inclusive of the following:[118]

[118] ARC, Section 1.2

- Direct costs, such as actual payroll costs and benefits burden;[119] and
- Indirect costs, such as overhead costs and administrative and general expenses.

Based on discussions with GSU Management, it is KPMG's understanding that all actual salary and expenses incurred by GSHP for the Board of Directors are allocated to affiliates on a monthly basis. Board costs identified by GSU Management as specific to GSHI (for example, attendance at conferences related to the electricity distribution business) are charged directly to GSHI.

A cost base that is representative of both direct and indirect costs associated with the GSHI Board of Directors providing services to GSHI, is consistent with the definition for fully-allocated cost provided in Section 1.2 of the ARC, as well as guidance provided in the APH, that is summarized above.

7.2.9.2.2 Allocation Driver

The APH provides for the allocation of joint costs (e.g., general administration, office staff salaries and rent) based on a reasonable method of determining a fair and equitable split between affiliates.[120]

As stated by GSU Management, the cost of one Board (i.e., 50% of the total allocable cost) was allocated entirely to GSHI, and the remaining 50% of the total allocable cost (i.e., the cost attributable to the GSU Board) was allocated equally among the GSU affiliate entities, excluding GSHI, in accordance with the focus of each Board of Directors. Based on discussions with GSU Management, although GSHI has its own dedicated Board of Directors, the activities performed by the GSU Board of Directors encompass all entities in the GSU Group, including GSHI, and therefore, GSHI is benefiting from the allocation driver applied by GSU Management, because it is not being allocated any costs attributable to the GSU Board of Directors.

7.2.9.2.3 Profit Component

As stated by GSU Management, the fee for services provided by the GSHI Board of Directors charged by GSHP to GSHI is intended to recover GSHP's incurred costs, without a profit return, as the centralization of corporate and administrative support services allows for efficiencies and cost savings to the overall GSU Group, including GSHI. The method of cost recovery without a profit component for shared services provided to an LDC (i.e., GSHI) is permissible based on section 2.3.4.1 of the ARC.

7.2.9.3 Competitive Market Assessment

The nature of the services provided by the Board of Directors to GSHI meets the definition for "shared corporate services" provided by the ARC[121] and, therefore, based on Section 2.3.5.1 of the ARC, the fully allocated cost approach is permissible for determining the transfer price charged to GSHI for receipt of shared corporate services.

[119] APH, Article 340, *Payroll Burden*
[120] APH, Article 340, *Allocation of Joint Costs*
[121] ARC, Section 2.3.5.1

7.2.10 Purchasing & Procurement

7.2.10.1 Service Description

Based on information gathered by KPMG through functional interviews with the Purchasing Agent, the following purchasing and procurement related services are provided to GSHI by approximately two purchasing and procurement personnel at GSHP:

- Communicating and coordinating with inventory management (stores) department.
- Communication and negotiation with vendors and coordinating technical questions with the appropriate department at GSHI.
- Procuring, monitoring and maintaining inventory levels and inventory specifications required by GSHI's Engineering Department.
- Preparing and reviewing tender documents.
- Creation and provision of tendering processes for purchases over $100,000.
- Participating within buying consortium for large volume inventory purchases.
- Ensure proper financial/account tracking and input of work orders, inventory, and inventory mark-up when being checked out for use into software.

With respect to the purchasing and procurement related services described above, GSU Management has stated that GSHP does not employ any personnel that perform the functions listed above; and therefore, relies entirely on GSHI for the provision of these services. Based on discussions with GSU Management, if these services were not provided by GSHP, GSHI would either have had to contract with a third-party provider to obtain these services or hire additional staff to provide these services.

7.2.10.2 Cost Allocation Method

7.2.10.2.1 Cost Base

Section 2.3.4.1 of the ARC provides for the allocation of fully-allocated costs by service provider (i.e., GSHP in this case) to an affiliate-LDC (i.e., GSHI in this case), inclusive of the following:[122]

- Direct costs, such as actual payroll costs and benefits burden;[123] and
- Indirect costs, such as overhead costs and administrative and general expenses.

Based on discussions with GSU Management, it is KPMG's understanding that all actual costs (i.e., salaries, benefits burden, and indirect expenses, including building operation and IT reallocations) incurred by GSHP employees in the purchasing department are allocated to affiliates on a monthly basis.

A cost base that is representative of both direct and indirect costs associated with the GSHP employees providing purchasing and procurement services to affiliates, including GSHI, is consistent with the

[122] ARC, Section 1.2
[123] APH, Article 340, *Payroll Burden*

definition for fully-allocated cost provided in Section 1.2 of the ARC, as well as guidance provided in the APH, that is summarized above.

7.2.10.2.2 Allocation Driver

The APH provides for the allocation of joint costs (e.g., general administration, office staff salaries and rent) based on a reasonable method of determining a fair and equitable split between affiliates.[124] In addition, the APH explicitly provides percentage of time spent by staff on each entity's business as an example allocation driver for joint costs.[125]

The allocable purchasing costs incurred by GSHP are allocated by GSU Management to the affiliates based on percentage of time spent recorded by the employees in the purchasing department, which would be consistent with the transfer pricing guidance provided in the APH that is summarized above.[126]

7.2.10.2.3 Profit Component

Although it is not required, section 2.3.4.1 of the ARC allows for the application of a profit component to a service provider's fully-allocated cost to provide a shared service to its affiliate-LDC.[127]

As stated by GSU Management, the fee for purchasing & procurement services charged by GSHP to GSHI is intended to recover GSHP's incurred costs, without a profit return, as the centralization of corporate and administrative support services allows for efficiencies and cost savings to the overall GSU Group, including GSHI. The method of cost recovery without a profit component for shared services provided to an LDC (i.e., GSHI) is permissible based on section 2.3.4.1 of the ARC.

7.2.10.3 Competitive Market Assessment

The nature of the purchasing & procurement services provided by GSHP to GSHI meets the definition for "shared corporate services" provided by the ARC[128] and, therefore, based on Section 2.3.5.1 of the ARC, the fully allocated cost approach is permissible for determining the transfer price charged to GSHI for receipt of shared corporate services.

7.2.11 Finance

7.2.11.1 Service Description

Based on information gathered by KPMG through functional interviews with the Senior Accountants, and the Supervisor, Regulatory & Internal Audit, the following finance services are provided to GSHI by a team of approximately three GSHP personnel:

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[124] APH, Article 340, *Allocation of Joint Costs*
[125] APH, Article 340, *Allocation of Joint Costs*
[126] APH, Article 340, *Allocation of Joint Costs*
[127] ARC, Section 2.3.4.1
[128] ARC, Section 2.3.5.1

- Activities performed by the CFO, comprising the provision of strategic direction and overseeing the financial activities, including accounting, financial reporting, financial planning, cashflow, and decision making and managing all aspects of financial matters for all GSU Group companies.
- Managing, processing, and responding to questions regarding payroll system, timesheet entries, payroll taxes, government remittances, vacation accruals/balances, and pay stubs.
- Processing and paying vendors for all GSU Group companies.

With respect to the finance support services described above, GSU Management has stated that GSHI does not employ any personnel that perform the functions listed above; and therefore, relies entirely on GSHP for the provision of these services. Based on discussions with GSU Management, if these support services were not provided by GSHP, GSHI would either have had to contract with a third-party provider to obtain these services or hire additional staff to provide these services.

7.2.11.2 Cost Allocation Method

7.2.11.2.1 Cost Base

Section 2.3.4.1 of the ARC provides for the allocation of fully-allocated costs by service provider (i.e., GSHP in this case) to an affiliate-LDC (i.e., GSHI in this case), inclusive of the following:[129]

- Direct costs, such as actual payroll costs and benefits burden;[130] and
- Indirect costs, such as overhead costs and administrative and general expenses.

Based on discussions with GSU Management, it is KPMG's understanding that all actual costs (i.e., salaries, benefits burden, and indirect expenses, including building operation and IT reallocations) incurred for the Finance employees at GSHP are allocated to affiliates, including GSHI, on a monthly basis.

A cost base that is representative of both direct and indirect costs associated with the GSHP employees providing finance services to affiliates, including GSHI, is consistent with the definition for fully-allocated cost provided in Section 1.2 of the ARC, as well as guidance provided in the APH, that is summarized above.

7.2.11.2.2 Allocation Driver

For the allocation of joint costs (e.g., general administration, office staff salaries and rent) the guidance in the APH suggests that the allocation approach be based upon a reasonable method of determining a fair and equitable split between affiliates.[131] The definition for "cost allocator" provided within the APH sets out that a cost allocator can be based on the cause-and-effect relationship between the costs incurred and the

[129] ARC, Section 1.2
[130] APH, Article 340, *Payroll Burden*
[131] APH, Article 340, *Allocation of Joint Costs*

activities undertaken to provide the services.[132] In addition, the APH explicitly provides percentage of time spent by staff on each entity's business as an example allocation driver for joint costs.[133]

The allocable Finance costs incurred by GSHP are allocated by GSU Management to the affiliates based on multiple allocation drivers. The time tracking system is used by GSHP personnel to record time spent where it can be specifically identified by affiliate. Where the time cannot be specifically identified for activities that have a shared benefit amongst affiliates in the GSU Group, remaining accounts payable costs are allocated by GSU Management based on the number of invoices processed and remaining payroll costs are allocated by GSU Management based on the number of employees on the payroll of each affiliate.

The allocable finance costs incurred by GSHP are allocated by GSU Management to the affiliates based on percentage of time spent recorded by the employees in the finance department, as well cost allocators that reflect the "cause-and-effect" relationship between the costs incurred and the activities undertaken, would be consistent with the transfer pricing guidance provided in the APH that is summarized above.[134]

7.2.11.2.3 Profit Component

Although it is not required, section 2.3.4.1 of the ARC allows for the application of a profit component to a service provider's fully-allocated cost to provide a shared service to its affiliate-LDC.[135]

As stated by GSU Management, the fee for Finance services charged by GSHP to GSHI is intended to recover GSHP's incurred costs, without a profit return, as the centralization of corporate and administrative support services allows for efficiencies and cost savings to the overall GSU Group, including GSHI. The method of cost recovery without a profit component for shared services provided to an LDC (i.e., GSHI) is permissible based on section 2.3.4.1 of the ARC.

7.2.11.3 Competitive Market Assessment

The nature of the finance services provided by GSHP to GSHI meets the definition for "shared corporate services" provided by the ARC[136] and, therefore, based on Section 2.3.5.1 of the ARC, the fully allocated cost approach is permissible for determining the transfer price charged to GSHI for receipt of shared corporate services.

7.2.12 Regulatory Services

7.2.12.1 Service Description

Based on information gathered by KPMG through functional interviews with the Senior Accountants, and the Supervisor, Regulatory & Internal Audit, the following regulatory support services are provided to GSHI by a team of approximately two GSHP personnel:

[132] APH, Article 340, *Definitions*
[133] APH, Article 340, *Allocation of Joint Costs*
[134] APH, Article 340, *Allocation of Joint Costs*
[135] ARC, Section 2.3.4.1
[136] ARC, Section 2.3.5.1

- Determining regulatory policies and requirements.
- Processing and maintaining regulatory work and documents.
- Reporting to the OEB and ensuring required OEB reports are created and delivered on a timely basis (e.g., cost of power reports).
- Preparing and reviewing rate applications.
- Preparing filings for the Ministry of Energy (e.g., Green Button quarterly reporting).
- Preparing entries, cost of power reports, capital reports, variance reports, and financial statements for GSHI.
- Developing financial forecasts and budgets for GSHI.

With respect to the Regulatory services described above, GSU Management has stated that GSHI does not employ any personnel that perform the functions listed above; and therefore, relies entirely on GSHP for the provision of these services. Based on discussions with GSU Management, if these services were not provided by GSHP, GSHI would either have had to contract with a third-party provider to obtain these services or hire additional staff to provide these services.

7.2.12.2 Cost Allocation Method

7.2.12.2.1 Cost Base

Section 2.3.4.1 of the ARC provides for the allocation of fully-allocated costs by service provider (i.e., GSHP in this case) to an affiliate-LDC (i.e., GSHI in this case), inclusive of the following:[137]

- Direct costs, such as actual payroll costs and benefits burden;[138] and
- Indirect costs, such as overhead costs and administrative and general expenses.

Based on discussions with GSU Management, it is KPMG's understanding that all actual costs (i.e., salaries, benefits burden, and indirect expenses, including building operation and IT reallocations) incurred by the Regulatory department at GSHP are allocated to GSHI on a monthly basis.

A cost base that is representative of both direct and indirect costs associated with the GSHP employees providing regulatory services to affiliates, including GSHI, is consistent with the definition for fully-allocated cost provided in Section 1.2 of the ARC, as well as guidance provided in the APH, that is summarized above.

7.2.12.2.2 Allocation Driver

The APH provides for the allocation of joint costs (e.g., general administration, office staff salaries and rent) based on a reasonable method of determining a fair and equitable split between affiliates.[139]

As stated by GSU Management, this function exclusively provides GSHI with all services related to its compliance with regulation and licensing by the OEB and there is typically no activity regarding

[137] ARC, Section 1.2
[138] APH, Article 340, *Payroll Burden*
[139] APH, Article 340, *Allocation of Joint Costs*

maintaining licensing for the other GSU affiliate entities. Accordingly, 100% of the costs of this function are attributed by GSU Management to GSHI, which would be consistent with the transfer pricing guidance provided in the APH that is summarized above.[140]

7.2.12.2.3 Profit Component

Although it is not required, section 2.3.4.1 of the ARC allows for the application of a profit component to a service provider's fully-allocated cost to provide a shared service to its affiliate-LDC.[141]

As stated by GSU Management, the fee for Regulatory services charged by GSHP to GSHI is intended to recover GSHP's incurred costs, without a profit return, as the centralization of corporate and administrative support services allows for efficiencies and cost savings to the overall GSU Group, including GSHI. The method of cost recovery without a profit component for shared services provided to an LDC (i.e., GSHI) is permissible based on section 2.3.4.1 of the ARC.

7.2.12.3 Competitive Market Assessment

The nature of the Regulatory services provided by GSHP to GSHI meets the definition for "shared corporate services" provided by the ARC[142] and, therefore, based on Section 2.3.5.1 of the ARC, the fully allocated cost approach is permissible for determining the transfer price charged to GSHI for receipt of shared corporate services.

7.2.13 Customer Services and Billing

7.2.13.1 Service Description

As stated by GSU Management, GSHP provides customer and billing services to GSHI in respect of electricity services, and to the City in respect of its water and wastewater services. Based on information gathered by KPMG through functional interviews with the Manager of Customer Service, the following customer services and billing services are provided to GSHI by a team of approximately 20 customer services and billing personnel at GSHP:

- Determining and ensuring compliance to customer service and billing policies and requirements.
- Ensure accuracy of billing rates and implementation of any rate changes.
- Managing and providing a call center to field customer general inquiries, questions and complaints regarding their utility bills.
- Overseeing and processing of utility invoicing and collections.
- Issuing and processing approximately 70,000 utility bills per month, as well as additional final bills for customers that move out or change residences.
- Processing administrative, customer information, billing changes, and settlements due to customer move-ins and move-outs.

[140] APH, Article 340, *Allocation of Joint Costs*
[141] ARC, Section 2.3.4.1
[142] ARC, Section 2.3.5.1

- Management of payments and any hydro disconnects, as well as ensuring disconnection requirements are adhered to.
- Interacting with the credit bureau, as well as different financial help committees, low-income assistance, and affordability programs for GSHI customers.
- Reviewing and ensuring data and files from electricity meters is in sync with the billing system on a daily basis.
- Processing electricity meter changes within the system for any meters that need to be replaced.

With respect to the Customer Services and Billing services described above, GSU Management has stated that GSHI does not employ any personnel that perform the functions listed above; and therefore, relies entirely on GSHP for the provision of these services. Based on discussions with GSU Management, if these services were not provided by GSHP, GSHI would either have had to contract with a third-party provider to obtain these services or hire additional staff to provide these services.

7.2.13.2 Cost Allocation Method

7.2.13.2.1 Cost Base

Section 2.3.4.1 of the ARC provides for the allocation of fully-allocated costs by service provider (i.e., GSHP in this case) to an affiliate-LDC (i.e., GSHI in this case), inclusive of the following:[143]

- Direct costs, such as actual payroll costs and benefits burden;[144] and
- Indirect costs, such as overhead costs and administrative and general expenses.

As stated by GSU Management, GSHP employees provides billing services to GSHI in respect of electricity services, and to the City in respect of its water and wastewater services.

Based on discussions with GSU Management, it is KPMG's understanding that costs that could be directly identified as attributable to either electricity or water, these costs are assigned directly to the relevant affiliate. For example, Settlement/Meter Data Management and payroll costs related to the Smart Meters - Sync Operator are 100% assigned directly to GSHI, as these costs are incurred strictly for the electricity business. Similarly, payroll costs for Customer Information Services and Supervision are directly identified and are attributed between GSHI and the City prior to being booked to GSHP's Customer Services & Billing cost centre, and therefore, 100% of these GSHP costs are charged by GSU Management to GSHI (the water component is charged by GSU Management directly to the City excluded from GSHP's allocable cost base).

Based on discussions with GSU Management, it is KPMG's understanding that all remaining costs incurred by the Customer Services & Billing department at GSHP are allocated between GSHI or the City on a monthly basis.

A cost base that is representative of both direct and indirect costs associated with the GSHP employees providing customer and billing services to GSHI and to the City, is consistent with the definition for fully-

[143] ARC, Section 1.2
[144] APH, Article 340, *Payroll Burden*

allocated cost provided in Section 1.2 of the ARC, as well as guidance provided in the APH, that is summarized above.

7.2.13.2.2 Allocation Drivers

For the allocation of joint costs (e.g., general administration, office staff salaries and rent) the guidance in the APH suggests that the allocation approach be based upon a reasonable method of determining a fair and equitable split between affiliates.[145] The definition for "cost allocator" provided within the APH sets out that a cost allocator can be based on the cause-and-effect relationship between the costs incurred and the activities undertaken to provide the services.[146]

The remaining allocable Customer Services & Billing costs were then grouped and assigned based on the payroll costs associated with the call centre staff and the billing staff. Call volumes determine the allocation of payroll for the call centre. The number of bills printed and number of characters on the bills determine the allocation of billing payroll and costs.

Allocating customer services and billing costs based on cost allocators that reflect the "cause-and-effect" relationship between costs incurred and the activities undertaken to perform the services, is consistent with the guidance set out in the *Definitions* section of Article 340 of the APH guidance for cost allocators.[147]

7.2.13.2.3 Profit Component

As stated by GSU Management, the fee for Customer Service & Billing services charged by GSHP to GSHI is intended to recover GSHP's incurred costs, without a profit return, as the centralization of corporate and administrative support services allows for efficiencies and cost savings to the overall GSU Group, including GSHI. The method of cost recovery without a profit component for shared services provided to an LDC (i.e., GSHI) is permissible based on section 2.3.4.1 of the ARC.

7.2.13.3 Competitive Market Assessment

The nature of the customer services and billing services provided by GSHP to GSHI does not appear to meet the definition for "shared corporate services" provided by the ARC[148] and, therefore, the following was considered with respect to the existence of competitive markets.

- Based on information gathered by KPMG through functional interviews with GSU employees, GSHP does not provide customer service & billing services to third parties, and GSHI is not the recipient of customer service & billing services from third parties. Therefore, it was not possible to obtain internal comparable arm's-length rates for these services.
- Although independent companies do exist that provide arm's-length services that are similar to the customer services and billing services provided by GSHP, arm's-length pricing information and data

[145] APH, Article 340, *Allocation of Joint Costs*
[146] APH, Article 340, *Definitions*
[147] APH, Article 340, *Definitions*
[148] ARC, Section 2.3.5.1

is not publicly available to allow for an evaluation of economically relevant comparability factors that could influence the market pricing for these services.[149]

Therefore, the fully allocated cost approach is permissible for determining the transfer price charged to GSHI for receipt of customer services and billing services based on section 2.3.4.1 of the ARC.

7.2.14 Inventory Management (Stores)

7.2.14.1 Service Description

Based on information gathered by KPMG through functional interviews with the Purchasing Agent, the Storekeeper at GSHP provides the following inventory management (stores) related services to GSHI:

– Communication and coordination with purchasing and procurement department.
– Maintenance and organization of inventory and inventory system.
– Scanning, picking and tracking of inventory required by GSHI employees.
– Creation of inventory order reports, receiving and organizing inventory in the warehouse.

With respect to the inventory management (stores) services described above, GSU Management has stated that GSHI does not employ any personnel that perform the functions listed above; and therefore, relies entirely on GSHP for the provision of these services. Based on discussions with GSU Management, if these services were not provided by GSHP, GSHI would either have had to contract with a third-party provider to obtain these services or hire additional staff to provide these services.

7.2.14.2 Cost Allocation Method

7.2.14.2.1 Cost Base

Section 2.3.4.1 of the ARC provides for the allocation of fully-allocated costs by service provider (i.e., GSHP in this case) to an affiliate-LDC (i.e., GSHI in this case), inclusive of the following:[150]

– Direct costs, such as actual payroll costs and benefits burden;[151] and
– Indirect costs, such as overhead costs and administrative and general expenses.

The APH also provides guidance regarding Stores Operations functions that set out that the accumulation of costs for this service function may include the following:[152]

– Cost of materials, including costs associated with acquiring, handling and storing materials;
– Labour costs and associated payroll burden of staff working in stores operation, such as the stock keeper; and

[149] OECD Guidelines (2022). Chapter I: *The Arm's Length Principle*; paragraph 1.36.
[150] ARC, Section 1.2
[151] APH, Article 340, *Payroll Burden*
[152] APH, Article 340, *Store Operation*

– Common stores operation costs, including property taxes, light and heat, janitor service, yard maintenance, snow removal, building maintenance, inventory insurance, shipping, storage charges, depreciation on stores equipment, freight-in where not otherwise allocated, and the write-off of overages and shortages and obsolete material, which are charged as building costs that are allocated to their respective stores based on square footage.

Based on discussions with GSU Management, it is KPMG's understanding that all actual costs (i.e., salary, benefits burden, and expenses, including warehouse operating cost and IT cost reallocations) incurred by GSHP for inventory management (stores) related services are allocated to affiliates based on a percentage applied to the value of goods at the time when the inventory items are issued.

A cost base that is representative of both direct and indirect costs associated with the GSHP storekeeper providing inventory management (stores) services to affiliates, including GSHI, is consistent with the definition for fully-allocated cost provided in Section 1.2 of the ARC, as well as guidance provided in the APH, that is summarized above.

7.2.14.2.2 Allocation Driver

Guidance outlined in the APH provides that the method for allocating costs for Stores Operations can be applied as a standard percentage of the dollar value of materials issued.[153]

As stated by GSU Management, a percentage is applied by GSU Management to the value of goods in inventory to recover the cost of stores services provided by GSHP to affiliates. Based on information gathered by KPMG through functional interviews with GSU employees, the Storekeeper uses a barcode scanner for inventory items that get picked, which then categorizes the inventory item into a workorder file with an attached fund/entity number and account stream. As stated by GSU Management, the Inventory Management (Stores) function is used primarily by GSHI, but the same percentage approach is used for inventory related to Agilis, @Home, and for the street lighting services provided to the City by GSHI.

The allocation of inventory management (stores) costs incurred by GSHP to the affiliates based on a percentage applied to the value of goods in inventory is consistent with the transfer pricing guidance provided in the APH that is summarized above.

7.2.14.2.3 Profit Component

As stated by GSU Management, the fee for Inventory Management services charged by GSHP to GSHI is intended to recover GSHP's incurred costs, without a profit return, as the centralization of corporate and administrative support services allows for efficiencies and cost savings to the overall GSU Group, including GSHI. The method of cost recovery without a profit component for shared services provided to an LDC (i.e., GSHI) is permissible based on section 2.3.4.1 of the ARC.

[153] APH, Article 340, *Store Operation*

7.2.14.3 Competitive Market Assessment

The nature of the Inventory Management (Stores) services provided by GSHP to GSHI does not meet the definition for "shared corporate services" provided by the ARC[154] and, therefore, the following was determined for the consideration of the existence of competitive markets.

- Based on information gathered by KPMG through functional interviews with GSU employees, GSHP does not provide inventory management services to third parties, and GSHI is not the recipient of inventory management services from third parties. Therefore, it was not possible to obtain internal comparable arm's-length rates for these services.
- Although independent third-party inventory warehouse providers exist for the provision of inventory management services, arm's-length pricing information and data is not publicly available to allow for an evaluation of economically relevant comparability factors that could influence the market pricing for these services.[155]

Therefore, the fully allocated cost approach is permissible for determining the transfer price charged to GSHI for receipt of inventory management (stores) services based on section 2.3.4.1 of the ARC.

7.2.15 Indirect Costs incurred by GSHP not Otherwise Recovered

As described above, GSHP allocates its departmental expenses directly attributed to its employees (e.g., salaries, benefits, and other department costs) providing shared services to affiliated service recipients.

Based on guidance provided in the APH, if there is a residual balance remaining after the regular allocation of costs, the unallocated balance shall be recovered by apportioning on a basis which will distribute the costs equitably or rationally.[156]

As stated by GSU Management, GSHP has no business other than to provide shared corporate services and customer services to GSHI and its other affiliates. Based on information provided by GSU Management, GSHP allocates certain indirect costs that are not otherwise recovered (e.g., Miscellaneous & General expenses, audit fees, taxes, and legal fees, etc.) to GSHI and its other affiliates in proportion to the total share of the other costs allocated by GSHP to each affiliate for shared services, which is consistent with guidance provided in the APH.[157]

7.3 The Provision of Services by GSHI

7.3.1 Streetlights

7.3.1.1 Service Description

As stated by GSU Management, the operations department at GSHI provides streetlight maintenance services to GSHP to support the fulfillment of GSHP's contract with the City to provide streetlight

[154] ARC, Section 2.3.5.1
[155] OECD Guidelines (2022). Chapter I: *The Arm's Length Principle*; paragraph 1.36.
[156] APH, Article 340, *Clearing Accounts; paragraph d)*
[157] APH, Article 340, *Clearing Accounts; paragraph d)*

maintenance services.[158] For these services, GSHP utilizes GSHI employee resources, who also perform distribution operations and maintenance services for GSHI operations (i.e., GSHI does not have employees exclusively dedicated performing streetlight these services). Based on information gathered by KPMG through functional interviews with the Manager of Engineering, the following streetlight maintenance services are provided on behalf of GSHP to the City by approximately two (rotational) GSHI operations personnel:

– Perform streetlight maintenance and installation of new streetlights.
– Fulfillment of workorders for streetlight maintenance or other related services.
– Carrying out occasional patrols to evaluate streetlights and determine maintenance requirements.
– Provide streetlight inspections to ensure they meet required standards.

With respect to the streetlight services described above, GSU Management has stated that GSHP does not employ any personnel that perform the functions listed above; and therefore, relies entirely on GSHI for the provision of these services to the City on behalf of GSHP. Based on discussions with GSU Management, if these services were not provided by GSHI, GSHP would either have had to contract with a third-party provider to obtain these services or hire additional staff to provide these services.

7.3.1.2 Cost Allocation Method

7.3.1.2.1 Cost Base

Section 2.3.4.2 of the ARC provides for the allocation of fully-allocated costs by an LDC (i.e., GSHI in this case) to an affiliate service recipient (i.e., GSHP in this case), inclusive of the following:[159]

– Direct costs, such as actual payroll costs and benefits burden;[160] and
– Indirect costs, such as overhead costs and administrative and general expenses.

The APH also provides guidance regarding Engineering functions that set out that the accumulation of costs for this service function can include the following:[161]

– Labour costs and the associated payroll burden of staff directly involved in operations and maintenance; and
– Costs associated with the facilities, equipment and supplies in respect of engineering personnel as well as related office clerical and/or computer costs which relate directly to engineering.

Based on discussions with GSU Management, it is KPMG’s understanding that all actual costs (i.e., salaries, including benefits burden) incurred by GSHI operations employees fulfilling streetlighting workorders, as well as indirect expenses including IT allocations and building allocations for warehouse space occupied by streetlight inventory, are allocated to GSHP on a monthly basis. As stated by GSU Management, related costs for vehicles used by GSHI Operations employees in the fulfillment of

[158] As stated by GSU Management, this contract recently expired and is currently being renegotiated between GSHP and the City.
[159] ARC, Section 1.2
[160] APH, Article 340, *Payroll Burden*
[161] APH, Article 340, *Engineering*

streetlighting workorders are also allocated to GSHP on the basis discussed below for the vehicles service function.

A cost base that is representative of both direct and certain costs associated with the GSHI operations employees providing streetlighting services to the City on behalf of GSHP, is consistent with the guidance provided in the APH, that is summarized above.

KPMG recommends that GSU Management consider applying an overhead burden rate to its allocable employee payroll costs to ensure the total allocable cost base is representative of GSHI's fully loaded costs for providing streetlighting services inclusive of indirect costs based on the definition for indirect costs.[162] Based on the definitions for fully-allocated cost and for indirect costs provided in Section 1.2 of the ARC, indirect costs would also include overhead costs, administrative and general expenses, and taxes. [163]

In respective of streetlighting services provided by GSHI, these indirect overhead costs could include, for example, the following:

– Administrative and general expenses, such as costs allocated from GSHP to GSHI for corporate and administrative support services for accounting, HR & safety, communications & marketing, President & CEO, finance, and purchasing & procurement; and
– Overhead and facilities costs in respect of GSHI personnel, such as GSHI's retained portion of building operation costs and building depreciation.[164,165]

7.3.1.2.2 Allocation Driver

Guidance outlined in the APH provides that the method for allocating costs for Engineering can be to record engineering time directly to specific maintenance projects.[166]

As stated by GSU Management, the allocable streetlighting costs are allocated to GSHP based on the actual time records booked in the GSU Group's work order system by GSHI employees performing streetlighting services, which is consistent with the guidance set out in the APH for Engineering.[167]

7.3.1.2.3 Profit Component

Based on discussions with GSU Management, it is KPMG's understanding that the fee for streetlight services charged by GSHI to GSHP is intended to recover GSHI's incurred costs.

Based on section 2.3.4.2 of the ARC, in the case where the service provider is the LDC, the fully allocated cost shall include a return on the LDC's invested capital. To be fully compliant with section 2.3.4.2 of the ARC, KPMG recommends GSU Management consider applying a profit component (that is no less than GSHI's approved weighted average cost of capital) to GSHI's relevant assets used in its provision of these

[162] ARC, Section 1.2
[163] ARC, Section 1.2; *"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.*
[164] ARC, Section 1.2
[165] APH, Article 340, *Engineering*
[166] APH, Article 340, *Engineering*
[167] APH, Article 340, *Engineering*

services and incorporating this amount into the calculation of GSHI's fully allocated costs to perform streetlight maintenance services.

7.3.1.3 Competitive Market Assessment

The nature of the street lighting services provided by GSHI on behalf of GSHP to the City does not meet the definition for "shared corporate services" provided by the ARC[168] and, therefore, the following was determined for the consideration of the existence of competitive markets.

- Based on information gathered by KPMG through functional interviews with GSU employees, GSHI does not provide street lighting services to third parties, and GSHP is not the recipient of street lighting services from third parties. Therefore, it was not possible to rely on internal comparable arm's-length prices.
- Although independent third-party contract service providers exist that provide repairs and maintenance or similar services, KPMG was not able to obtain arm's-length pricing data for observed arm's-length rates agreed to between independent third parties under the same terms and conditions as the services provided by GSHI.

Therefore, the fully allocated cost approach is permissible for determining the transfer price charged by GSHI for provision of these services based on section 2.3.4.2 of the ARC. Since the service provider (i.e., GSHI) is the electricity distributor, GSHI's fully allocated cost must include a return on the GSHI's invested capital that is no less than its approved weighted average cost of capital.[169]

7.3.2 Building

7.3.2.1 Service Description

Based on information gathered by KPMG through functional interviews with a Senior Accountant and Purchasing Agent, GSHI owns the head office and service centre complex at 500 Regent Street which is comprised of the following:

- The office building has three floors primarily comprised of office spaces and modular workstations. The third floor of the office building contains GSHI's control room, and clearly defined areas for the Agilis office and the @Home office occupied and used by their respective employees.
- Agilis, ConverGen,and @Home lease their occupied office space from GSHI.[170]
- The rest of the space, which consists of additional office space, garage, and warehouse areas, houses the ConverGen office, the shared functions of GSHP and the engineering/operations functions of GSHI.
- GSHI also manages ongoing building maintenance (e.g., new storm drains, new air conditioning), any renovations (e.g., bathrooms).

[168] ARC, Section 2.3.5.1
[169] ARC, Section 2.3.4.2
[170] Based on information provided by GSI Management, the square footage of the occupied office space for the sole ConverGen employee is absorbed within the square footage of the occupied office space for @Home.

As stated by GSU Management, GSHI owns the head office and service centre complex at 500 Regent Street. Based on discussions with GSU Management, it is KPMG's understanding that office space in the building at 500 Regent Street is used directly by Agilis, @Home, and ConverGen employees; The rest of the space, which consists of office, garage, and warehouse areas, houses the shared functions of GSHP and the engineering/operations functions of GSHI.

Based on discussions with GSU Management, if office space and building operations services were not provided by GSHI, its affiliates would either have had to contract with a third-party provider to lease office space and obtain these services or purchase an office building and hire additional staff to provide these services.

7.3.2.2 Cost Allocation Method

7.3.2.2.1 Cost Base

Section 2.3.4.2 of the ARC provides for the allocation of fully-allocated costs by an LDC (i.e., GSHI in this case) to affiliate service recipients.[171]

Based on discussions with GSU Management, it is KPMG's understanding that GSHI manages and incurs the payments for building operating costs, including taxes, electricity, heating, water and sewer, insurance, janitorial, repairs and maintenance for 500 Regent Street.

A cost base that is representative of both direct and indirect costs associated with the operation of the building owned by GSHI, is consistent with the definition for fully-allocated cost provided in Section 1.2 of the ARC.

In addition to building operating costs, Agilis, ConverGen, and @Home are charged a lease rate/square foot (based on comparable arm's-length rates) by GSHI for their respective occupied office space at 500 Regent Street.[172]

7.3.2.2.2 Allocation Driver

The APH provides for the allocation of joint costs based on a reasonable method of determining a fair and equitable split between affiliates.[173] In addition, the APH explicitly provides floor area occupied by each entity's operations as an example allocation driver for shared accommodation.[174]

Based on KPMG's review of information provided by and discussions with GSU Management, the building operating costs incurred by GSHI are allocated by GSU Management to GSHI, Agilis, @Home, and GSHP by applying the following methodology (as established and implemented by the GSU Group):

[171] ARC, Section 1.2
[172] Based on information provided by GSI Management, the square footage of the occupied office space for the sole ConverGen employee is absorbed within the square footage of the occupied office space for @Home.
[173] APH, Article 340, *Allocation of Joint Costs*
[174] APH, Article 340, *Allocation of Joint Costs*

- Determining the share square footage of office space and industrial space (garage and warehousing) used by GSHI, GSHP departments, and by Agilis and @Home employees, and
- Determining the share of square footage for common areas based on number of staff in each department (or affiliate).

Based on information provided by GSU Management, it is KPMG's understanding that the resulting proportion of square footage occupied by each affiliate is also the allocation driver used for calculating the monthly lease charges by GSHI to Agilis, ConverGen, and @Home (based on comparable arm's-length lease rates per occupied square foot), which would be consistent with the transfer pricing guidance provided in the APH that is summarized above.[175]

Based on discussions with GSU Management, it is KPMG's understanding that GSHP employees also occupy space at the office building owned by GSHI. KPMG recommends GSU Management consider charging GSHP for building occupancy by applying the same methodology applied by GSU Management as described in this section.

7.3.2.2.3 Profit Component

As stated by GSU management, the fee for building operation services charged by GSHI to its affiliates is intended to recover GSHI's incurred costs.

Based on section 2.3.4.2 of the ARC, in the case where the service provider is the LDC, the fully allocated cost shall include a return on the LDC's invested capital. To be fully compliant with section 2.3.4.2 of the ARC, KPMG recommends GSU Management consider applying a profit component (that is no less than GSHI's approved weighted average cost of capital) to GSHI's relevant assets used in its provision of these services and incorporating this amount into the calculation of GSHI's fully allocated costs to provide building operation services.[176]

7.3.2.3 Competitive Market Assessment

7.3.2.3.1 Building Operation Services

With respect to the building operation services provided by GSHI to its affiliates, the nature of these services meets the definition for "shared corporate services" provided by the ARC[177] and, therefore, , based on Section 2.3.5.1 of the ARC the fully allocated cost approach is permissible for determining the transfer price charged to affiliates for provision of these services. Since the service provider (i.e., GSHI) is the electricity distributor, GSHI's fully allocated cost must also include a return on the GSHI's invested capital that is no less than its approved weighted average cost of capital based on section 2.3.4.2 of the ARC.[178]

[175] APH, Article 340, *Allocation of Joint Costs*
[176] ARC, Section 2.3.4.2
[177] ARC, Section 2.3.5.1
[178] ARC, Section 2.3.4.2

7.3.2.3.2 Building Occupancy

The leasing of office space by GSHI to its affiliates does not appear to meet the definition for "shared corporate services" provided by the ARC[179] and, therefore, the following was determined for the consideration of the existence of competitive markets.

- Based on information gathered by KPMG through functional interviews with GSU employees, GSHI does not lease building space to third parties, and GSHI's affiliates do not lease building space from third parties. Therefore, it was not possible to rely on internal comparable arm's-length prices.
- KPMG was able to perform market research for arm's-length pricing data for actual lease rates charged between independent third parties for similar commercial properties in the Greater Sudbury area.

Therefore, a comparison of the transfer price calculated using both the market-based approach as well as the fully allocated cost approach by GSU Management is required to determine the transfer price based on the requirements in section 2.3.3.6 of the ARC.

7.3.2.3.3 Arm's-length Price Analysis

Based on market research performed by KPMG, annual arm's-length lease rates for commercial office properties in the Greater Sudbury Area range from $12.00/SqFt to $16.00/SqFt, with a median of $12.50/SqFt. The monthly arm's-length lease rates for commercial office properties in the Greater Sudbury Area range from $1.00/SqFt to $1.33/SqFt, with a median of $1.04/SqFt.

While any point within the arm's-length range should be considered an arm's-length rate[180], for practical purposes, selecting an intercompany lease rate that is closer to the median results should reduce the likelihood that year-over-year variability in the arm's-length lease rates will cause the intercompany lease rate charged by GSHI to fall outside the arm's-length range.

To be in accordance with section 2.3.3.6 of ARC, the transfer price for the lease of office space by GSHI to GSHP, Agilis, @Home, and ConverGen should be the greater of:

i. The arm's-length lease rate, and

ii. The fully allocated cost of the office building.

Thus, KPMG recommends GSU Management considering comparing the resulting transfer prices for the above two approaches, on an annual basis, and charge the greater amount per square foot to each of its affiliates.

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[179] ARC, Section 2.3.5.1
[180] OECD Guidelines, Chapter III. *Comparability Analysis*; Paragraph 3.62.

7.3.3 Vehicles

7.3.3.1 Service Description

Based on information gathered by KPMG through functional interviews with the Superintendent of Operations, GSHI owns the garage building at 500 Regent Street which is comprised of the following:

– The garage space comprises three bays with two lifts: one bay is designed for pickup trucks, another bay is designed for large vehicles and equipment, and the third is a wash bay.
– GSHI owns a fleet of approximately 50 to 60 vehicles and equipment, including primarily pickup trucks, 1 or 2 cars, a van, SUVs, bucket trucks, cranes, pulling machines, an off-road track vehicle, etc.
– All the equipment and most of the vehicles are stored inside with some vehicles stored outside on the property in a fenced and gated parking/storage lot.

Based on discussions with GSU Management, the Garage department at GSHI provides the use of and the ongoing maintenance and servicing of vehicles to Agilis and @Home. Based on information gathered by KPMG through functional interviews with GSU employees, within GSHI's fleet, the vehicles used by Agilis and @Home employees are clearly branded with Agilis and @Home decals; however, any vehicle in GSHI's fleet could be made available to Agilis and @Home employees, but this is not a common occurrence. Based on information gathered by KPMG through functional interviews with GSU employees, the following vehicle services are provided by a team of approximately three GSHI Garage mechanics to Agilis and @Home:

– Determining and ensuring vehicle scheduling and availability for affiliate companies.
– Providing vehicle maintenance and maintaining vehicle service schedules.
– Provision of repairs by GSHI's in-house mechanics.
– Storage of work vehicles for affiliate companies.
– Monitoring maintenance quality and vehicle performance.
– Providing mobile vehicle repairs in the field.
– Tracking of vehicle use.
– Ensuring vehicles are labeled with logos of their respective affiliate companies.

With respect to the Vehicles and Vehicle Services described above, GSU Management has stated that Agilis and @Home do not employ any personnel that perform the functions listed above; and therefore, relies entirely on GSHI for the provision of these services. Based on discussions with GSU Management, if these services were not provided by GSHI, Agilis and @Home would either have had to buy or lease its own vehicles and contract with a third-party provider to obtain these services or hire additional staff to provide these services.

7.3.3.2 Cost Allocation Method

7.3.3.2.1 Cost Base

Section 2.3.4.2 of the ARC provides for the allocation of fully-allocated costs by an LDC (i.e., GSHI in this case) to an affiliate service recipient, inclusive of the following:[181]

- Direct costs, such as actual payroll costs and benefits burden;[182] and
- Indirect costs, such as overhead costs and administrative and general expenses.

The APH also provides guidance regarding Rolling Stock Operation functions that set out that the accumulation of costs for this service function can include the following:[183]

- Costs associated with maintaining automobiles, trucks, trailers and equipment;
- Labour costs and the associated payroll burden of staff directly involved in fleet maintenance, such as mechanics;
- Common costs including operating and depreciation expense, fuel, lubricants, repairs and parts, license fees, insurance and all other items of expense necessary to keep the fleet in service; and
- Costs associated with the operation and maintenance of garages and garage equipment as well as related office clerical and/or computer costs that relate directly to fleet management.

As stated by GSU Management, GSU Group entities make use of vehicles owned, maintained, and made available by GSHI. Based on information provided by GSU Management, it is KPMG's understanding that GSHI's fleet includes the following four classes of vehicles:

- Classes A & B are smaller vehicles, including pickup trucks, cars, vans, SUVs, etc.;
- Class C is comprised of single bucket trucks; and
- Class D is comprised of double bucket trucks.

Based on discussions with GSU Management, it is KPMG's understanding that different hourly charge-out rates are set for each vehicle class based on reviews of the relative cost of each vehicle class by GSU Finance personnel. GSU Management calculates hourly charge-out rates based on budget costs and based on a formula that incorporates the average number of vehicle usage hours, over the last five years, by vehicle type. Hourly charge-out rates are set by GSU Management based on vehicle class to recover actual costs when applied to all vehicle usage hours, where actual vehicle costs is comprised of garage building operating costs, garage employee payroll costs (including benefits burden), IT cost allocation, as well as vehicle fuel, maintenance, and amortization costs, which is consistent with the guidance provided in the APH, that is summarized above.

KPMG recommends that GSU Management consider applying an overhead burden rate to its allocable garage employee payroll costs to ensure the total allocable cost base is representative of GSHI's fully loaded costs for providing vehicle services inclusive of indirect costs based on the definition for indirect

[181] ARC, Section 1.2
[182] APH, Article 340, *Payroll Burden*
[183] APH, Article 340, *Rolling Stock Operation*

costs.[184] Based on the definitions for fully-allocated cost and for indirect costs provided in Section 1.2 of the ARC, indirect costs would also include overhead costs, administrative and general expenses, and taxes. [185]

In respective of vehicle services provided by GSHI, these indirect overhead costs could include, for example, the following:

– Administrative and general expenses, such as costs allocated from GSHP to GSHI for corporate and administrative support services for accounting, HR & safety, communications & marketing, President & CEO, finance, and purchasing & procurement; and
– Overhead costs in respect of GSHI garage personnel, such as GSHI's garage building depreciation.[186, 187]

7.3.3.2.2 Allocation Driver

Guidance outlined in the APH provides that the method for allocating costs for maintaining automobiles, trucks, trailers and equipment may be based on a per kilometer rate or per hour of use or available for use.[188]

As stated by GSU Management, GSHI vehicles have an identification number with an identified class, and usage is tracked through employee timesheets in GSU's workorder system. When an employee logs time to the GSU work order system, the associated use of vehicle is tracked by work order to GSHI or to the GSU affiliates. Vehicle costs incurred by GSHI are allocated by GSU Management to the affiliates by applying an hourly charge-out rate to all vehicle usage, which is consistent with the guidance set out in the APH for Rolling Stock Operation.[189]

7.3.3.2.3 Profit Component

Based on discussions with GSU Management, it is KPMG's understanding that the fee for vehicle services charged by GSHI to its affiliates is intended to recover GSHI's incurred costs.

Based on section 2.3.4.2 of the ARC, in the case where the service provider is the LDC, the fully allocated cost shall include a return on the LDC's invested capital. To be fully compliant with section 2.3.4.2 of the ARC, KPMG recommends GSU Management consider applying a profit component (that is no less than GSHI's approved weighted average cost of capital) to GSHI's relevant assets used in its provision of these services and incorporating this amount into the calculation of GSHI's fully allocated costs to perform Vehicle services.

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[184] ARC, Section 1.2
[185] ARC, Section 1.2; *"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.*
[186] ARC, Section 1.2
[187] APH, Article 340, *Rolling Stock Operation*
[188] APH, Article 340, *Rolling Stock Operation*
[189] APH, Article 340, *Rolling Stock Operation*

7.3.3.3 Competitive Market Assessment

The nature of the maintenance and garage services, as well as the use of its vehicles provided by GSHI to its affiliates does not meet the definition for “shared corporate services” provided by the ARC[190] and, therefore, the following was determined for the consideration of the existence of competitive markets.

- Based on information gathered by KPMG through functional interviews with GSU employees, GSHI does not provide maintenance and garage services, nor does GSHI vehicles lease vehicles to third parties. GSHI’s affiliates do not lease vehicles or receive the majority of maintenance and garage services from third parties. Therefore, it was not possible to rely on internal comparable arm’s-length prices.
- Although independent companies do exist that lease commercial vehicles, arm’s-length pricing data and other relevant information for observed commercial fleet lease rates between independent third parties in the Greater Sudbury region is not publicly available to allow for an evaluation of economically relevant comparability factors that could influence the market pricing for these services.[191]

Therefore, the fully allocated cost approach is permissible for determining the transfer price charged by GSHI for provision of these services based on section 2.3.4.2 of the ARC.

7.3.4 Facilities

7.3.4.1 Service Description

Based on information provided by GSU Management, it is KPMG’s understanding that Agilis occupies space for its telecommunications equipment (e.g., servers, ports, carts, connections, etc.) at various facilities owned by GSHI.

As stated by GSU Management, the space used by Agilis is also used by GSHI (i.e., it is not sole-use space for Agilis). GSU Management also stated that Agilis has paid directly for building enhancements to accommodate its specific needs (e.g., security, air conditioning and electrical), and that Agilis also pays directly, through separate metering, for electricity consumed for its equipment at GSHI’s facilities.

Based on information provided by GSU Management, it is also KPMG’s understanding that @Home occupies space for inventory storage (i.e., water heaters and/or tanks) at two facilities owned by GSHI.

Based on information gathered by KPMG through functional interviews with GSU employees, @Home purchased storage containers to store its inventory on the facility properties owned by GSHI.

Based on discussions with GSU Management, if space at its facilities were not provided by GSHI, its affiliates would either have had to contract with a third-party provider to lease space or purchase property with a warehouse or building structure of its own.

[190] ARC, Section 2.3.5.1
[191] OECD Guidelines (2022). Chapter I: *The Arm’s Length Principle*; paragraph 1.36.

7.3.4.2 Cost Allocation Method

Based on discussions with GSU Management, it is KPMG's understanding that GSHI is compensated by Agilis for accommodation of its equipment at GSHI's facilities through the receipt of telecommunications services by Agilis at discounted rates.

KPMG recommends GSU Management consider applying a cost allocation method or transfer pricing policy to determine a lease charge to Agilis and @Home.

7.3.4.2.1 Cost Base

KPMG recommends that GSHI determine its total direct and indirect costs for the facilities occupied by Agilis and @Home based on the definition provided for full-allocated cost in section 1.2 of the ARC. These costs could include, for example, property taxes, light and heat, yard maintenance, snow removal, building maintenance, insurance, and facility depreciation of GSHI owned building structures housing Agilis and @Home equipment or inventory.

7.3.4.2.2 Allocation Driver

Based on guidance set out in the APH, KPMG recommends GSU Management consider applying an allocation driver that results in a fair and equitable split of the allocable GSHI facility costs between GSHI, Agilis, and @Home.[192] For example, the APH provides floor area occupied by each entity's operations as an example allocation driver for shared accommodation.[193]

7.3.4.2.3 Profit Component

Based on section 2.3.4.2 of the ARC, in the case where the service provider is the LDC, the fully allocated cost shall include a return on the LDC's invested capital. Accordingly, KPMG recommends GSU Management consider applying a profit component (that is no less than GSHI's approved weighted average cost of capital) to GSHI's relevant assets used in its provision of these services and incorporating this amount into the calculation of GSHI's fully allocated costs to provide occupancy at its facilities.

7.3.4.3 Competitive Market Assessment

The use of facility space provided by GSHI to its affiliates does not meet the definition for "shared corporate services" provided by the ARC[194] and, therefore, the following was determined for the consideration of the existence of competitive markets.

- As stated by GSU Management, GSHI does not provide the use of facility space to third parties, and GSHI's affiliates do not lease industrial space from third parties. Therefore, it was not possible to rely on internal comparable arm's-length prices.

[192] APH, Article 340, *Allocation of Joint Costs*
[193] APH, Article 340, *Allocation of Joint Costs*
[194] ARC, Section 2.3.5.1

– KPMG was able to perform market research for arm's-length pricing data for actual lease rates charged between independent third parties for similar warehouse and industrial properties in the Greater Sudbury area.

Therefore, a comparison of the transfer price calculated using both the market-based approach as well as the fully allocated cost approach by GSU Management is required to determine the transfer price based on the requirements in section 2.3.3.6 of the ARC.

7.3.4.3.1 Arm's-length Price Analysis

Based on market research performed by KPMG, annual arm's-length lease rates for commercial industrial properties in the Greater Sudbury Area range from $10.50/SqFt to $11.40/SqFt, with a median of $10.50/SqFt. The monthly arm's-length lease rates for commercial industrial properties in the Greater Sudbury Area range from $0.88/SqFt to $0.95/SqFt, with a median of $0.88/SqFt.

While any point within the arm's-length range should be considered an arm's-length rate[195], for practical purposes, selecting an intercompany lease rate that is closer to the median results should reduce the likelihood that year-over-year variability in the arm's-length lease rates will cause the intercompany lease rate charged by GSHI to fall outside the arm's-length range.

To be in accordance with section 2.3.3.6 of the ARC, the transfer price for the lease of facility space by GSHI to Agilis and @Home should be the greater of:

i. The arm's-length lease rate, and

ii. The fully allocated cost of the office building.

Thus, KPMG recommends GSU Management consider comparing the resulting transfer prices for the above two approaches, on an annual basis, and charge the greater amount per square foot to each of its affiliates.

7.3.5 Pole Attachments

7.3.5.1 Service Description

Based on information provided by GSU Management, Agilis uses approximately 3,500 poles for its wireline telecommunication pole attachments from GSHI's network of poles in the areas of Capreol, Coniston, Copper Cliff, Falconbridge, Sudbury, Sturgeon Falls, and Cache Bay.

Based on information provided by GSU Management, KPMG understands that Agilis pays GSHI a monthly pole attachment fee approved by the OEB for use of LDC poles by arms-length telecommunications attachers across Ontario.

[195] OECD Guidelines, Chapter III. *Comparability Analysis*; Paragraph 3.62.

7.3.5.2 Cost Allocation Method

Based on information provided by GSU Management, KPMG understands that the charge from GSHI to Agilis is the OEB approved pole attachment fee.

The OEB approved pole attachment fee applied by GSHI and as required by the OEB for Agilis' pole attachments is consistent with section 2.3.7.1 of the ARC.

7.3.5.2.1 Arm's-length Price Analysis

As stated by GSU Management, Agilis uses GSHI's network of poles for its attachments, for which it pays the fee approved by the OEB for use of LDC poles by arms-length telecommunications attachers across Ontario.

On March 22, 2018, the OEB issued a *Report of the Ontario Energy Board: Wireline Pole Attachment Charges* (OEB Report) which established a province-wide charge for wireline telecom attachments to distribution poles to be applied by LDCs that do not have an OEB-approved distributor specific charge in place.[196] The OEB Report annually sets a charge per attacher, per pole that is adjusted each year by the OEB's inflation factor. The table below provides the arm's-length rates for wireline telecom attachments for 2021 and for 2022.[197]

Exhibit 15: Arm's-length Rates for Wireline Telecom Attachments

OEB-Approved Arm's-length Rates for Wireline Telecom Attachments	
Arm's-length Rates	**$CAD Attacher Rate per Pole (Annual)**
2021 Wireline Pole Attachment Charge	$44.50
2022 Wireline Pole Attachment Charge	$34.76

Source: Exhibit prepared by KPMG based information obtained from the Ontario Energy Board DECISION AND ORDER EB-2021-0302, *Wireline Pole Attachment Charge*, dated December 16, 2021.

As of January 1, 2021, the 2021 wireline pole attachment charge was $44.50 per attacher, per year, per pole.[198] Effective January 1, 2022, the wireline pole attachment charge is $34.76 per attacher, per year, per pole.[199]

Based on information provided by GSU Management, during 2021 GSHI charged Agilis a pole attacher fee of $44.50 annually per pole, which is consistent with the OEB-approved wireline pole attachment charge for 2021.

[196] Ontario Energy Board, DECISION AND ORDER EB-2021-0302, *Wireline Pole Attachment Charge*, December 16, 2021.
[197] Ontario Energy Board, DECISION AND ORDER EB-2021-0302, *Wireline Pole Attachment Charge*, December 16, 2021.
[198] Ontario Energy Board, DECISION AND ORDER EB-2021-0302, *Wireline Pole Attachment Charge*, December 16, 2021
[199] Ontario Energy Board, DECISION AND ORDER EB-2021-0302, *Wireline Pole Attachment Charge*, December 16, 2021

Based on information provided by GSU Management, it is KPMG's understanding that the attacher rates paid by Agilis to GSHI are consistent with the approved by the OEB and are, therefore, consistent with the requirements in section 2.3.7.1 of the ARC and no further comparison with the fully allocated cost approach is required.[200]

7.4 The Provision of Services by Agilis

7.4.1 Telecommunications Services

7.4.1.1 Service Description

Based on information gathered by KPMG through functional interviews with the General Manager, Agilis provides various telecommunications services to GSHI. GSU Management has stated that GSHI does not have the capability to perform these services itself; and therefore, relies entirely on Agilis for the provision of these services. Based on discussions with GSU Management, if these services were not provided by Agilis, GSHI would either have had to contract with a third-party provider to obtain these services or hire additional staff and purchase equipment to perform these services.

7.4.1.2 Cost Allocation Method

Based on information provided by GSU Management, it is KPMG's understanding that the telecommunication services provided by Agilis are charged to GSHI based on rates charged by Agilis to its third-party customers which is permissible based on section 2.3.3.1 of the ARC.

7.4.1.3 Competitive Market Assessment

The telecommunications services provided by Agilis to GSHI do not meet the definition for "shared corporate services" provided by the ARC.[201]

Based on information provided by GSU Management, Agilis does provide the same or similar services to its third-party customers as the telecommunications services it provides to GSHI. Since the service recipient (i.e., GSHI) is the electricity distributor, GSHI shall pay no more than the arm's-length price and comparison with the charge calculated using the fully allocated cost approach is not required by the ARC.[202] Therefore, the market-based approach is considered a permissible method for determining the transfer price charged to GSHI for the provision of these services based on section 2.3.3.1 of the ARC.

7.4.1.3.1 Arm's-length Price Analysis

GSHI is the recipient of telecommunications services from Agilis. The rates charged by Agilis to GSHI for the provision of telecommunication services are based on the arm's-length rates charged by Agilis to its third-party customers, inclusive of a discount for GSHI. Based on discussions with GSU Management, it is KPMG's understanding that GSHI is compensated by Agilis for accommodation of its equipment at GSHI's facilities through the receipt of telecommunications services by Agilis at discounted rates. Based on

[200] ARC, Section 2.3.7.1
[201] ARC, Section 2.3.5.1
[202] ARC Section 2.3.3.1

information provided by GSU Management, the prices charged by Agilis to GSHI incorporate an average discount of approximately 90% on the total overall telecommunication services received by GSHI.

KPMG reviewed the general price list for Agilis' telecommunications services offers to third-party customers that was provided by GSU Management. Based on the information provided by GSU Management, the prices charged by Agilis to GSHI are consistent with or significantly discounted below the arm's-length prices offered by Agilis for similar services to its arms-length customers, and are, therefore, considered consistent with requirements in section 2.3.3.1 of the ARC.

Under the ARC, Agilis may charge an amount to GSHI that is "no more than" the market price.[203] In this case, Agilis has the option to increase the amount charged to GSHI up to the market price inclusive of comparable arm's-length discounts provided to its third-party customers (i.e., likely less significant of a discount that is currently being provided to GSHI). This would also be considered consistent with the ARC requirements provided in section 2.3.3.1; However, this would result in increasing the costs incurred by GSHI.

[203] ARC, Section 2.3.3.1

8 Evaluation of Cost Allocation Methodology

Having reviewed the GSU Group's current cost allocation methodology, including understanding the sources of the cost data and the cost allocation drivers applied, KPMG will now evaluate the GSU Group's cost allocation methodology against leading transfer pricing practices based on guidance set out in the OECD Guidelines. The scope of the comparison of the GSU Group's current cost allocation model against leading transfer pricing practices include:

1. Assessing the overall fairness of the costs allocated to each GSU affiliate;
2. Identifying any opportunities for GSU Management to consider improvement of the mechanics of its cost allocation model; and
3. Identifying any opportunities for GSU Management to improve the process documentation associated with the cost allocation from a risks and governance perspective.

KPMG relied on information and documentation that was provided to us by GSU Management at the date of this report. KPMG has not audited or otherwise attempted to independently verify the information provided unless otherwise indicated. The procedures KPMG carried out do not constitute an audit, and as such, the content of this Report should not be considered as providing the same level of assurance as an audit.

8.1 Fairness of the Allocated Costs

Ultimately, the costs allocated to each GSU affiliate should be fair. Based on guidance set out in Chapter VII of the OECD Guidelines regarding special considerations for intra-group services, KPMG considered the following two main questions when assessing fairness:[204]

1. Has the intra-group service rendered provided a benefit to the service recipient?[205] – Based on paragraph 7.6 of the OECD Guidelines, beneficial services refer to services for which if they were not provided to the affiliate, the affiliate would either have had to contract with a third party to obtain these resources and services or lease their own facilities or hire additional staff to provide these resources and services.[206]

    - Based on information gathered by KPMG during functional interviews with GSU personnel described within each *Service Description* subsection in Section 7 of this Report, each GSU affiliate received services for which it received an allocation of costs, and had the intra-group service not been provided, the recipient would have had to contract with a third-party provider to obtain these services or hire additional staff to provide the relevant service. Therefore, a

[204] OECD Guidelines, Chapter VII. *Special Considerations for Intra-group Services*; Paragraph 7.5.
[205] OECD Guidelines, Chapter VII. *Special Considerations for Intra-group Services*; Paragraph 7.6.
[206] OECD Guidelines, Chapter VII. *Special Considerations for Intra-group Services*; Paragraph 7.6.

charge for shared services between the GSU affiliates is justifiable based paragraph 7.6 of the OECD Guidelines.

2. Is the charge for intra-group services in accordance with the arm's length principle?[207] – Based on paragraph 7.19 of the OECD Guidelines, the charge for intra-group services should reflect what would have been made and accepted between independent parties in comparable circumstances.[208] This can be accomplished by identifying an amount that has actually been charged for service arrangements that are in place between independent parties.[209] Although paragraph 7.23 of the OECD Guidelines notes that this may be difficult to apply in practice, and provides cost allocation methods as an alternative approach for charging for intra-group services.[210]

    - As described within each *Competitive Market Assessment* subsection in Section 7 of this Report, KPMG assessed if a competitive market exists for each service function, including assessing the availability information for comparable arm's-length prices between arm's-length parties.[211] For shared service functions assessed as having existing competitive markets with available arm's-length information, benchmarking analysis was performed by KPMG to determine arm's-length prices. For shared service functions assessed as not having existing competitive markets, or pricing information between arm's-length parties was not available, a cost allocation approach was considered permissible based on Section 2.3.4 of the ARC, which is also consistent with guidance provided in paragraph 7.31 of the OECD Guidelines.[212,213]

An evaluation of GSU's cost allocation methodology with transfer pricing leading practices are discussed in the sections that follow.

8.1.1 Completeness of the Cost Allocation Methodology

8.1.1.1 Leading Practice Considered

Based on paragraph 7.56 of the OECD Guidelines, the allocable pool of costs should be determined based on all actual costs incurred by the service provider in performing the intra-group services (i.e., not budgeted, forecasted, or estimated costs) on an annual basis.[214]

Consistent with the definition for "fully-allocated cost" provided in section 1.2 of the ARC, the OECD Guidelines also provide that the costs allocated to each affiliate should generally represent the fully loaded costs, including expenses directly attributed to rendering the shared services (e.g., employee salaries and benefits) to the affiliated service recipient plus indirect costs and a portion of operating expenses (e.g., supervisory, general and administrative).[215]

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[207] OECD Guidelines, Chapter VII. *Special Considerations for Intra-group Services*; Paragraph 7.6.
[208] OECD Guidelines, Chapter VII. *Special Considerations for Intra-group Services*; Paragraph 7.19.
[209] OECD Guidelines, Chapter VII. *Special Considerations for Intra-group Services*; Paragraph 7.22.
[210] OECD Guidelines, Chapter VII. *Special Considerations for Intra-group Services*; Paragraphs 7.23 and 7.31.
[211] OECD Guidelines, Chapter I, section B, paragraph 1.13.
[212] ARC, Section 2.3.4
[213] OECD Guidelines, Chapter VII. *Special Considerations for Intra-group Services*; Paragraph 7.31.
[214] OECD Guidelines, Chapter VII. *Special Considerations for Intra-group Services*; Paragraph 7.56.
[215] OECD Guidelines, Chapter VII. *Special Considerations for Intra-group Services*; Paragraph 7.56.

Finally, paragraph 7.35 of the OECD Guidelines provides considerations for the inclusion of a profit element, noting that arm's length charges for services provided by independent parties would normally include a profit component (rather than providing the services simply at cost), but that there are also circumstance when the arm's-length price may not result in a profit component. [216]

8.1.1.2 Assessment of Current Cost Allocation Methodology

As described in Section 7 of this Report within each *Cost Allocation Method* subsection, based on KPMG's review, the overall cost allocation approach applied by GSHI for its shared services arrangements with affiliates appears predominantly consistent with requirements in the section 1.2 of ARC and transfer pricing guidance set out in OECD Guidelines, but there is always room for improvement.

The following exhibit summarizes refinements and adjustments identified by KPMG for consideration by GSU Management based on consideration of guidance set out in the OECD Guidelines and requirements in the ARC. GSU Management will be responsible for the assessment of observations, the decision to implement any recommendations, and consideration of impacts that may result from the implementation of recommendations.

Exhibit 16: Summary of Recommendations by Services Function for Consideration by GSU Management

Summary of Recommendations by Service Function for Consideration by GSU Management	
Description of Services	**Recommendations for Consideration by GSU Management**
Shared services (information technology, accounting, business execution, human resources & safety, communications & marketing, administrative services, innovation, president & CEO, board of directors, purchasing & procurement, finance, regulatory, and customer service & billing).	• In accordance with the requirements of the ARC, KPMG recommend GSHP consider including office lease expense to the fully allocated costs of the shared services to GSHI.[217] • Under the ARC, GSHP has the option (though is not required) to add a profit component to the fully allocated costs of the shared services it provides to GSHI. [218] Currently GSHP does not add a profit component to the shared services costs, meaning that the charges to GSHI from GSHP may be lower than the charges that would be expected at fair market value from an arm's length service provider providing comparable services. Based on discussions with GSU Management, it is KPMG's understanding that GSHP's choice to not include a profit component on its shared services charge to GSHI is on the basis that this provides value to GSHI's customers.

[216] OECD Guidelines, Chapter VII. *Special Considerations for Intra-group Services*; Paragraph 7.35.
[217] Section 1.2 of the ARC provides that the "fully-allocated cost" means the sum of direct costs plus a proportional share of indirect costs; "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
[218] Section 2.3.4.1 of the ARC provides that "The fully- allocated cost may include a return on the affiliate's invested capital."

Summary of Recommendations by Service Function for Consideration by GSU Management	
Description of Services	**Recommendations for Consideration by GSU Management**
Street light maintenance services.	• In accordance with the requirements of the ARC, KPMG recommends GSHI consider including its indirect overhead costs (e.g., costs allocated from GSHP for corporate and administrative support services for accounting, HR & safety, communications & marketing, President & CEO, finance, and purchasing & procurement; and GSHI's retained portion of building operation costs and building depreciation) to the fully allocated costs.[219] This will have the benefit of adding revenue to GSHI. • Under the ARC, GSHI's fully allocated costs are also required to include a return on its invested capital for assets utilized in respect of the street light maintenance services.[220] The inclusion of a profit component to be in compliant with the ARC will also have the added benefit of increasing GSHI's revenue.
Building operation services.	• Under the ARC, GSHI's fully allocated costs are also required to include a return on its invested capital for assets utilized in respect of the building operation services.[221]
Use of building space.	• Given that they are beneficiaries of these services, KPMG recommends GSHI consider the inclusion of GSHP as a recipient of the cost allocation for these services.[222] • In accordance with the requirements of the ARC, KPMG recommends that GSU Management consider performing a comparison of the quantum of the intercompany charge calculated using the market-based approach and the fully-allocated cost approach to determine the appropriate transfer price, which would be the greater of the fees determined using the two approaches.[223] This analysis would have the benefit of ensuring that GSHI is achieving the maximum possible revenues for these services.

[219] Section 1.2 of the ARC provides that the "fully-allocated cost" means the sum of direct costs plus a proportional share of indirect costs; "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
[220] Section 2.3.4.2 of the ARC provides that "The fully-allocated cost shall include a return on the utility's invested capital."
[221] Section 2.3.4.2 of the ARC provides that "The fully-allocated cost shall include a return on the utility's invested capital."
[222] ARC, Section 1.1, paragraph b) discusses the prevention of cross-subsidization between affiliates.
[223] ARC, Section 2.3.3.6

Summary of Recommendations by Service Function for Consideration by GSU Management	
Description of Services	**Recommendations for Consideration by GSU Management**
Maintenance and garage services, use of vehicles.	• In accordance with the requirements of the ARC, KPMG recommends GSHI consider the inclusion of indirect overhead costs (e.g., costs allocated to GSHI from GSHP for corporate and administrative support services for accounting, HR & safety, communications & marketing, President & CEO, finance, and purchasing & procurement; and garage overhead costs, such as GSHI's garage building depreciation) to the fully allocated costs.[224] This will have the benefit of additional revenue to GSHI. • Under the ARC, GSHI's fully allocated costs are also required to include a return on its invested capital for assets utilized in respect of these services.[225] Including a profit component will also have the added benefit of increasing GSHI's revenue.
Use of space at various GSHI facilities	• Given that they are beneficiaries of these services, KPMG recommends that GSU Management consider the inclusion of Agilis and @Home as recipients of the cost allocation for these services.[226] • In accordance with the requirements of the ARC, KPMG recommends that GSU Management consider performing a comparison of the quantum of the intercompany charge calculated using the market-based approach and the fully-allocated cost approach to determine the appropriate transfer price, which would be the greater of the fees determined using the two approaches.[227] This analysis would have the benefit of ensuring that GSHI is achieving the maximum possible revenues for these services.
Telecommunications services.	• Currently GSHI receives a discount from Agilis's prices that is greater than the arm's-length discounts provided by Agilis to its third-party customers. Meaning that the amounts charged to GSHI from Agilis may be lower than the market price. Under the ARC, Agilis may charge an amount to GSHI that is "no more than" the market price.[228] In this case, Agilis has the option to increase the amount charged to GSHI up to the market price inclusive of comparable arm's-length discounts provided to its third-party customers; However, this would result in increasing the costs incurred by GSHI.

Source: Exhibit prepared by KPMG.

[224] ARC, Section 1.2: "fully-allocated cost" means the sum of direct costs plus a proportional share of indirect costs; "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
[225] ARC, Section 2.3.4.2: "The fully-allocated cost shall include a return on the utility's invested capital."
[226] ARC, Section 1.1, paragraph b) discusses the prevention of cross-subsidization between affiliates.
[227] ARC, Section 2.3.3.6
[228] ARC, Section 2.3.3.1

Unless otherwise identified in the exhibit above, the current cost allocation methodology applied by the GSU Group for the provision of shared services is representative of an allocation of direct and indirect costs that is consistent with requirements in the section 1.2 of ARC and transfer pricing guidance set out in OECD Guidelines.

8.1.2 Transparency

8.1.2.1 Leading Practice Considered

The OECD Guidelines provides the following guidance in Chapter VII with respect to preparation of documentation of cost allocation calculations for intra-group services: [229]

– Calculations showing a listing of the direct and indirect costs pooled according to the category of service function and identifying the accounting cost centres used in creating the pool;
– Calculations showing the application of allocation drivers; and
– Calculations showing the markup applied (if relevant).

Similar to the OECD guidance provided above, Section 2.3.4.3 of the ARC also provides that an affiliate service provider must keep a detailed breakdown of the affiliate's current fully-allocated cost of providing the service.

8.1.2.2 Assessment of Current Cost Allocation Methodology

The current model identifies direct costs and (most) indirect costs and allocate them to the relevant affiliate. However, there is diminished transparency with respect to:

1. The composition of the allocable indirect costs (e.g., building operating costs, insurance, depreciation, general and administrative, and other overhead expense items) accumulated within each service cost centre/department (other than salaries/payroll costs), and

2. The actual figures pertaining to the calculations for the benefits burden rates, vehicle charge-out rates, and the calculations for allocation drivers applied within the cost allocation model provided by GSU Management.

For example, for each GSHP cost centre/department (i.e., Finance, Human Resources, Accounting, etc.) it may be helpful to have a schedule that summarizes the details of the general and administrative expenses accumulated in the cost centre, such as the IT, HR, and building reallocations, and any other miscellaneous expenses (e.g., landlines, office supplies, postage, bank charges, insurance, employee training, etc.) that are accumulated in the cost base prior to allocation.

In addition, it may be helpful to combine all source data sheets into a single file for the cost allocation model, such that the calculations for the cost base, burden rates, allocation drivers, and (if relevant) profit

[229] OECD Guidelines, Chapter VII. *Special Considerations for Intra-group Services*; Paragraphs 7.56 and 7.64.

components can be easily traced to the actual figures used in the calculations located in each source data worksheet within the single cost allocation model file.

While making this change will likely not have a significant impact on the ultimate allocations of costs to the affiliates, it will improve the transparency of the cost allocation.

8.1.3 Accuracy and Reliability

8.1.3.1 Leading Practice Considered

The cost allocation methodology should apply a systematic, accurate, and reliable approach in terms charging the direct costs to the relevant service recipients, and in terms of the drivers used to allocate costs.

Based on the OECD Guidelines, the choice of allocation driver (e.g., time spent, revenue, number of employees, etc.) depends on the nature and use made of the service and should be relatively stable, easy to administer, and be a good indicator of cost causality.[230] The methodology for allocating indirect costs should be sensitive to the commercial features of each case (i.e., the allocation drivers should make sense in each circumstance), contain safeguards against manipulation, follow sound accounting principles, and be capable of producing allocations of costs that are commensurate with the actual or reasonably expected benefits to the recipient of the services.[231]

In addition, the OECD Guidelines note that independent parties are not likely to agree to charges based on budgeted costs without agreeing on factors for setting the budget, the comparison of budgeted costs with actual costs, and addressing how unforeseen circumstances are to be treated.[232] If the level of services provided changes significantly within the current year or from a prior year, the allocation driver applied may not reasonably reflect the benefits provided. Large variances in actual versus budgeted figures can reduce the accuracy of the allocation drivers and the resulting quantum of the costs allocated between the affiliate recipients.

8.1.3.2 Assessment of Current Cost Allocation Methodology

The allocation approach applied by GSU Management to the cost base of each shared service function generally reflects the nature and use made of the service, and is reasonably representative of a fair and equitable split between affiliates.

Based on information provided by GSU Management, cost allocations for many of GSHI's shared services arrangements are driven primarily by budgeted time estimates and actual time recorded in GSU's work order system. Other cost allocation drivers are applied by GSU Management for certain departments/cost centres and accounts (e.g., square footage, number of tickets, call volumes, number of invoices, number of users, headcount, etc.).

As stated by GSU Management, budget/estimated allocation drivers are calculated at the beginning of each year based on a combination of history and expectations of future levels of activity. This also

[230] OECD Guidelines (2022), Chapter VII. *Special Considerations for Intra-group Services*; Paragraphs 7.59 through 7.64.
[231] OECD Guidelines (2022), Chapter VII. *Special Considerations for Intra-group Services*; Paragraphs 7.59 through 7.64.
[232] OECD Guidelines (2022), Chapter II. *Transfer Pricing Methods*; Paragraph 2.102.

includes time tracking, which is compared by GSU Management with actual time recorded by GSU's employees at the end of each year. It is KPMG's understanding from GSU that, at the end of each year, GSHP Finance personnel review whether the allocation drivers calculated using actual figures reflected during the fiscal year were consistent with the budgeted figures established at the beginning of the year. In the case of material variances, true-up or true-down adjustments may be booked by GSU Management.

KPMG recommends GSU Management continue to ensure that the calculations of allocation drivers used by GSU Management to determine cost allocations to affiliates are based on actual figures (i.e., not budgeted/estimated figures), and that the allocation driver calculations are updated and applied to actual costs on an annual basis (at a minimum) to ensure the charges to affiliate service recipients reflect any changes in the level of services provided to the affiliates.

To assess whether a true-up or true-down adjustment will be booked, KPMG recommends that GSU Management consider establishing a specific pre-determined materiality threshold for the review of budgeted versus actual figures used in its cost allocation model, as well as the frequency at which this review is performed. In the case of variances that exceed the materiality threshold, KPMG recommends GSU Management consider true-up or true-down adjustments. The materiality threshold should be objective and commonly understood and accepted in commercial practice.

8.1.4 Sustainability and Practicality

8.1.4.1 Leading Practice Considered

The cost allocation methodology should balance accuracy and practicality. Based on guidance provided in paragraphs 7.24 and 7.25 of the OECD Guidelines, while it must account for all costs and be technically sound, it should not be unusable, or take up excessive amounts of time to maintain, update or use. It must consider what data is available and the potential positives and flaws of each data option.

8.1.4.2 Assessment of Current Cost Allocation Methodology

The current cost allocation methodology applied by GSU Management is reasonably comprehensive. However, there are opportunities to improve the model's sustainability. In particular, the current model does not include an overview of the sources of data, key assumptions and overall cost allocation methodology – either within the model or in a separate document. Preparing such documentation will ensure that the cost allocation model is institutionalized such that if the current GSU employees involved in preparing the cost allocation left, the remaining employees would be able to implement the current methodology.

8.1.5 Auditability

8.1.5.1 Leading Practice Considered

The cost allocation methodology should be able to withstand the scrutiny of both internal and external auditors. The auditability of the GSU Group's cost allocation model will depend on whether the following criteria are met:

1. Does the cost allocation model include documentation that describes the entire cost allocation process, as well as documentation on all inputs into the model (e.g., call volumes, invoices by entity) – i.e., is it recorded?
2. Does the cost allocation model include all the service provider's operating costs – i.e., is it complete?
3. Does the cost allocation model include documentation that provides evidentiary support of review and sign-off on all the inputs to the model as well as on the calculation itself – i.e., is it verifiable?
4. Does the cost allocation model use cost allocation drivers that can be tracked and measured where possible?

8.1.5.2 Assessment of Current Cost Allocation Methodology

KPMG recommends GSU Management consider maintaining internal documentation on the cost allocation model (in addition to the actual cost allocation calculations) explaining how the cost allocation model works. To further improve the auditability of the model, KPMG recommends that GSU Management consider maintaining schedules that track and measure cost allocation drivers, where feasible.

8.2 Summary of Recommendations and Identified Opportunities

Based on the analysis above, the overall cost allocation approach applied by GSHI for its shared services arrangements with affiliates appears predominantly consistent with requirements in the ARC and transfer pricing guidance set out in OECD Guidelines[233], but there is always room for improvement.

The following exhibit provides identified areas for refinement for GSU Management's consideration, based on requirements in the ARC and the transfer pricing guidance set out in the OECD Guidelines.[234] GSU Management will be responsible for the assessment of observations, the decision to implement any recommendations, and consideration of impacts that may result from the implementation of recommendations.

[233] OECD (2022), *OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations 2022*, OECD Publishing, Paris, https://doi.org/10.1787/0e655865-en.
[234] OECD (2022), *OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations 2022*, OECD Publishing, Paris, https://doi.org/10.1787/0e655865-en.

Exhibit 17: Summary of Recommendations and Identified Opportunities for Consideration by GSU Management

<table>
<tr><th colspan="4">Summary of Recommendations and Identified Opportunities for Consideration by GSU Management</th></tr>
<tr><th rowspan="2"></th><th rowspan="2">Leading Practice</th><th colspan="2">Details</th></tr>
<tr><th>Description of Service(s)</th><th>Recommendation/Opportunity for Consideration</th></tr>
<tr><td rowspan="2">1</td><td rowspan="2">Completeness</td><td>Shared services (information technology, accounting, business execution, human resources & safety, communications & marketing, administrative services, innovation, president & CEO, board of directors, purchasing & procurement, finance, regulatory, and customer service & billing).</td><td>• In accordance with the requirements of the ARC, KPMG recommend GSHP consider including office lease expense to the fully allocated costs of the shared services to GSHI.[235]
• Under the ARC, GSHP has the option (though is not required) to add a profit component to the fully allocated costs of the shared services it provides to GSHI. [236] Currently GSHP does not add a profit component to the shared services costs, meaning that the charges to GSHI from GSHP may be lower than the charges that would be expected at fair market value from an arm's length service provider providing comparable services. Based on discussions with GSU Management, it is KPMG's understanding that GSHP's choice to not include a profit component on its shared services charge to GSHI is on the basis that this provides value to GSHI's customers.</td></tr>
<tr><td>Street light maintenance services.</td><td>• In accordance with the requirements of the ARC, KPMG recommends GSHI consider including its indirect overhead costs (e.g., costs allocated from GSHP for corporate and administrative support services for accounting, HR & safety, communications & marketing, President & CEO, finance, and purchasing & procurement; and GSHI's retained portion of building operation costs and building depreciation) to the fully allocated costs.[237] This will have the benefit of adding revenue to GSHI.
• Under the ARC, GSHI's fully allocated costs are also required to include a return on its invested capital for assets utilized in respect of the street light maintenance services.[238] The inclusion of a profit component to be in compliant with the ARC will also have the added benefit of increasing GSHI's revenue.</td></tr>
</table>

[235] Section 1.2 of the ARC provides that the "fully-allocated cost" means the sum of direct costs plus a proportional share of indirect costs; "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
[236] Section 2.3.4.1 of the ARC provides that "The fully- allocated cost may include a return on the affiliate's invested capital."
[237] Section 1.2 of the ARC provides that the "fully-allocated cost" means the sum of direct costs plus a proportional share of indirect costs; "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
[238] Section 2.3.4.2 of the ARC provides that "The fully-allocated cost shall include a return on the utility's invested capital."

Summary of Recommendations and Identified Opportunities for Consideration by GSU Management			
	Leading Practice	Details	
		Description of Service(s)	Recommendation/Opportunity for Consideration
		Building operation services.	• Under the ARC, GSHI's fully allocated costs are also required to include a return on its invested capital for assets utilized in respect of the building operation services.[239]
		Use of building space.	• Given that they are beneficiaries of these services, KPMG recommends GSHI consider the inclusion of GSHP as a recipient of the cost allocation for these services.[240] • In accordance with the requirements of the ARC, KPMG recommends that GSU Management consider performing a comparison of the quantum of the intercompany charge calculated using the market-based approach and the fully-allocated cost approach to determine the appropriate transfer price, which would be the greater of the fees determined using the two approaches.[241] This analysis would have the benefit of ensuring that GSHI is achieving the maximum possible revenues for these services.
		Maintenance and garage services, use of vehicles.	• In accordance with the requirements of the ARC, KPMG recommends GSHI consider the inclusion of indirect overhead costs (e.g., costs allocated to GSHI from GSHP for corporate and administrative support services for accounting, HR & safety, communications & marketing, President & CEO, finance, and purchasing & procurement; and garage overhead costs, such as GSHI's garage building depreciation) to the fully allocated costs.[242] This will have the benefit of additional revenue to GSHI. • Under the ARC, GSHI's fully allocated costs are also required to include a return on its invested capital for assets utilized in respect of these services.[243] Including a profit component will also have the added benefit of increasing GSHI's revenue.

[239] Section 2.3.4.2 of the ARC provides that "The fully-allocated cost shall include a return on the utility's invested capital."
[240] ARC, Section 1.1, paragraph b) discusses the prevention of cross-subsidization between affiliates.
[241] ARC, Section 2.3.3.6
[242] ARC, Section 1.2: "fully-allocated cost" means the sum of direct costs plus a proportional share of indirect costs; "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
[243] ARC, Section 2.3.4.2: "The fully-allocated cost shall include a return on the utility's invested capital."

Summary of Recommendations and Identified Opportunities for Consideration by GSU Management			
	Leading Practice	Details	
		Description of Service(s)	Recommendation/Opportunity for Consideration
		Use of space at various GSHI facilities.	• Given that they are beneficiaries of these services, KPMG recommends that GSU Management consider the inclusion of Agilis and @Home as recipients of the cost allocation for these services.[244] • In accordance with the requirements of the ARC, KPMG recommends that GSU Management consider performing a comparison of the quantum of the intercompany charge calculated using the market-based approach and the fully-allocated cost approach to determine the appropriate transfer price, which would be the greater of the fees determined using the two approaches.[245] This analysis would have the benefit of ensuring that GSHI is achieving the maximum possible revenues for these services.
		Telecommunications services.	• Currently GSHI receives a discount from Agilis's prices that is greater than the arm's-length discounts provided by Agilis to its third-party customers. Meaning that the amounts charged to GSHI from Agilis may be lower than the market price. Under the ARC, Agilis may charge an amount to GSHI that is "no more than" the market price.[246] In this case, Agilis has the option to increase the amount charged to GSHI up to the market price inclusive of comparable arm's-length discounts provided to its third-party customers; However, this would result in increasing the costs incurred by GSHI.

[244] ARC, Section 1.1, paragraph b) discusses the prevention of cross-subsidization between affiliates.
[245] ARC, Section 2.3.3.6
[246] ARC, Section 2.3.3.1

Summary of Recommendations and Identified Opportunities for Consideration by GSU Management			
	Leading Practice	Details	
		Description of Service(s)	Recommendation/Opportunity for Consideration
2	Transparency	Transparency may be improved in respect of the source data figures and calculations of the composition of the allocable indirect costs accumulated in each cost centre/department (other than salaries/payroll costs), as well as the actual figures that are used by GSHP Finance personnel to calculate the benefits burden rate, vehicle rates, and the allocation drivers applied in the cost allocation model. For example, for each GSHP cost centre/department (i.e., Finance, Human Resources, Accounting, etc.) it may be helpful to have a schedule that summarizes the details of the general and administrative expenses accumulated in the cost centre, such as the IT, HR, and building reallocations, and any other miscellaneous expenses (e.g., landlines, office supplies, postage, bank charges, insurance, employee training, etc.) that are accumulated in the cost base prior to allocation. In addition, it may be helpful to combine all source data sheets into a single file for the cost allocation model, such that the calculations for the cost base, burden rates, allocation drivers, and (if relevant) profit components can be easily traced to the actual figures used in the calculations located in each source data worksheet within the single cost allocation model file.	
3	Accuracy and Reliability	Accuracy and reliability may be improved by establishing a specific pre-determined materiality threshold for the review of budgeted versus actual figures used by GSU Management in its cost allocation model. In the case of variances that exceed the materiality threshold, KPMG recommends GSU Management consider true-up or true-down adjustments.	
4	Sustainability and Practicality	Sustainability may be improved by preparing documentation explaining how the cost allocation model works including data sources, key assumptions and overall methodology.	
5	Auditability	Auditability may be improved by preparing documentation explaining how the cost allocation model works, and by maintaining key supporting information and data such as calculations for allocation drivers and rates (e.g., benefits burden, overhead burden, charge-out rates, etc.).	

Source: Exhibit prepared by KPMG.

GSU Management will be responsible for the assessment of observations provided in this Report, the decision to implement any recommendations, and consideration of impacts that may result from the implementation of recommendations.

Greater Sudbury Hydro Inc.
Shared Services & Cost Allocations Review
Date of Issue: March 9, 2023

Notice to Reader

This Report has been prepared by KPMG LLP ("KPMG") for the internal use of Greater Sudbury Hydro Inc. ("GSHI" or the Client") pursuant to the terms of KPMG's engagement agreement with the Client dated May 18, 2022 (the "Engagement Agreement"). Except as required by applicable law or regulation, this Report may not be disclosed to any other person or entity without the express written consent of KPMG and the Client. KPMG neither warrants nor represents that the information contained in this Report is accurate, complete, sufficient or appropriate for use by any person or entity other than the GSHI or for any purpose other than set out in the Engagement Agreement. This Report may not be relied upon by any person or entity other than GSHI, and KPMG hereby expressly disclaims any and all responsibility or liability to any person or entity other than the Client in connection with their use of this Report.

KPMG's role in this review was to: review GSHI's shared services arrangement and cost allocation methodology; and offer our comments and recommendations for the GSHI's consideration. These comments, by their nature, largely relate to opportunities for change or enhancement.

KPMG's report is intended for the internal use of GSHI management as outlined in KPMG's Engagement Agreement and it is not intended for general circulation or publication. KPMG does not assume any responsibility or liability for losses occasioned to GSHI, its directors, or to any other parties as a result of the circulation, publication, reproduction, or use of this report contrary to the provisions of this paragraph.

The services provided in connection with this engagement comprise an advisory engagement, which is not subject to assurance or other standards issued by the Canadian Auditing and Assurance Standards Board and, consequently no opinions or conclusions intended to convey assurance have been expressed. KPMG relied on information and documentation that was provided to us by GSHI at the date of this report. KPMG has not audited or otherwise attempted to independently verify the information provided unless otherwise indicated. The procedures KPMG carried out do not constitute an audit, and as such, the content of this Report should not be considered as providing the same level of assurance as an audit. Should additional information be provided to KPMG after the issuance of this report, KPMG reserves the right (but will be under no obligation) to review this information and adjust its comments accordingly.

Through normal processes, GSHI will be responsible for the:

- Assessment of observations,
- The decision to implement any recommendations, and
- Consideration of impacts that may result from the implementation of recommendations.

Implementation will require the Client to plan and evaluate any changes to make sure that satisfactory results are realized.

KPMG accepts no responsibility for loss or damages to any party as a result of decisions based on the information presented. Parties using this information assume all responsibility for any decisions made based on the information.

KPMG is under no obligation in any circumstance to update this Report, in either oral or written form, for events occurring after the report has been issued in final form.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

PURCHASE OF NON-AFFILIATE SERVICES

GSHi has provided a copy of its Procurement Policy in Exhibit 4, Tab 4, Schedule 3, Attachment 1.

GSHi is in compliance with its Procurement Policy.

Attachment 1 (of 1):

Procurement Policy

Policy ID:	FIN-BRD-Procurement	**Approval Date:**	**4/25/2022**
Section:	**Finance**	**Supersedes:**	**4/29/2019**
Motion No.:	2022-GSUI-IC-02-06	**Review Date:**	**4/25/2025**

1.0 Application

This policy applies to all GSU companies.

2.0 Responsibility:

Governance Responsibility: The Audit/Finance/Risk committee is responsible for reviewing and overseeing the operation of this policy in pursuant to section 2.4 of the Terms of Reference established for it by the Board of Directors and Board Policy F-03 Operating Statements and Capital Reports.

Management Responsibility: CEO and CFO

3.0 Policy Statement

GSU has a financial objective to create value for our customers and shareholder and provide profit from each company. Achieving this object is made possible by ensuring accountability and prudence while at the same time enabling the organization to operate efficiently. Guidelines around the procurement of goods and services is a fundamental component of good corporate governance and is vital for the company's continued growth and success.

4.0 Direction Given:

It is the responsibility of GSU's Management through the CEO and the CFO to ensure:

- an efficient process is in place for the purchase of quality goods and services.
- favorable prices are obtained to maximize the value of all purchases for corporate stakeholders
- procurement of all goods and services are from reputable/ethical vendors
- fair, open, transparent, and accountable competitive processes are followed in the acquisition of goods and services
- compliance with all applicable laws and regulations
- the promotion of standardization, partnership arrangements, joint purchases and avoid restrictive specifications where practical

4.1 Code of Conduct

All employees of the Corporation will abide by the current Code of Conduct. In addition, the procurement process should abide by the principles as advocated by the Purchasing Management Association of Canada.

4.2 Health and Safety:

4.2.1 Materials:

Where health and safety is concerned:

1. All purchases must comply with all applicable health & safety standards, codes, regulations, and organizational specifications as per GSU's current Health and Safety Program.

2. All suppliers of "controlled products" as defined by the Workplace Hazardous Materials Information System (W.H.M.I.S.) must meet the requirements of the Occupational Health & Safety Act and are subject to the requirements of regulation for industrial establishment.

3. No "controlled product" will be purchased without the Joint Health & Safety Committee approval.

4. Information on "controlled products" must be communicated to the Risk Management Officer for publication on the GSU MSDonline.

5. Where there are Industry Standards, or other relevant standards for a product to be purchased, the Purchaser shall acquire only those products that meet the standards, or that are an approved substitute authorized by a P. Eng. There should be no substitution for products approved under Ontario Regulation 22/04.

4.2.2. Services:

1. All contracts for services will comply with the Occupational Health & Safety Act and the Corporation's Health and Safety Program approved by the Board of Directors.

2. Prequalification to minimize the amount of risk associated with hiring contractors may be a requirement. This process ensures each bidder can demonstrate the ability to provide the necessary experience, expertise, and resources to satisfactorily complete the work required as specified by the Corporation.

   It is the responsibility of the Hiring Supervisor (requisitioner) to assess the potential risk associated with the work as determined in section S of Health and Safety Program and complete any required documents.

5.0 Approval Limits:

The Board of directors will approve the Operations, Maintenance, Administration and Capital budgets each year. Total annual costs including purchased goods and services, are not to exceed the approved budget envelope.
Capital expenditures that are over the approved budget must be approved by the Board of Directors. Any single purchase of goods or service greater than $100,000 over the existing approved capital budget envelope must be approved by the Board.

On a quarterly basis and for information only, management is to provide the Board a listing of rendered awards and sole source purchases and contracts.

ONE-TIME COSTS

The only one-time cost GSHi has relates to the cost of the Application itself. In compliance with OEB policy and the filing requirements, certain costs associated with this Application are being amortized over a period of 5 years. One-fifth of the total cost of the forecast $732,551 (or $146,510) is included in the 2025 Test Year. These regulatory costs, which are explained in detail at Exhibit 4, Tab 4, Schedule 5, Regulatory Costs, include costs related to consultants, legal representation and intervenor cost awards.

There are no other expenses included in the 2025 Test Year budget that relate to one-time costs.

REGULATORY COSTS

Appendix 2-M Regulatory Costs has been included as Exhibit 4, Tab 4, Schedule 5, Attachment 1 detailing the anticipated one-time costs of this application. The Application is expected to cost $732,551, and includes legal, consultant, incremental labour and intervenor costs, as detailed in the attachment. GSHi is requesting to amortize these costs equally over the 5-year term and has included $146,510 in its test year budget, representing 1/5th of the anticipated cost.

In support of the application, GSHi has commissioned the help of various consultants with respect to Asset Condition Assessments, Distribution System Plan assistance, Customer Consultation, Cost Allocation, Load Forecast, etc. In addition, GSHi has included the cost of the KPMG Report on Shared Services and Cost Allocations Review that was agreed upon during settlement (EB-2019-0037). GSHi also has its application reviewed by an external regulatory lawyer and other consultants as appropriate.

Attachment 1 (of 1):

OEB Appendix 2-M Regulatory Cost Schedule

File Number:	EB-2024-0026
Exhibit:	4
Tab:	4
Schedule:	5
Page:	1
Date:	30-Oct-24

TO BE UPDATED AT THE DRAFT RATE ORDER STAGE

Appendix 2-M
Regulatory Cost Schedule

	Regulatory Costs (One-Time)	Last Rebasing (2020 OEB Approved)	Last Rebasing (2020 Actual)	Sum Of Historical Years (2021-2023)	2024 Bridge Year	2025 Test Year
		(A)	(B)	(C)	(D)	(E)
1	Expert Witness costs					
2	Legal costs	60,000	45,420		25,000	25,000
3	Consultants' costs	220,000	188,377	70,000	270,157	27,500
4	Intervenor costs	60,000	65,661			75,000
5	OEB Section 30 Costs (application-related)		17,247			20,000
6	Incremental operating expenses associated with staff resources allocated to the application	95,000	212,072		120,000	94,894
7	Travel Costs	15,000				
8	Miscellaneous		11,146		3,000	2,000
9						
10						
11						
12						
13						
14						
15						
16						
17						
18						
19						
20						
21						
22						
23						
24						
25						
26						
27						
28						
	Sub-total - One-time Costs	$ 450,000	$ 539,923	$ 70,000	$ 418,157	$ 244,394

Application-Related One-Time Costs	Total (F =C+D+E)
Total One-Time Costs Related to Application to be Amortized over IRM Period	$ 732,551
1/5 of Total One-Time Costs	$ 146,510

Notes:

[1] For incremental operating expenses with staff/other resources allocated to this application use one of the other categories to record the cost

LOW-INCOME ENERGY ASSISTANCE PROGRAMS (LEAP)

As set out in the March 2009, OEB issued Report of the Board: Low Income Energy Assistance Program (the LEAP Report), GSHi has allocated at least 0.12% of its OEB-approved distribution revenue requirement to provide consumers assistance in response to affordability issues. Based on GSHi's 2020 Board Approved Service Revenue Requirement of $26,705,311, $32,046 was designated as the minimum amount required for LEAP funding for 2020 Actuals to 2024 Bridge.

On February 12, 2024, the OEB issued a Letter regarding changes to the Low-Income Energy Assistance Program Emergency Financial Assistance (OEB Case No. EB-2023-0135, the "LEAP Letter"). Among other changes, the OEB announced:

- Increased maximum grant amounts;
- Increased eligibility criteria making more customers LEAP-eligible; and
- A requirement for LDCs to provide LEAP funding such that no eligible applicant will be denied funding.

In recent past years, GSHi's Social Agency has not typically exhausted its full funding amount each year, despite efforts to promote the program, leading to growing carry-over amounts into the subsequent year. GSHi has included an estimate of $40,000 for LEAP contributions in the 2025 Test Year and will update this amount based on the Service Revenue Requirement as determined at the draft rate order stage of this proceeding. The LEAP amount will be recovered from all rate classes based on the respective distribution revenue of each of those rate classes.

GSHi does not foresee the necessity for the new Deferral Accounts mentioned in the LEAP Letter beyond the scope of this application. Nevertheless, accurately estimating the required funding is challenging due to the amalgamation of changes introduced in the LEAP Letter. Therefore, GSHi respectfully requests that the Deferral Account established in the LEAP Letter remain accessible until the next rebasing application, enabling GSHi to gather more historical data under the new program requirements.

CHARITABLE AND POLITICAL DONATIONS

GSHi confirms that no political contributions have been included for recovery in the application.

In the years 2022 and 2023, GSHi provided a $500.00 donation to Cambrian College bursary in recognition of a student in the Powerline Electrician program. GSHi has not included this donation in the 2025 Test Year.

Exhibit 4: Operating Expenses

Tab 5 (of 5): Conservation and Demand Management Costs

CONSERVATION AND DEMAND MANAGEMENT COSTS

Conservation and Demand Management activity under the provincial 2021-2024 CDM Framework is centralized under the IESO and funded through the Global Adjustment (GA) mechanism. The 2021 CDM Guidelines indicate that any efforts by distributors to support these IESO programs should be limited in nature and non-duplicative of the IESO's activities, and that distributors should not request funding through distribution rates for dedicated CDM staff to support IESO programs.

GSHi confirms that no costs for dedicated CDM staff to support IESO programs funded under the 2021-2024 CDM Framework are included in this Application.

At this time, GSHi has no plans to seek partnership with IESO's LIP, nor any rate based CDM to address system needs.