





**PUC**

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## VISION

A customer focused company valued by the communities we serve.

## MISSION

Serve communities through the efficient, safe and reliable delivery of high quality utility services.

## CORE VALUES

Respect for the environment and for the safety of ourselves and others. Competency, integrity and efficiency in all our work. Respect for our community, customers and co-workers. A desire for continuous improvement.



## BOARD CHAIR AND CEO MESSAGE

Fall 2013 was a challenging time for Sault Ste. Marie and other parts of the province. Several flooding events hit the city, the worst occurring in early September. Faced with significant adverse circumstances in the early morning hours of September 10th, Line staff acted with integrity and professionalism. They made difficult decisions in the best interests of the residents while under significant pressure. Our employees, responding to power outages resulting from the flooding, went beyond the normal call of duty and assisted with evacuation of residents that were in potential danger due to the flooding.

Then the ice storm that hit the Toronto area just days before Christmas was a devastating event for more than 1,000,000 Toronto residents who were without power and heat for many days. Line Department staff responded to the call for help from Toronto Hydro and seven of our Powerline Technicians spent up to eight days in Toronto helping restore power. They sacrificed their time at home with family and friends at one of the most important holiday seasons of the year in order to help out those so terribly impacted by the power outage during some of the coldest days of the year. We commend them for their selfless dedication to others in need.

In regards to the ongoing water quality concerns following the conversion to free chlorine in late 2011, the past year was a difficult one, for both our customers and our employees. The frequency of discoloured water events in 2013 continued to increase, as a result of both normal operational activities and uncontrollable external events.

We recognize that such ongoing water quality impairment is unacceptable to our customers. We are committed to resolve the problem and continue to make every effort possible to implement the best solution. To this end a Steering Committee comprised of city councillors, members of the public, Algoma Public Health and Ministry of Environment officials was convened in September in order to provide public input and oversight related to development of the final outcome.

Construction of the new integrated facility was completed early in 2013. All staff that previously worked out of three separate facilities completed the move to the new location by April. The new facility provides the required space and corrects many longstanding deficiencies related to the obsolete old buildings. The new integrated building will facilitate improved productivity while supporting improved staff morale.

At the behest of our sole shareholder, the Corporation of the City of Sault Ste. Marie, our Shareholder Agreement was revised early in 2013 to include the requirement to hold public board meetings. There were several board meetings held in public following this change. While the requirement does impose an added level of administrative burden in order to effectively coordinate and administer the logistics associated with meetings that are open to the public, we trust the improved corporate transparency will benefit our customers.

We would like to thank the board members of PUC Services for their contributions during the past year and to thank all the employees in helping to make 2013 a safe and successful year.



**L.A. Guerriero**  
Chair, PUC Services Inc.



**Dominic Parrella**  
President & CEO, PUC Services Inc.



## OUR BUSINESS

### Nature of Business

PUC Services Inc. is a utility services company with 185 full-time employees as of December 31, 2013. The company provides management, operating, maintenance and administrative services in the areas of municipal electrical distribution, drinking water production and distribution and municipal wastewater treatment.

The company has long term contracts with PUC Distribution Inc. to operate its electric distribution system and with the Public Utilities Commission of the City of Sault Ste. Marie to operate the water treatment and distribution systems in Sault Ste. Marie. The company also operates and maintains the City's two sewage treatment plants.

PUC Services provides general management and customer care services to Espanola Regional Hydro Distribution Corporation in Espanola. In addition, the company provides services to several communities and organizations across the District of Algoma in Northern Ontario. Service contracts include Blind River, Echo Bay, Desbarats, Township of North Shore, Sault Ste. Marie Airport, the Algoma District School Board, the Huron Superior Catholic School Board and Richards Landing.

### Significant Activities in 2013

#### ELECTRIC OPERATIONS

PUC Services continues to focus substantial efforts to address electrical service reliability. 2013 was the second year of a three-year commitment made to customers of PUC Distribution to address known defective or failure prone equipment. In 2011, spurred by deteriorating reliability due to failure of single phase switches and ceramic insulators, we committed to replace approximately 1,200 suspected defective switches and 3,000 failure prone ceramic insulators. Progress in the first two years of the program has been good and we are on track to address this commitment by the target date of December 31, 2014. By the end of 2012, we replaced 443 switches and 1,001 insulators while in 2013 we replaced 531 switches and 1,300 insulators.

Electric operations continued to be significantly impacted through 2013 by the ongoing Bell Aliant fibre-to-the-premise (FTTP) project. The FTTP project continued to be a major undertaking and continued to consume a substantial amount of our Engineering and Line Operations resources through the year.

#### Flooding in Sault Ste. Marie

September 9, 2013 brought the heaviest rainfall in more than 100 years to Sault Ste. Marie and area. Significant flooding occurred in various parts of the city, especially on the Root River at Fourth Line East. Line Operations staff responded to

widespread power outages across the city resulting from the severe weather conditions. Flooding of the Root River was particularly problematic. Heavy runoff in the area caused a tree to come down on power lines at the river crossing and caused significant damage to the lines. With the area experiencing major flooding and the loss of power for an extended time period in the early morning hours of September 10th, people in the area were at significant risk.

Line Operations personnel on site took immediate action to help as many people as possible and assisted with evacuation efforts to get people out of the flood zone. We are deeply thankful to them for their efforts that went beyond the normal call of duty.

#### Ice Storm 2013

Just before Christmas, freezing rain in southern Ontario resulted in major ice storm damage to powerlines throughout the region. The impact on Toronto Hydro's infrastructure was particularly devastating and approximately 1,000,000 people in the city area were left without power, in some cases for as long as 8 days, in the extreme cold without heat.

An appeal was issued to electric utilities across the province to help with the restoration efforts. Our Line Operations staff took up the call and immediately travelled to Toronto to assist. They joined many others from across the province and elsewhere to come to the aid of so many that were terribly impacted by the storm. We know our people played a critical role in restoring power to many of those customers. Furthermore, we know they were highly regarded and highly sought after by Toronto Hydro for their professionalism and effectiveness in the work they performed.

We are very proud of the excellent work they did and grateful for the sacrifices they and their families made, considering the significance of this particular time of year. Most of them left late in the day December 23rd and did not return until New Year's Eve.

#### WATER OPERATIONS

Efforts continued in 2013 to resolve ongoing customer concerns over the change in water taste and odour following the switch to free chlorine disinfection residual late in 2011. Early in 2013, the focus of customer concerns shifted to discoloured water. Since the change to free chlorine, the occurrence of discoloured water events has increased significantly.

On November 20th, a broken hydrant on private lands resulted in such a sudden, large discharge of water that discoloured water was experienced over a wide area in the east end of the city. Three crews were dispatched to address the complaints and flushed the system late into the night. The timing of this incident was not in our favour. Plans had been made to restart the Lorna Well the following day and consumers had been warned of the possibility of water quality issues. However, we faced a lot of criticism and accusations following the unexpected early occurrence of brown water over such a large area.

Our Water Department and Customer Service staff are especially to be commended for their efforts in responding to customer concerns and providing excellent service in the face of significant, ongoing customer dissatisfaction.

## Renewable Energy

Late in 2012 the Province declared zero capacity for FIT projects in the Sault Ste. Marie area. In addition, transmission constraints on the transmission system preclude any further developments of large generation projects in the near term.

However, late in 2013 the Province announced the availability of an additional 10 MW of small FIT capacity in the Sault Ste. Marie area. As a result we partnered with the City and a locally established energy cooperative to submit applications for two key locations; the City's new Northern Community Centre and PUC Distribution's new corporate building, in December. We await the outcome in the new year.

## Environmental Stewardship

We strive to minimize environmental impacts from our business operations. Our 3-R's Committee looks for opportunities to reduce, reuse and recycle surplus materials. In 2013 we diverted 67.9 tonnes of ferrous metal and 16.4 tonnes of non-ferrous metals. In addition, 25 tonnes of paper and plastics were diverted from the waste stream for recycling. Waste materials considered hazardous were stored in accordance with applicable regulations and hauled away by contractors that are licensed to transport and dispose of such materials.

## Corporate and Community Safety

We work particularly hard to ensure that our employees have as safe a work environment as possible. We have extensive training programs to cover all potentially hazardous conditions and situations. Our goal is to have no lost time due to injuries.

Up until June 26, 2013, we had achieved 603 days without a lost time injury. On June 26th the WSIB accepted a long standing (i.e. chronic condition) repetitive strain injury as a lost time claim. We subsequently completed 2013 without any further lost time injuries.

PUC coordinates and schedules the Caution and Chance Electrical Safety Program each year for elementary students in Grades 3 to 5. In 2013, contracted staff delivered the program to 23 schools reaching a total of 1,514 students. The response from the schools and students once again has been fantastic!

PUC Services is a member of the Safe Communities Partnership of Sault Ste. Marie. The Partnership is committed to injury prevention throughout the community.

## Community Involvement

PUC Services and its employees are active and generous participants in the community where our customers live and work. Our corporate contributions in support of charity and not-for-profit groups are an opportunity for PUC Services to help those who help others in the community.

PUC employees contribute generously to our community by participating in fundraising/charity events annually, such as:

- United Way PUC Employee Campaign
- CIBC Run for the Cure
- Alzheimer Coffee Break
- Santa Claus Parade
- Cancer Society Grand Desserts Event
- Easter Seals Telethon
- Women in Crisis Sponsor a Family for Christmas
- Run the Great Lakes

## FINANCIAL HIGHLIGHTS AND ANALYSIS

The financial highlights and analysis should be read in conjunction with the summary financial statements contained herein which are taken from the company's audited financial statements. The purpose of its inclusion in the annual report is to provide supplemental analysis and background material to enhance understanding of the company's business. Certain information included herein constitutes "forward-looking information". Forward-looking information means disclosure regarding possible events, conditions or results that are based on assumptions about future economic conditions and courses of action.

Certain information included herein may contain forward-looking information attributable to third parties. Although the company believes that it has a reasonable basis for the forward-looking information, such information is subject to a number of risks and uncertainties that may cause actual events, conditions or results to differ materially from those contemplated by the forward-looking information. Some of the factors that could cause such differences include legislative or regulatory developments, financial market conditions, general economic conditions and weather. The company does not undertake any obligation to update publicly or to revise any of the forward-looking information included herein after the date hereof, whether as a result of new information, future events or otherwise.

### Corporate Structure

PUC Services Inc. was formerly wholly owned by PUC Inc., however as of January 1, 2011 ownership was transferred to PUC Inc.'s sole shareholder, the Corporation of the City of Sault Ste. Marie. The Company provides operations and management services to its affiliated companies, PUC Distribution Inc. and the Public Utilities Commission of the Corporation of the City of Sault Ste. Marie, in addition to non-affiliated entities.

### Net Income

Net loss for the year ended December 31, 2013 was \$829,120 compared to the net loss of \$184,272 for the year ended December 31, 2012. Revenue increased by \$3.9 million, \$3.3 million in management fee revenue as a result of the recovery of the increased expenses for the new facility and \$701,229 in miscellaneous revenue due to administration of the conservation and demand management program on behalf of PUC Distribution. The increases were offset by slight decreases in contract revenue and generation revenue. Expenses, before a one-time reduction for the impairment of property, plant and equipment, increased by \$3.8 million mainly as a result of the increased expenses for the new facility in 2013. The one-time reduction amounted to an increase of \$711,092.

### Current Assets

The cash balance and the receivable/payable from affiliates netted out to \$3,424,051 compared to the 2012 balance of \$1,527,887. The company completed two solar projects in 2011, both of which were financed by cash on hand. Financing for the two projects in the amount of approximately \$1.398 million was completed in 2013.

### Net Fixed Assets

Capital expenditures in 2013 were for the normal replacement of streetlights, vehicles, electronic equipment and tools.

### Long Term Liabilities

The loan payable to PUC Inc. remained at \$8,310,000. Non-affiliated debt from Infrastructure Ontario in the amount of \$800,000 and from the Green Municipal Fund in the amount of \$597,972 was added in 2013 to finance the two previously completed solar projects.

### Contract Revenue

Contract revenue, which consists of revenue from non-affiliated entities, fell slightly in 2013.

### Management Fee Revenue

Management fee revenue is derived from services provided to affiliated companies. The increase in 2013 is the result of the increased recovery associated with the new facilities. The new integrated administration and operations facilities are rented by PUC Services from PUC Distribution based on PUC Distribution's financing costs. PUC Services allocates the rental and operating costs to the companies it provides services to, including PUC Distribution and the Public Utilities Commission of the City of Sault Ste. Marie. The management fee revenue increase is offset by the increase in general and administrative expenses which includes the new facilities expenses.

### Generation Revenue

The generation revenue represents the energy production of the three solar projects operated by PUC Services. Weather conditions in 2013 were not as favourable as 2012.

### Operating Expenses

Operating expenses increased marginally over prior year.

## General and Administrative Expenses

As noted above, general and administrative expenses increased as a result of the new facilities. The main increases were in the areas of rent and property taxes.

## Interest Expense

Interest expense to an affiliated company (PUC Inc.) remained at \$532,638 in 2013. The completion of the financing of the solar projects completed in 2013 increased interest expense slightly.

## Impairment of Property, Plant and Equipment

The company completed a one-time right-down of certain properties from book value to net realizable value in 2013.

## Liquidity and Capital Resources

The company's source of liquidity and capital resources has traditionally been generated from operations. The principle use of these funds is working capital requirements, interest payments and capital asset purchases. Two loans were finalized in 2013 for projects completed in 2011. Total financing from Infrastructure Ontario and the Green Municipal Fund amounted to \$1,397,972.

## PUC Services Inc. Balance Sheet Summary

For the period ending December 31, 2013

	2013	2012
<b>Assets</b>		
Current Assets:		
Cash & Investments	\$ 6,837,931	\$ 10,973,098
Accounts Receivable and Prepaids	2,728,714	2,741,364
Receivable from Affiliate	8,054,961	2,563,357
Inventory	287,222	270,819
	17,908,828	16,548,638
Net Fixed Assets	8,647,583	9,943,904
Future Taxes	752,000	509,800
	<b>\$ 27,308,411</b>	<b>\$ 27,002,342</b>
<b>Liabilities and Equity</b>		
Current Liabilities:		
Accounts Payable	2,804,980	2,533,055
Payable to Affiliates	11,468,841	12,008,568
	14,273,821	14,541,623
Long Term Liabilities	11,358,635	14,541,623
Equity:		
Common Shares	893,300	893,300
Special Shares	1,050,000	1,050,000
Retained Earnings	(267,345)	561,775
	1,675,955	2,505,075
	<b>\$ 27,308,411</b>	<b>\$ 27,002,342</b>

# PUC Services Inc.

## Results of Operations Summary

For the Period Ending December 31, 2013

	<b>2013</b>	<b>2012</b>
<b>Revenue</b>		
Contract Revenue	\$ 5,266,387	\$ 5,392,152
Management Fee Revenue	10,520,186	7,180,218
Generation Revenue	191,698	224,839
Miscellaneous Revenue	1,138,196	436,967
	<hr/> 17,116,467	<hr/> 13,234,176
<b>Expenses</b>		
Operating Expenses	4,936,451	4,928,058
General and Administrative Expenses	9,655,439	5,942,423
Depreciation	1,924,783	1,768,829
Interest Expense	549,255	532,638
Impairment of Property, Plant and Equipment	1,001,092	290,000
Payment in Lieu of Taxes	(121,433)	(43,500)
	<hr/> 17,945,587	<hr/> 13,418,448
<b>Net Income/(Loss)</b>	<hr/> <b>\$ (829,120)</b> <hr/>	<hr/> <b>\$ (184,272)</b> <hr/>

## Risk Factors

The company faces a number of risks in operating regulated and unregulated businesses.

### Credit Risk

Credit risk is the risk that a party will fail to discharge its obligations and cause a financial loss to the company. The majority of company revenue is earned from a number of customers that are municipal governments, regulated electric distribution companies, and affiliated companies.

### Environmental Risk

The company operates in industries that are subject to federal and provincial environmental regulations that are subject to change. Failure to comply with these regulations could result in orders to take specific actions or could subject the company to fines, penalties or third party claims. The company monitors developments in the environmental regulations and as required, utilizes consultants with the appropriate expertise.

### Technology Risk

The use and complexity of the company's electronic infrastructure continues to increase and its reliability and security are critical to all areas of operation. An information technology (IT) department oversees networks, voice over internet protocol communications, enterprise software, smart meter operation, systems security and other emerging IT issues. In addition, outside resources with expertise in specific areas are utilized as necessary.

### Human Resource Risk

As part of the management service contracts, the company provides the workforce, unionized and non-unionized, necessary to operate various water, wastewater and electric distribution systems for the various municipalities and other entities. Labour disruptions can affect ongoing operations. Collective agreements with the union employees are in effect until April 30, 2018.

The company, like others in the utility services industry, faces a significant number of retirements within the next decade. The retirement of individuals in technical and trades positions will result in the loss of a large pool of expertise, therefore replacements are hired in advance of projected retirements to promote the transfer of knowledge.

## Other Risks

The company maintains a level of insurance coverage deemed appropriate by management and for matters for which insurance coverage is available.

## Accounting Policies

The audited financial statements of PUC Services Inc. have been prepared by management in accordance with Part V – Pre changeover accounting standards of the CICA Handbook. The company's management makes estimates and assumptions concerning reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the audited financial statements and amounts of revenues and expenses of the company for the period covered by the audited financial statements. The significant accounting policies of the companies are summarized in the notes to the audited financial statements.

## Employee Future Benefit Costs

The company provides employee future benefits to current and retired employees including certain health and life insurance benefits. Future benefits for employees are recorded on an accrual basis. The accrual is based on costs determined by an independent actuary using the projected benefit method prorated on service and based on assumptions that reflect management's best estimates. The assumptions were determined by management with reference to recommendations of the actuary. The last actuarial valuation was completed for the year ended December 31, 2012.

The company makes contributions on behalf of employees to the Ontario Municipal Employees Retirement System (OMERS), a multi-employer defined benefit pension plan. Pension fund premiums paid on behalf of employees are expensed when paid to OMERS. Employee future benefits are included in labour costs and charged to operations or capitalized as part of the cost of fixed assets.

## Future Tax Assets

As of October 1, 2001, the company became liable for payments in lieu of income and capital taxes in the same manner as if they were taxable under federal and provincial tax laws. As of the effective date of the regulations the assets of the company were deemed to be disposed of and reacquired at fair market value. The resulting tax bases of these assets were greater than their book value resulting in a future tax benefit associated with the additional deductions available for tax purposes. The future tax benefit is recognized on the balance sheet.

## Future Accounting Standards

The company, as a publicly accountable enterprise, was required to adopt International Financial Reporting Standards (IFRS) for annual reporting purposes for its fiscal year beginning January 1, 2011. However, the audited financial statements have been prepared in accordance with Part V – Pre changeover accounting standards of the CICA Handbook. An evaluation process is currently underway to determine the date of transition to IFRS. The impacts on the financial statements are not reasonably determinable or estimable at this time.

## Legal Issues

The company is subject to various litigation and claims with customers, suppliers, former employees and other parties as a normal course of operating a business. Currently, there are no significant legal matters pending.

## Outlook

During 2012, the company extended its management service agreements with its affiliated companies to November 30, 2017 which will allow it to continue to provide its customers the benefits efficiencies of scope, using the shared services approach. The company anticipates significant focus on the planning and completing of infrastructure replacement programs for its major customers, PUC Distribution Inc. and the Public Utilities Commission of the Corporation of the City of Sault Ste. Marie.

Major projects to be undertaken by the company on behalf of its customers include meeting customer needs in the area of renewable energy generation facilities as a result of the Green Energy Act; meeting provincially mandated targets for energy conservation and demand management; continuation of electrical infrastructure replacement aimed at improving reliability, a refocus on communications in order to better serve electric and water customers and, addressing the ongoing customer concerns related to taste and odour of the drinking water following conversion to free chlorine distribution residual in Sault Ste. Marie.

The planned completion of two additional solar generation projects are awaiting approval from the Ontario Power Authority before proceeding. The company will continue to monitor the solar generation sector and other “green energy” opportunities in order to obtain a reasonable return on investment and foster the “green energy” message of its sole shareholder, the Corporation of the City of Sault Ste. Marie.

## CORPORATE GOVERNANCE

The role of the PUC Services Inc. Board is to maximize shareholder value taking into account the legitimate interests of various stakeholders. Functions of the Board include the appointment of the President and Chief Executive Officer, the provision of leadership in the development of a corporate strategic plan, approval of the corporate capital and operating budgets, review of annual financial statements, establishment of corporate policies, ensuring that policies are being followed and monitoring the performance of senior management.

### Officers of the Corporation (as of December 31, 2013)

**Dominic Parrella, P. Eng.**  
President & CEO/  
Secretary

**Terry Greco, CPA, CA**  
Vice President,  
Finance/Treasurer

**Claudio Stefano, P. Eng., MBA**  
Vice President, Operations &  
Engineering

**Kevin Bell, P. Eng.**  
Vice President, Customer  
Services & Business  
Development

### Board Members: (as of December 31, 2013)



Pat Mick



Mark Howson



Larry Guerriero



Doug Lawson



Bruno Barban



Frank Fata



Marchy Bruni



James Greco



Cecilia Bruno



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