

GSU original wording June 4th Shareholder Declaration	City staff proposed wording changes June 25th	Comments from GSU Governance Committee July 23rd
<p>2.2.5 Business activities that enhance or develop the ability of the corporation to carry any of the activities described in paragraphs 2.2.1, 2.2.2, 2.2.3, and 2.2.4 above;</p>	<p>2.2.5 Business activities that enhance or develop the ability of the corporation to carry any of the activities described in paragraphs <u>Subsections</u> 2.2.1, 2.2.2, 2.2.3, and 2.2.4 above;</p>	<p><i>Proposing wording change – OK</i></p>
<p>3.2 In addition, the Shareholder expects the Board and the boards of directors of the Non-regulated Subsidiaries to observe substantially the same standards of corporate governance as may be established from time to time by any applicable regulatory or governmental authority in Canada for publicly traded corporations, in particular CSA National Policy 58-201 and National Instrument 52-110 with such modifications as may be necessary to reflect the fact that the Corporation and each Non-regulated Subsidiary is not a publicly traded corporation. The Board and boards of directors of the Non-regulated Subsidiaries are also expected to consider and adopt, as appropriate, recognized sources of governance best practices.</p>	<p>3.2 In addition, the Shareholder expects the Board and the boards of directors of the Non-regulated Subsidiaries to observe substantially the same standards of corporate governance as may be established from time to time by any applicable regulatory or governmental authority in Canada for publicly traded corporations, <u>in particular CSA National Policy 58-201 and National Instrument 52-110 with such modifications as may be necessary to reflect the fact that the Corporation and each Non-regulated Subsidiary is not a publicly traded corporation.</u> The Board and boards of directors of the Non-regulated Subsidiaries are also expected to consider and adopt, as appropriate, recognized sources of governance best practices.</p>	<p><i>Proposing to remove reference to CSA National Policy</i></p> <p>Rationale for including:</p> <p>(1) The City's own AG's report cited CSA National Policy 58-201 as an authoritative source of governance best practices, and recommended GSU follow these.</p> <p>(2) Right from the founding of GSU, the Shareholder (City) and the Board have strived to have GSU follow governance best practices. In Canada, governance best practices are outlined in these CSA national instruments.</p> <p>(3) Further, the OEB's governance best practices guidelines are based on CSA's national instruments as their ultimate source. While voluntary, the OEB ties the quality of governance to rate applications. They look to the governance practices that the organization chooses to follow. Unless GSU chooses to follow something like CSA 58-201 the OEB may assume there is a bias towards</p>

		<p>the Shareholder's interests instead of the ratepayers'.</p> <p>These are the standards for best practice in Canada.</p>
4.1.1. The Board of the Corporation shall be comprised of seven individuals which shall include three City Directors and four Independent Directors, all appointment by Council.	4.1.1 The Board of the Corporation shall be comprised of seven <ins>five</ins> individuals which shall include three City Directors and four <ins>two</ins> Independent Directors, all appointment by Council.	<p><i>Proposing change to Board Makeup – Independence</i></p> <p>Rationale for including:</p> <p>(1) The City's own AG recommended that GSU move to a majority of independent directors.</p> <p>(2) This is a guideline in the CSA National Policy 58-201 which is governance best practice nationally; for a majority of independent directors.</p> <p>(3) This is also called for in the OEB guideline on independence; for a majority of independent directors. Same observations and risks with the OEB rate review as outlined above: there is a perception of a bias towards Shareholder interests vs. ratepayer interests at the OEB.</p>
5.1.2 Dividends - a policy relating to enhancing Shareholder value by generating a reasonable return consistent with a prudent financial and capitalization structure and maintaining just and reasonable rates, while providing for dividends to be paid to the Shareholder from the Corporation;	5.1.2 Dividends - a policy relating to enhancing Shareholder value by generating a reasonable return consistent with a prudent financial and capitalization structure and maintaining just and reasonable rates, while providing for dividends to be paid to the Shareholder from the Corporation, substantially in the form	<p><i>Proposing to add Dividend Policy wording to the Shareholder Declaration</i></p> <p>Good governance practice calls for a clear delineation in authority between the Shareholder and Board; the Shareholder Declaration is prescribed and approved by the City, the Dividend Policy is a Board Policy</p>

	<p>attached hereto this Shareholder Declaration as Appendix "B";</p>	<p>and is approved by the Board. These two differing types and levels of documents should not be co-mingled.</p> <p>While arguably within legal rights, this is a red flag to the OEB for the Shareholder to prescribe dividends when the gist of the OEB Guidelines is to ensure the independence of this decision. In particular, the OEB highlights their concern with municipalities as shareholder limiting the rights and powers of boards, and dividends are explicitly cited.</p>
N/A	<p><u>Addition of 8.2</u></p> <p><u>The Board shall provide to the Shareholder any and all records of the Corporation or the Subsidiaries within ten (10) days of the Shareholder's written request for same.</u></p>	<p><i>Proposing to add request for records to be provided on 10 days written notice</i></p> <p>GSU is more than willing to provide legitimate records to the City with the exception of records protected by privacy or privilege protection. Since it would be, at times, impractical to make a commitment that GSU would produce any record within a 10 day time period, GSU would be comfortable with wording "within a reasonable period of time."</p>
"Council" means the <u>C</u> ity Council of the City of Greater Sudbury;	"Council" means the <u>C</u> ity Council of the City of Greater Sudbury;	<i>Proposing to capitalize "City"</i> – OK
"Non-regulated Subsidiaries" means any <u>subsidiary of the Corporation, except Greater Sudbury Hydro Inc.;</u>	"Non-regulated Subsidiaries" means any <u>subsidiary of the Corporation, except Greater Sudbury Hydro Inc.;</u>	<i>Proposing move due to alpha order</i> – OK
N/A – Separate Dividend Policy	<p><u>Appendix "B" to Shareholder Declaration</u></p> <p><u>GREATER SUDBURY UTILITIES INC.</u></p> <p><u>DIVIDEND POLICY</u></p>	<p><i>Proposing to add Dividend Policy wording to the Shareholder Declaration</i></p> <p>See 5.1.2 above</p>

Proposing changes to wording of Dividend Policy

There are a number of suggestions from the City's draft Dividend Policy that the Board of GSU finds helpful and is prepared to incorporate into an amended Dividend Policy to be adopted by the Board, these include:

- Including an explicit target dividend, GSU is comfortable with a range of between 25 and 50%
- Moving away from the concept of "normalized comprehensive income" to something much closer to reported net income: net cash flow from operations after net movements in regulatory balances, adjusted for investments
- From a legal perspective, there does need to be a proviso included that any final dividend declaration is at the Board's discretion, taking into account legitimate corporation needs including capital and electricity supply
- In terms of timing, GSU is looking at declaring a regular dividend annually at the April meeting, based on final consolidated audited financial statements
- In the event the Board determines that it cannot declare a dividend, it would report this to the Shareholder at the AGM and provide a full report on the rationale and projections (rather than a quarterly report)
- Generally, it is not GSU's intention to borrow funds to fund dividends
- GSU is comfortable with a four year review date of 2022 – reviewed by the Board, prior to any substantive modification of the Dividend Policy the Board will meet with the Shareholder to discuss
- GSU is comfortable including a provision that it may pay Special Dividends in the event it has substantial surplus funds without reasonable investment alternatives
- Triggering event - the dividend policy will recognize that the Shareholder expects that GSU will achieve a debt/equity ratio of 1.5X (60/40), dropping below this ratio would, under normal circumstances trigger a dividend to bring the DE back to 1.5X.