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Commission de l'énergie de l'Ontario
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BY E-MAIL

October 20, 2015

Margaret Maw
Lakeland Power Distribution Ltd.
200-395 Centre St. N
Huntsville ON P1H 2M2

Dear Ms. Maw:

**Re: Lakeland Power Distribution Ltd.
2014 Return on Equity Performance
OEB File Number EB-2015-0086**

On September 30, 2015, the Ontario Energy Board publicly released scorecard results for all of Ontario's electricity distributors. These scorecards measure how well Ontario's electricity distributors are performing each year, and are designed to encourage electricity distributors to operate effectively, continually seek ways to improve productivity and focus on improvements that their customers value.

The scorecard includes a measure of each utility's regulatory return on equity (ROE). In the course of a sector-wide review of all distributors' ROE performance conducted in the summer of 2015, OEB Audit and Performance Assessment staff concluded that Lakeland Power Distribution Ltd.'s regulatory ROE measured 12.50% in 2014 – 357 basis points above the target ROE that was the basis upon which its rates were established. Staff also estimated that this level of overearnings represents a cost to residential customers of roughly \$0.20 per month.

Under OEB policy, a regulatory review may be triggered if a distributor's earnings are outside of a dead band of +/- 300 basis points from the OEB-approved return on equity. Any such review will be prospective, and could result in modifications, termination or the continuation of the respective Price Cap IR or Annual IR Index plan for that distributor.

Given the level of returns earned by Lakeland Power Distribution Ltd. in 2014, it is appropriate that the OEB consider whether an amendment to Lakeland Power

Distribution Ltd. rate plan is warranted, in order to ensure that customers pay distribution rates that better reflect the value of the service provided to them.

Lakeland Power Distribution Ltd. applied on August 17, 2015 for an annual adjustment to its rates as part of its Price Cap Incentive rate-setting plan. The OEB will assess the appropriateness of granting Lakeland Power Distribution Ltd.'s request for an incremental adjustment to its base rates for the 2016 rate year given the earnings performance measured in 2014. Staff's evaluation will also take into consideration relevant OEB policies, including, in Lakeland's case, the OEB's policy on rate-making associated with distributor consolidation released earlier this year. Staff may also consider whether Lakeland Power Distribution Ltd.'s 2016 rates should be set on an interim basis, so that earnings for 2016 can be considered in Lakeland Power Distribution Ltd.'s next rebasing application. These evaluations will form part of the application process in the current proceeding, and include the opportunity for Lakeland Power Distribution Ltd. to present its position and bring forward relevant information to the OEB.

The OEB also notes that Lakeland Power Distribution Ltd. is scheduled to file a cost of service application in 2017 and expects that it will adhere to this schedule.

Yours truly,

Original signed by

Kirsten Walli
Board Secretary