



**Lakefront
Utilities
Inc.**

Lakefront Utilities Inc.

2017 Cost of Service Application

EB-2016-0089

Rates Effective: January 1, 2017

Date Filed: April 29, 2016

**Lakefront Utilities Inc.
207 Division St.
P.O. Box 577
Cobourg, ON
K9A 4L3**

April 29, 2016

Ms. Kirstin Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Re: Cost of Service Application EB-2016-0089

Dear Ms. Walli;

Lakefront Utilities Inc. is pleased to submit its application for 2017 rates.

An electronic copy has been submitted to the Board through the RESS system, and two hard copies will be delivered to the OEB office.

This document is being filed pursuant to the Board's e-Filing Services.

Should the board have questions regarding this matter please contact Adam Giddings at agiddings@lusi.on.ca or myself at dpaul@lusi.on.ca.

Respectfully Submitted,

Dereck C. Paul
President
Lakefront Utilities Inc

cc: Adam Giddings, Manager of Regulatory Compliance and Finance

EXHIBIT 1 – ADMINISTRATION DOCUMENTS

EB-2016-0089

Table of Contents

1	Administration	7
2	Ex. 1/Tab 1/Sch.1 - Legal Application.....	7
3	Ex. 1/Tab 1/Sch.2 – Contact Information	8
4	Ex. 1/Tab 1/Sch.3 – List of Specific Approvals Requested.....	9
5	Tab 1/Sch.4 – Confirmation of Internet Address	11
6	Ex. 1/Tab 1/Sch.5 – Statement of Publication	12
7	Ex. 1/Tab 1/Sch.6 – Statement of Deviation of Filing Requirements	13
8	Ex. 1/Tab 1/Sch.7 – Changes in Methodologies	14
9	Ex. 1/Tab 1/Sch.8 – Board Directive from Previous Decisions	15
10	Ex. 1/Tab 1/Sch.9 – Conditions of Service	16
11	Ex. 1/Tab 1/Sch.10 – Accounting Standards for Regulatory and Financial Reporting	17
12	Ex. 1/Tab 1/Sch.11 – Accounting Treatment of Non-Utility Related Business	18
13	Applicant Overview.....	19
14	Ex. 1/Tab 2/Sch.1 – Applicant Overview.....	19
15	Ex. 1/Tab 2/Sch.2 – Corporate and Utility Organization Structure	22
16	Ex. 1/Tab 2/Sch.3 – Host/Embedded Distributor.....	24
17	Ex. 1/Tab 2/Sch.4– Transmission or High Voltage Assets	25
18	Management Discussion and Analysis.....	26
19	Ex.1/Tab 3/Sch.1 – Management Discussion and Analysis	26
20	Executive Summary	31
21	Ex.1/Tab 4/Sch.1 – Proposed Revenue Requirement	32
22	Ex.1/Tab 4/Sch.2 - Budget and Accounting Assumptions	33
23	Ex.1/Tab4/Sch.3 - Load Forecast Summary.....	35
24	Ex. 1/Tab 4/Sch.4 - Rate Base and Capital Planning	37
25	Ex.1/Tab 4/Sch.5 - Overview of Operation Maintenance and Administrative Costs	40
26	Ex.1/Tab 4/Sch.6 - Statement of Cost of Capital Parameters.....	43
27	Ex.1/Tab 4/Sch.7 - Overview of Cost Allocation and Rate Design	44
28	Ex.1/Tab 4/Sch.8 - Overview of Deferral and Variance Account Disposition.....	46
29	Ex.1/Tab 4/Sch.9 - Overview of Bill Impacts.....	47

1	Customer Engagement.....	48
2	Ex.1/Tab 5/Sch.1 - Overview of Customer Engagement.....	48
3	Ex.1/Tab 5/Sch.2 – Customer Satisfaction Survey.....	50
4	Ex.1/Tab 5/Sch.3 – Front Desk Support	52
5	Ex.1/Tab 5/Sch.4 – Publications	53
6	Ex.1/Tab 5/Sch.5 – Conservation and Demand Management.....	54
7	Ex.1/Tab 5/Sch.6 – Community Involvement.....	55
8	Ex.1/Tab 5/Sch.7 – emPOWER Hour.....	58
9	Ex.1/Tab 5/Sch.7 – Social Services	59
10	Ex.1/Tab 5/Sch.8 – Other Engagement Activities	60
11	Ex.1/Tab 5/Sch.9 – Incorporating Customer Engagement in LUI's Application	63
12	Financial Information	67
13	Ex.1/Tab 6/Sch.1 – Historical Financial Statements.....	67
14	Ex.1/Tab 6/Sch.2 – Reconciliation between Financial Statements and Results Filed.....	120
15	Ex.1/Tab 6/Sch.3 – Annual Report.....	127
16	Ex.1/Tab 6/Sch.4 – Prospectus and Recent Debt/Share Issuance Update.....	128
17	Ex.1/Tab 6/Sch.5 – Other Relevant Information	129
18	Materiality Threshold	130
19	Ex.1/Tab 7/Sch.1 – Materiality Threshold	130
20	Corporate Governance.....	131
21	Ex.1/Tab 8/Sch.1 – Corporate Governance Structure	131
22	Ex.1/Tab 8/Sch.2 – Board of Directors	132
23	Ex.1/Tab 8/Sch.3 – Board Mandate	134
24	Ex.1/Tab 8/Sch.4 – Board Meetings.....	135
25	Ex.1/Tab 8/Sch.5 – Orientation and Continuing Education	137
26	Ex.1/Tab 8/Sch.6 – Ethical Business Conduct/Conflict of Interest	139
27	Ex.1/Tab 8/Sch.7 – Nomination of Directors.....	140
28	Ex.1/Tab 8/Sch.8 – Board Committees.....	141
29	Letters of Comment	142
30	Ex.1/Tab 9/Sch.1 – Letter of Comment.....	142
31	Scorecard Performance Evaluation.....	143

1	Ex.1/Tab 10/Sch.1 – Scorecard Performance Evaluation	143
2	Attachments	149
3	Attachment A - Innovative Research Report	150
4	Attachment B - 2014 Scorecard	246

1 **Administration**

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3 **Ex. 1/Tab 1/Sch.1 - Legal Application**

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5 In the matter of; the Ontario Energy Board Act, 1998; S.O. 1998, c. 15, Sched B, as amended; and in the
6 matter of, an Application by Lakefront Utilities Inc. ("LUI") for an Order or Orders approving or fixing just and
7 reasonable distribution rates effective January 1, 2017.

8
9 LUI hereby applies to the Board pursuant to section 78 of the Act for an Order or Orders approving or fixing
10 just and reasonable distribution rates effective January 1, 2017.

11
12 LUI accordingly applies to the Board for the following Order or Orders:

- 13
14 1. an Order approving LUI's approved distribution rates for the 2017 rate year, or such other rates as
15 the Board may find to be just and reasonable, as the final rates effective January 1, 2017;
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17 2. an Order approving clearance of the balances recorded in certain deferral and variance accounts
18 by means of rate riders effective January 1, 2017 for the 2017 rate year;
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Ex. 1/Tab 1/Sch.2 – Contact Information

Application contact information is as follows:

The Applicant:

Lakefront Utilities Inc.
207 Division Street
P.O. Box 577
Cobourg, Ontario
K9A 4L3

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President
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Web: www.lakefrontutilities.on.ca

Applicant's Counsel:

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Suite 4100
40 King Street West
Toronto, Ontario
M5H 3Y4

Ex. 1/Tab 1/Sch.3 – List of Specific Approvals Requested

In this proceeding, LUI is requesting the following approvals:

1. Approval to charge distribution rates effective January 1, 2017 to recover a base revenue requirement of \$4,414,540. The schedule of proposed rates is set out in Exhibit 8;
2. Approval of the Distribution System Plan as outline in Exhibit 2;
3. Approval of revised Low Voltage Rates as proposed and described in Exhibit 8;
4. Approval to adjust the Retail Transmission Rates – Network and Connection as detailed in Exhibit 8;
5. Approval to continue to charge Wholesale Market and Rural Rate Protection charges approved in The Board Decision and Order in the matter of LUI's 2016 distribution rates (EB-2015-0085);
6. Approval of the proposed Loss Factor as detailed in Exhibit 8;
7. Approval of the Rate Riders of a one year disposition of the group 1 Deferral and Variance accounts and LRAM, as detailed in Exhibit 9;
8. The Applicant requests that the OEB makes its rate order effective January 1, 2017 in accordance with the Filing Requirements;
9. In the event that the OEB is unable to provide a Decision and Order in this application for implementation by the application as of January 1, 2017, the Applicant requests that the OEB declare its current rates interim, effective January 1, 2017, pending the implementation of the OEB Rate Order for the 2017 rate year.

Rate Year Alignment

Lakefront Utilities Inc. submitted a letter to the Ontario Energy Board on February 19, 2015 seeking approval to align its rate year with its fiscal year, and also therefore requested a deferral from LUI's rebasing date of May 1, 2016 to January 1, 2017. The rationale for the proposed alignment of rate year to fiscal year was to match distribution rates with the expenses upon which the rates were granted.

The OEB approved Lakefront's rebasing deferral on May 8, 2015.

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Form of Hearing

The majority of the bill impacts resulting from this Application are flat or decreasing, as shown in Ex.1/Tab 4/Sch.9. Accordingly, Lakefront Utilities Inc. requests that this Application be disposed of by way of a written hearing in order to expedite the proceeding.

Certification

I, Dereck Paul, President of Lakefront Utilities Inc. certify that the evidence filed is accurate, consistent, and complete to the best of my knowledge.

Dereck C. Paul

President

Tab 1/Sch.4 – Confirmation of Internet Address

LUI's website address is <http://www.lakefrontutilities.on.ca/>

Lakefront also communicates with customers through the following:

- Telephone;
- Bill inserts;
- Media: Newspaper and Radio;
- Social Media: Facebook, Twitter, LinkedIn;
- Customer walk-in.

Ex. 1/Tab 1/Sch.5 – Statement of Publication

Lakefront Utilities' customers, located within its Cobourg and Colborne service areas, will be affected by this application. Lakefront Utilities will publish the Notice of Application in the following:

- Northumberland Today, the English language newspaper which circulates between 3,000 – 22,000 residents in Northumberland County;
- Northumberland News which is a freely distributed newspaper and is circulated to approximately 22,800 residents within the county.

This application and all documents related to this application will be made available on Lakefront Utilities' website at: www.lakefrontutilities.on.ca. The application will also be available on the OEB's website at www.ontarioenergyboard.ca, under Board File Number EB-2016-0089.

Ex. 1/Tab 1/Sch.6 – Statement of Deviation of Filing Requirements

Except where specifically identified in the Application, LUI followed Chapter 2 of the OEB's "Filing Requirements for Electricity Transmission and Distribution Applications", dated July 25, 2013 (the "Filing Requirements") in order to prepare this application.

The excel version of the complete 2017 Cost of Service checklist is being filed in conjunction with this application.

Ex. 1/Tab 1/Sch.7 – Changes in Methodologies

The pro-form projections for the 2017 test year were prepared in accordance with LUI's usual process with the following exceptions:

- Rates for distribution and sales of electricity are assumed to be constant for the entire 2017 test year; and
- Regulatory costs have been normalized over the five year application period.

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Ex. 1/Tab 1/Sch.8 – Board Directive from Previous Decisions

The Board did not issue specific directives in previous decisions.

All previous directives from the Board in LUI's previous Cost of Service Application were met.

Ex. 1/Tab 1/Sch.9 – Conditions of Service

Lakefront Utilities' Conditions of Service document dated August 2014 was filed with the Board on December 17, 2014. The purpose of the Conditions of Service document is to provide a means for communicating the types and level of service available to the customers and consumers within Lakefront Utilities' service area. The DSC requires that the Conditions of Service be readily available for review by the general public and it is posted on Lakefront Utilities' website:

<http://www.lakefrontutilities.on.ca/residential/conditions-of-service/>

Lakefront Utilities has undertaken amendments and updates to its Conditions of Service in accordance with the procedures set out in Section 1.2 – Related Codes and Governing Laws to reflect the industry changes from the Green Energy and Green Economy Act and associated amendments to the DSC, the Standard Service Supply ("SSS") and the Transmission System Code ("TSC"), Electrical Safety Authority ("ESA") safety bulletins, and all decisions as issued by the Board that need to be part of the Conditions of Service. The Conditions of Service identify Lakefront Utilities' current operating practices and replaces the previous document filed with the Board in July 2010. All customers have been notified of the changes in accordance with the requirements of the DSC.

Rates and charges which are the subject of this rate Application are not contained in the Conditions of Service.

Ex. 1/Tab 1/Sch.10 – Accounting Standards for Regulatory and Financial Reporting

LUI has followed the accounting principles and main categories of accounts as stated in the OEB's Accounting Procedures Handbook (the "APH") and the Uniform System of Accounts ("USoA") in the preparation of this Application.

LUI has filed trial balances, financial statements and historical results for the historical 2011 to 2015 years in accordance with Modified International Financial Reporting Standards ("MIFRS").

The useful lives proposed by LUI in this Application are consistent with the useful lives in the Kinectrics Report commissioned by the OEB dated July 8, 2010.

LUI attests that it does not, and will continue to not capitalize administration and other general overhead costs no longer permitted under IFRS as clarified by the Board in its letter dated February 24, 2010. In making these changes, LUI believes it will ensure that the company is comparable to other distribution utilities in the Province. LUI understands the need for comparability between distribution utilities.

LUI has also adopted various account changes prescribed by the Board in relation to the USoA (Article 210 – Chart of Accounts and Account 220 – Account Descriptions).

Consistent with recent applications to the Board, LUI no longer includes HST in its OM&A cost estimates.

Regulatory costs and the incremental one-time cost have been normalized by allocating one fifth of that total to the 2017 Test Year.

LUI is not proposing other changes in methodology.

Ex. 1/Tab 1/Sch.11 – Accounting Treatment of Non-Utility Related Business

LUI confirms that the accounting treatment for non-utility related businesses is segregated from its rate-regulated activities. LUI does not currently own generation facilities, however LUI did submit to the OEB on April 5th 2016, a notice of proposal under Section 80 of the Ontario Energy Board Act, 1998, a request to construct a 10 kW MicroFit solar generating facility on its service garage. The Board assigned file number EB-2016-0136 to this matter.

Applicant Overview

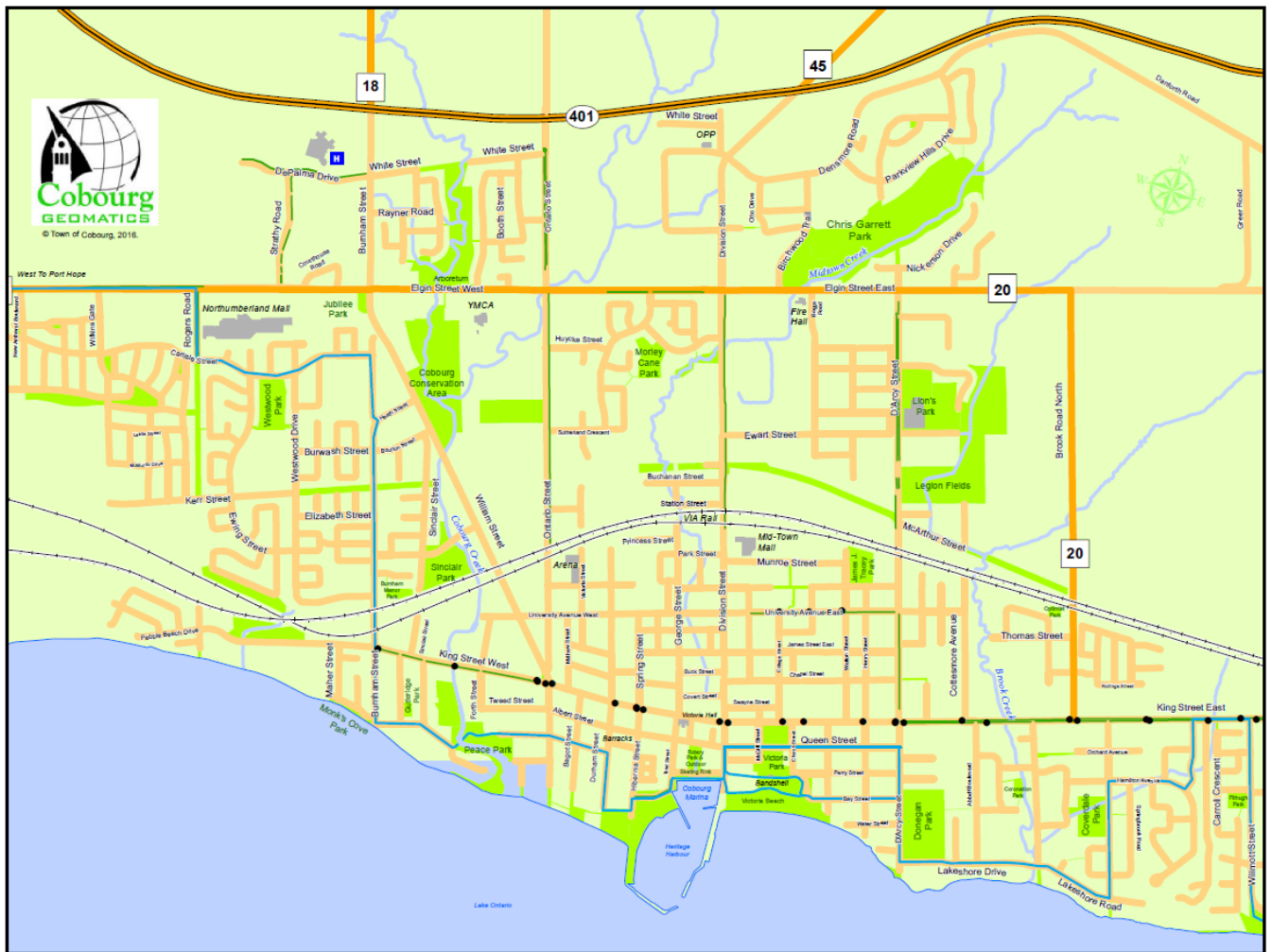
Ex. 1/Tab 2/Sch.1 – Applicant Overview

Lakefront Utilities Inc. (LUI) is a fully owned subsidiary of Town of Cobourg Holdings Inc. Presently LUI has approximately 9,000 electric distribution customers in Cobourg and approximately 1,000 electric distribution customers in the Village of Colborne. LUI's service territory covers 22.37 km² in Cobourg and 5.265 km² in Colborne. LUI is a summer peaking electric utility with an annual average peak in July/August of 50 MVA (45 MW).

LUI's distribution system includes seven distribution station transformers (two at 28kV and five at 4kV) with five in Cobourg and two in Colborne, 1,297 distribution transformers, 3,718 poles and 192 km of primary overhead and underground distribution cables.

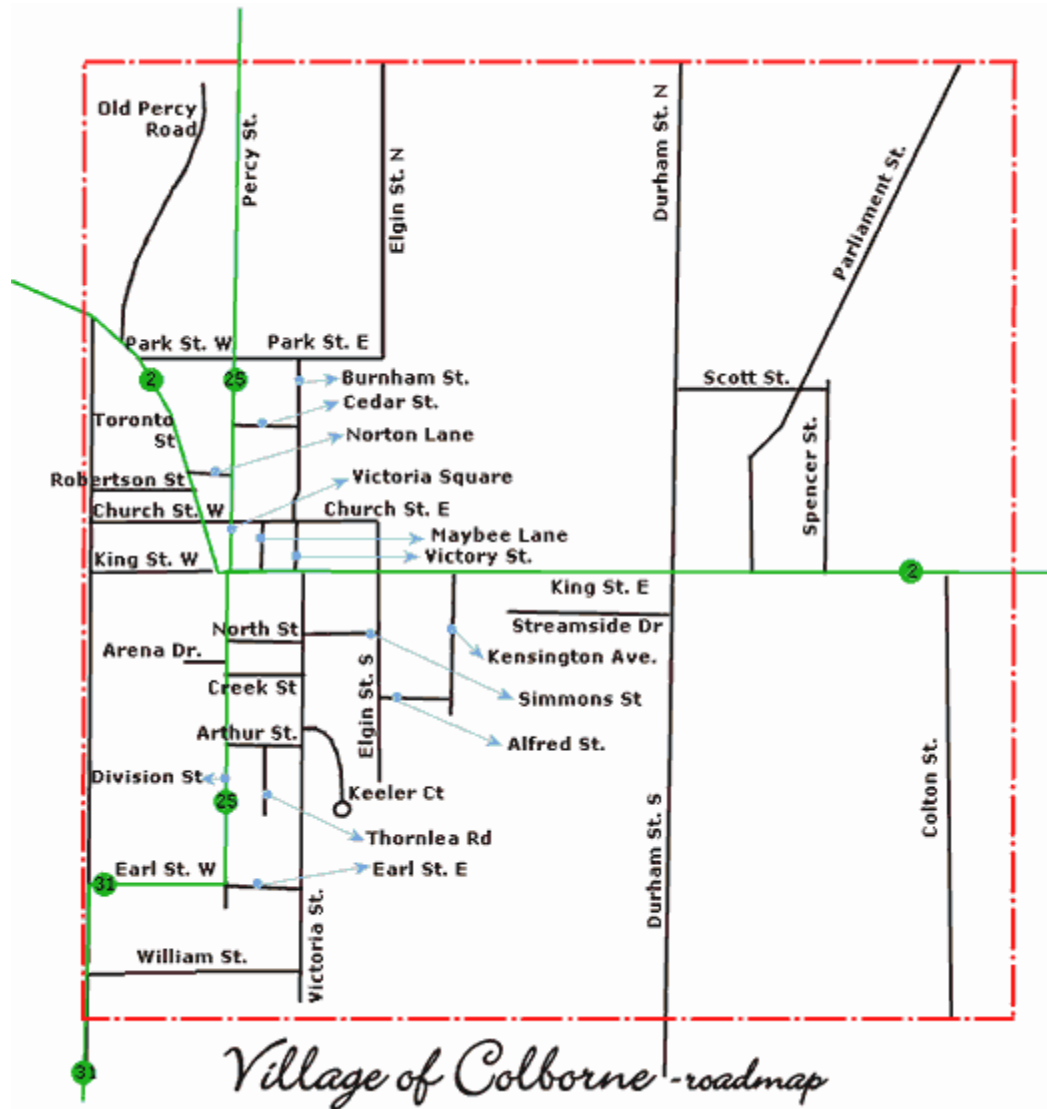
COMMUNITY SERVED:	Town of Cobourg Village of Colborne
TOTAL SERVICE AREA:	28 sq. km
DISTRIBUTION TYPE:	Electricity distribution
SERVICE AREA POPULATION:	24,300 (2011 stats)

1 **Figure 1.1: Service Area Map (Cobourg)**



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1 Figure 1.2: Service Area Map (Colborne)



Ex. 1/Tab 2/Sch.2 – Corporate and Utility Organization Structure

Lakefront Utilities Inc. is 99.99% owned by the Town of Cobourg and 0.01% owned by the Township of Cramahe.

The following are corporations or other entities related to or affiliated with Lakefront Utilities:

- Town of Cobourg Holdings Inc. (“Holdco”) is the parent company of Lakefront Utilities Inc.
- Lakefront Utility Services Inc. (“LUSI”) is a subsidiary company of Holdco. LUSI is a services company providing services to LUI. LUSI also provides water operations authority and management services to the Town of Cobourg, Village of Grafton, Village of Colborne, and Municipality of Brighton. LUSI is not an energy service provider and therefore has separate financial records and books of accounts with an independent Board of Directors.

Historically, LUI had three other subsidiary companies; Lakefront Generation Inc. (“LGI”), Lakefront Lighting Inc. (“LLI”) and Cobourg Networks Inc. (“CNI”). In search of further efficiencies by LUI’s parent company, effective January 1, 2013, Lakefront Generation Inc. was amalgamated into LUSI and effective January 1, 2015, Lakefront Lighting Inc. was amalgamated into Cobourg Networks Inc. Following these amalgamations, CNI was amalgamated into LUSI effective January 1, 2016.

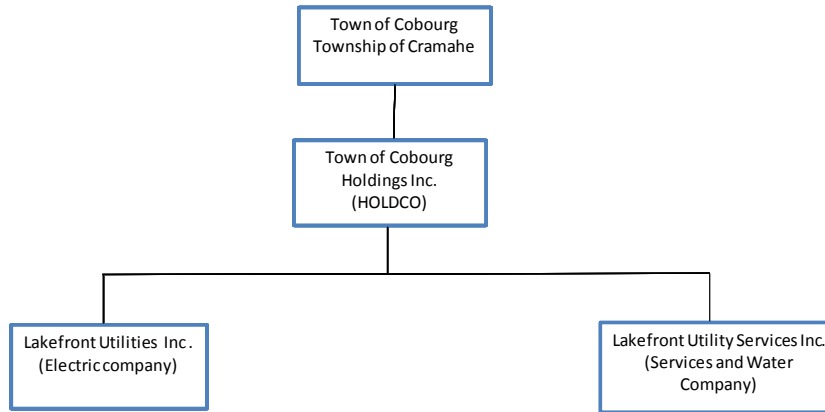
The Board of Directors of Lakefront Utilities is comprised of three members. One director is independent of any affiliate, including the Town of Cobourg. On the following page, Lakefront Utilities has provided a chart setting out its high-level organizational structure.

LUI shares certain corporate services with its affiliates. Shared services include finance and accounting, health and safety support, human resources and payroll, supply chain management, and information systems support. These services are shared in accordance with Service Agreements between affiliates. The Service Agreement outlines the shared services and the costing mechanism used for the shared services provided to all affiliates.

The shared services and revenues received have been identified and reported in Exhibit 4 – OM&A Costs (“Exhibit 4”). LUI pays a fee to its affiliate company, Lakefront Utility Services Inc., for its proportionate share of administrative services.

The following figure illustrates the corporate organizational structure of Lakefront Utilities and its affiliate and other non-affiliated members of its corporate family (the non-affiliated members including the Village of Colborne).

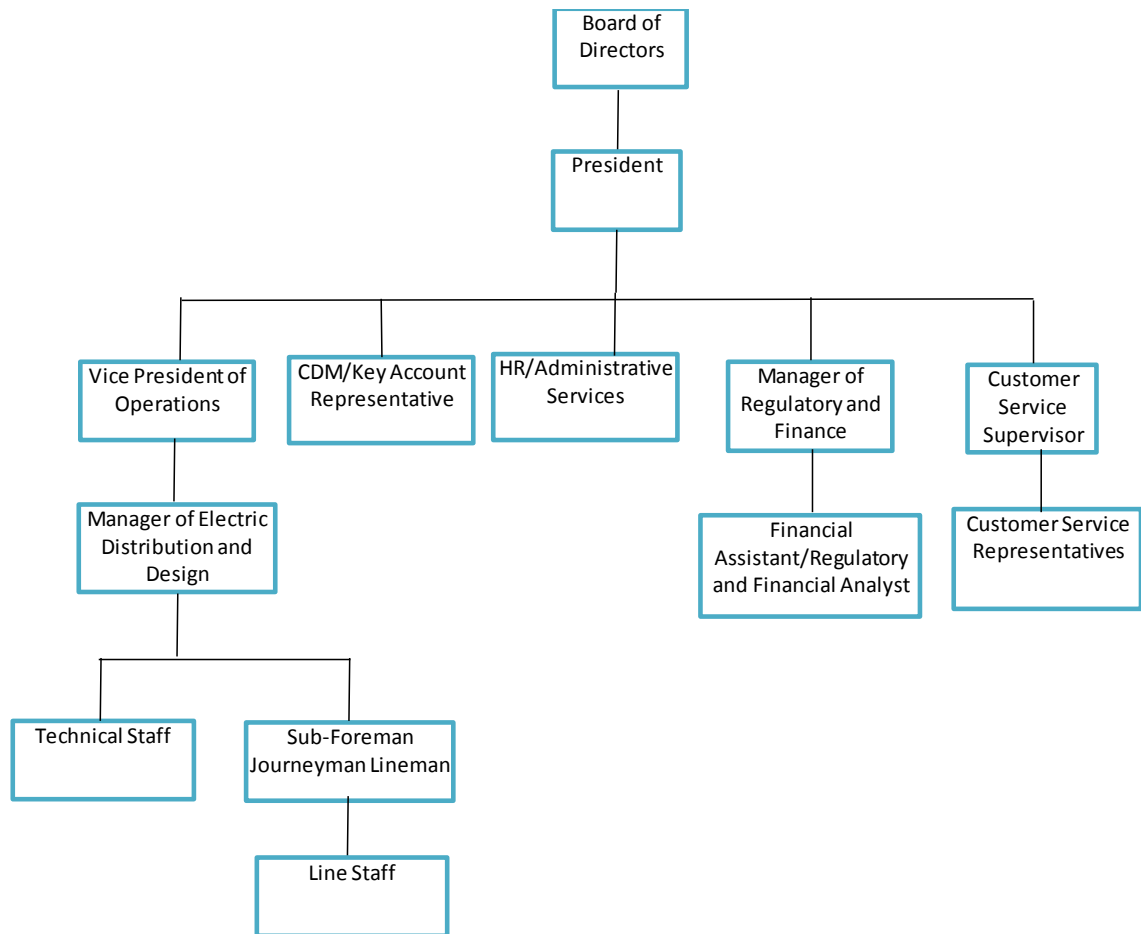
The following is the corporate entities relationship chart:



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3 The following is the organization structure of LUI:



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Ex. 1/Tab 2/Sch.3 – Host/Embedded Distributor

LUI is an embedded distributor who receives electricity at distribution level voltages from Hydro One Networks Inc. LUI does not have any embedded distributors within its territory.

Ex. 1/Tab 2/Sch.4– Transmission or High Voltage Assets

LUI does not have any transmission or high voltage assets deemed by the Board as distribution assets and as such are not seeking approvals from the Board in that regard.

Management Discussion and Analysis

Ex.1/Tab 3/Sch.1 – Management Discussion and Analysis

On October 18, 2012, the Ontario Energy Board (“The Board”) issued its “Report of the Board: A Renewed Regulatory Framework for Electricity Distributors: A Performance Based Approach” (“RRFE”), and subsequently commenced implementation of the RRFE. This report, “set out a comprehensive performance-based approach for the RRFE which promotes the achievement of outcomes that will benefit existing and future customers, will align customer and distributor interests, will continue to support the achievement of important public policy objectives, and will place a greater focus on delivering value for money. Under this approach, a distributor is expected to demonstrate continuous improvement in its understanding of the needs and expectations of its customers and its delivery of services.”

Lakefront Utilities Inc. (LUI) strives to create long term value for its shareholders, which benefits its customers. LUI is both a community asset and an investment for its shareholders, the Corporation of the Town of Cobourg and the Township of Cramahe. As a community asset, LUI’s goal is to provide a safe, effective, efficient and reliable service to its customers at the most reasonable rates possible. LUI continues to build on its strengths and lay the foundation for future success. Over recent years, this effort has helped to shape a revitalized utility that is facing the challenges of an evolving electricity industry head-on.

The Board has concluded that the following outcomes are appropriate for distributors:

Customer Focus: services are provided in a manner that respond to identified customer preferences;

Operational Effectiveness: continuous improvement in productivity and cost performance is achieved; and utilities deliver on system reliability and quality objectives;

Public Policy Responsiveness: utilities deliver on obligations mandated by government (e.g., in legislation and in regulatory requirements imposed further to Ministerial directives to the Board); and

Financial Performance: financial viability is maintained, and savings from operational effectiveness are sustainable.

In connection with the RRFE outcomes, the Board issued a Scorecard to LUI. The five year analysis of LUI’s Scorecard is found at Ex.1/Tab 10/Sch.1.

LUI’s success is built on the following:

Financial Metrics

On March 5, 2014 the Board issued its report on *Performance Measurement for Electricity Distributors: A Scorecard Approach*. The report sets out the Board’s policies on the measures that will be used by the

Board to assess a distributor's effectiveness and improvement in customer focus, operational effectiveness, public policy responsiveness, and financial performance to the benefit of existing and future customers.

Utilizing the scorecard, LUI monitors its performance in key areas as compared to other comparable utilities. LUI continues to provide a balanced approach to prudent capital investment, exceptional customer service and meeting shareholder expectations. LUI continues to seek partnerships with other utilities where efficiencies, cost savings and benefits to LUI's customers or employees can be found.

Furthermore, LUI balances shareholder and customer expectations, along with stable rate setting and a reasonable rate of return. LUI's customers understand the value proposition in fair and reasonable rates for the services that LUI provides. LUI recognizes that a strong financial base continues to guide long-term customer and shareholder value.

Customer Engagement and Communication

Great service and a passion for improvement are at the heart of a culture committed to excellence. LUI is aligning its business priorities with the Town of Cobourg's long-term strategic planning as it relates to responsible power management and energy sustainability. Collaboration and cooperation have increasingly become important lexicons in the way Lakefront Utilities approaches key aspects of its business.

It takes hard work, and a long term vision to deliver true value to customers, year after year. LUI is becoming more customer-centric by investing in new capabilities, programs, and technologies that allows it to communicate more effectively with customers. LUI provides customer facing representation and represents a culture of leadership in its community by delivering distribution excellence for customers and employees. LUI takes its responsibility of informing, educating and responding to customer needs as a top priority. Fundamental sector change in recent years, including ground-breaking green energy legislation, has precipitated the need for increased customer communications.

New communication channels are evolving rapidly, whether that is providing a growing number of online options, the ability to log on to mobile applications or browsers, or the choice of calling up any number of social media platforms. Lakefront Utilities currently utilizes Facebook, Twitter, and LinkedIn.

As part of customer engagement and communication, LUI strives to meet its energy conservation targets as set out in the OEB Framework.

Risk Management

LUI continues to assess and monitor risks throughout the utility. The risks are viewed on a consistent basis within the leadership team and discussed quarterly with the Board of Directors. Included in risk management is the safety of customers and the general public and includes the reliability of electricity supply, reliability of service, reliability of data information and reliability of customer care.

LUI considers the environment in all of its decision making processes, finding ways to reduce waste, conserve and minimize the environmental footprint of the organization.

1 Traditionally, management has a risk adverse strategy that is a blend of asset management, cost control
2 leadership, differentiation, outsourcing and alliance based strategies. In terms of reliability and a rate base
3 growth, management has focused on balancing reasonable improvements in reliability with operational
4 effectiveness while ensuring the financial success of the corporation.

5 LUI values the long term health and sustainability of its utility and will assure availability of a future electricity
6 supply to meet customer needs and growth. Lakefront's ability to contribute meaningfully to the social,
7 economic and environmental well-being of stakeholders, shareholders, workforce and the community
8 remains a central component of the utility's steadfast approach to the company's corporate responsibilities.

9 **Distribution System Planning**

10 Lakefront Utilities is focused on maintaining its high performance levels in all aspects of its operation and
11 planning activities to comply with its regulatory obligations and responsibilities to the Ontario Energy Board
12 and the Electrical Safety Authority. At the core of Lakefront's mandate, is the responsibility to deliver a
13 trusted source of safe, efficient, and reliable power to its customers, which supports growth and
14 accommodates economic development in the Town.

15 A critical element is the ongoing maintenance and construction programs that will ensure the long-term
16 integrity and sustainability of the distribution system. LUI's Distribution and Design department, in
17 collaboration with an Engineering firm, has completed a comprehensive Distribution System Plan which
18 provides a five year strategy for asset management and capital expenditures to ensure LUI is able to
19 provide reliable supply to meet current customers' needs and accommodate future growth. An asset
20 management field inventory forms the basis for the utility's capital and maintenance programs. The Asset
21 Management Plan reflects the latest performance priorities of the distribution system and serves as a
22 placeholder for the longer term projects recommended from the condition assessments.

23 This is the first time the utility has created a comprehensive five year plan encompassing asset
24 management and capital expenditures. The plan reviews LUI's current asset assessment and maintenance
25 strategies and builds a comprehensive expenditure strategy that addresses asset management while
26 planning for future growth, technological advancements and remote controls. The DSP formed the basis of
27 LUI's 2017 Cost of Service rate application and is built on the principles of excellence, safety, and reliability.
28 It takes a prudent, cost effective approach to infrastructure investment and renewal to serve current and
29 future customer preferences and requirements. The plan includes System Access, System Renewal,
30 System Service, and General Plant investments.

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Continuous Improvement

As LUI continues to build on creative and critical thinking efforts, all staff are engaged in finding continued efficiencies and innovation through the organization. LUI strives for an environment that emphasizes teamwork, respect, innovation, passion and growth.

In order to continuously improve, succession planning is an important focus for LUI. In the operations department, succession planning includes a sufficient overlap to allow staff to complete their formal training and gain the necessary experience and knowledge to be considered as qualified replacements for journeymen lineman.

Along with succession planning, LUI continues to look at cross-training of core functions throughout the utility to best leverage existing staff to accomplish work more efficiently and effectively while providing greater job satisfaction to employees.

Summary

LUI has prepared this application to align with the objective of the RRFE. LUI has enhanced customer engagement, and incorporated an appropriate budget to accommodate these requirements while still maintaining operational effectiveness. LUI continues to strive for operational excellence and has factored this into the budgeting and forecasting process. LUI is ever mindful that there is a balancing act to be considered when planning for the future, system reliability versus cost to the customer, all while complying with Public Policy.

Additionally, LUI has prepared this application using the OEB prescribed Cost of Capital Parameters and expects that these prescribed parameters will continue to allow LUI to maintain stable financial performance in the future.

Revenue Deficiency

LUI's net revenue deficiency under the proposed rates is \$56,307. This deficiency is calculated as the difference between the 2017 Test Year Revenue Requirement and the Forecast 2017 Test Year Revenue plus the forecasted other operating revenue.

Although Lakefront Utilities Inc. has a minimal revenue deficiency under the proposed rates, LUI prefers to file a Cost of Service application for the purpose of:

- Aligning its rates with its fiscal year end of December 31st and aligning revenues with costs;
- Filing a comprehensive Distribution System Plan and Asset Management Plan for the purpose of providing a detailed capital plan;

- Updating LUI's working capital ratio from the 2012 Board Approved 15% to the 7.5% default allowance rate in accordance with the letter issued by the OEB on June 3, 2015.

Lakefront has continued its efforts to improve operational performance and service excellence. Some highlights include:

- Reliability has improved steadily since 2012 and service interruptions are currently well below the industry average;
- LUI has consistently exceeded OEB standards for Service Quality and Customer Satisfaction;
- LUI continues to perform well with a "cost per customer" of \$451, which is ranked 4th lowest in the province and a cost per kilometer of line at \$23,584, which is ranked 22nd lowest in the province.

Executive Summary

A Cost of Service is a measure of a utility's annual "revenue requirement" that will provide a company the opportunity to operate profitably and attract capital for future growth.

Revenue requirement represents the amount of revenue a regulated utility company must collect from rates charged consumers to recover the cost of doing business.

Periodically, a utility must examine its current and forecasted revenues and expenses to verify that the total revenue, including interest earnings and miscellaneous income, is sufficient to cover all revenue requirements.

To remain financially sound, LUI's rates must produce sufficient revenues to cover the cost of providing electric service and to permit the continued replacement and expansion of its facilities. These expenditures, referred to as "revenue requirements", consist of normal operating expenses, capital improvements and additions, return on investments and non-operating expenses.

In order to determine the adequacy of the proposed rates, LUI has developed estimates of the annual revenues and revenue requirements for the test year of 2017. These estimates serve as the basis for determining the overall level of revenue recovery and provide a foundation for our cost-of-service application.

This executive summary is devoted to defining each element of LUI's 2017 cost-of-service, explaining how each element is computed and the relationship between the various components. The major components covered in this executive summary are as follows:

- Revenue Requirement
- Rate Base and Capital Planning
- Overview of Operation, Maintenance, and Administrative Costs
- Load Forecast Summary
- Statement of Cost of Capital Parameters
- Overview of Cost Allocation and Rate Design
- Overview of Deferral and Variance Account Disposition
- Overview of Bill Impacts
- RRFE and Customer Engagement

Ex.1/Tab 4/Sch.1 – Proposed Revenue Requirement

Revenue Requirement can be defined as the amount of revenue a utility must collect from rates charged to consumers to recover the cost of doing business. These costs include operating and maintenance expenses, depreciation expense, taxes, and a reasonable return on the utility's investment.

Through distribution rates, LUI proposes to recover a revenue requirement of \$4,414,540. Table 1.0 below shows a comparison of the 2012 Board Approved Revenue Requirement versus the 2017 Board Approved Revenue Requirement. The comparison illustrates the decrease in Operating, Maintenance, and Administration expenses from 2012 Board Approved to 2017 Test Year and an increase in revenue offsets.

Table 1.0: Proposed Revenue Requirements vs Last Board Approved

Particular	2012 Board Approved	2017 Test Year	Variance \$	Variance %
OM&A Expenses	2,528,333	2,361,880	(166,454)	-6.58%
Amortization Expense	739,241	1,061,439	322,198	43.58%
Property Taxes	40,837	62,359	21,523	52.70%
Total Distribution Expenses	3,308,411	3,485,678	177,267	5.36%
Regulated Return on Capital	1,087,151	1,242,357	155,206	14.28%
Grossed up PILs	22,112	134,477	112,365	508.16%
Service Revenue Requirement	4,417,674	4,862,512	444,838	10.07%
Less: Revenue Offsets	340,140	447,972	107,832	31.70%
Base Revenue Requirement	4,077,534	4,414,540	337,006	8.26%

The main drivers of the increase in the base revenue requirement are:

- A decrease in OM&A expenses as a result of decrease in Operations and Maintenance, offset by a slight increase in Customer Billing and Collecting and Administration;
- An increase in amortization expenses. The increase is expected considering the increase in capital expenditures for 2015, 2016, and 2017;
- In addition to the above increases, LUI's regulated return on capital and grossed up PILs increased as a result of LUI's increase in rate base from the 2012 Board Approved balance.
- The above increases were partially offset by an increase in revenue offsets (which decreased the base revenue requirement).

Ex.1/Tab 4/Sch.2 - Budget and Accounting Assumptions

Budget Process

The development of LUI's budget is a key process as it identifies past successes as well as future initiatives and projections for capital and operating costs. Each department manager or supervisor develops capital and operating plans which are reviewed and tested by senior management (and ultimately reviewed by the Board of Directors) to ensure they support LUI's strategic initiatives, as well as being prudent and financially sustainable.

LUI compiles budget information for the three major components of the budget process:

- revenue forecasts;
- operating, maintenance and administration ("OM&A"); and
- capital costs under the RRFE categories
 - System access
 - System renewal
 - System service
 - General plant

The OM&A costs presented at Exhibit 4 are the result of a business planning and work prioritization process that ensures that the most appropriate, cost effective solutions are put in place with a mindset of containing costs while still providing an acceptable level of service and reliability. The budget process used to determine the OM&A budget involves the following steps:

- Detailed expenses for prior years are provided to the managers; current year to date actual expenses are also provided. Numerous meetings are held with department managers to review current year expenses and proposed budget figures;
- Outside expenses for all department budgets are built based on analysis including previous years actual information, current year forecast, known changes in external costs, and changes in departmental activities or responsibilities in response to new legislation/regulations/industry activities;
- Variances in spending from prior years must be explained and documented, both at the time of creating forecast and on a quarterly basis as actuals are compiled. LUI's Board of Directors is updated at quarterly meetings regarding any budget variances;
- Review of employee headcount per department and any changes such as automation and efficiency gains, vacancies, retirements, competencies, knowledge, etc. Staffing levels are based

1 on the estimated time required to complete the operating plans, as well as hiring for future
2 requirements;

- 3
- 4 • Union wage increases are based on LUI's union contract effective February 1, 2014, through
5 January 31, 2017, and provides for an annual wage increase of 1.75% in years 2014 and 2015 and
6 2% in 2016;
- 7
- 8 • An inflation rate of 1.95% for 2016 and 2017 was used where the expense increase could not be
9 specifically identified.
- 10

11 The forecasted capital budget is influenced, among other factors, by end of life infrastructure and LUI's
12 capacity to finance capital projects. Also, the workload of staff and mandated projects by the Town of
13 Cobourg in their budgeting process (for collaboration opportunities where possible) are equally influential.
14 All capital projects are assessed within the framework of its capital budget priority as outlined in the
15 Distribution System Plan in Exhibit 2. Topics highlighted in the budget process include:

- 16 • Safety Issues;
- 17 • Customer Demand and Capacity;
- 18 • Renewal;
- 19 • Reliability;
- 20 • Regulatory Requirements;

21 The Distribution System Plan presented at Exhibit 2 supports the capital and maintenance programs
22 required to maintain and enhance the reliability of LUI's distribution system.

23 **Budget Approval**

24 LUI's budget is reviewed as a draft by the Board of Directors in October/November and approved in final
25 form in February. In April 2016, LUI updated the Board of Directors regarding changes to its 2016 OM&A
26 budget as a result of its final DSP. Once approved, it does not change and Board members are updated
27 quarterly as to the status of major projects, comparisons to budget, and remaining funds to be spent.

28 Both the 2016 Bridge and 2017 Test Years have been compiled using MIFRS method of presentation.
29 There were no impacts resulting from the change in accounting standards.

30

31

32

Ex.1/Tab4/Sch.3 - Load Forecast Summary

The purpose of weather normalization is to predict future customer consumption based on normal weather conditions. To achieve this goal, the relationship between weather change and customer consumption must be defined. LUI reviewed the various processes used by earlier Cost of Service applicants and is proposing to adopt a weather normalization methodology using Multifactor Regression (MR) for its load forecast. In summary, LUI has used the regression analysis methodology to determine a prediction model. With regards to the overall process of load forecasting, it is LUI's view that conducting a regression analysis on historical purchases to produce an equation that will predict energy purchases is appropriate. LUI knows by month the exact number of kWh's purchased from the IESO for use by customers of LUI. With a regression analysis these purchases can be related to other monthly explanatory variables such as heating degree days and cooling degree days which occur in the same month. The result of the regression analysis produces an equation that predicts the purchases based on the explanatory variables. This prediction model is then used as the basis to forecast the total level of weather normalized purchase for LUI for the bridge and test year, which is converted to billed kWh by rate class. A detailed explanation of the process is provided in Exhibit 3.

The years 2005 to 2015 are weather actual while 2016 and 2017 are weather normalized and adjusted by projected CDM savings. LUI currently does not have a process to adjust weather actual data to a weather normal basis. However, based on the process outlined in Exhibit 3, a process to forecast energy on a weather normalized basis has been developed and used in this application.

Total customers are annual averages and streetlights and USL customers are measured as connections.

The 2017 Load Forecast compared to 2012 Board Approved is presented in Table 1.1 and detailed explanations can be found in Exhibit 3.

Table 1.1: Load Forecast

Customers or Connections

Customer Class Name	2012 Board Approved	Test Year 2017	Variance	Variance %
Residential	8,603	9,171	568	7%
General Service < 50 kW	1,102	1,087	(15)	-1%
General Service 50 to 2999 kW	127	132	5	4%
General Service 3000 to 4999 kW	1	1	0	0%
Street Lighting (connections)	2,804	2,699	(105)	-4%
Sentinel Lights	54	54	(0)	0%
Unmetered Scattered Load	77	96	19	24%
Total	12,768	13,239	471	29%

Metered kWh (CDM Adjusted)

Customer Class Name	2012 Board Approved	Test Year 2017	Variance	Variance %
Residential	73,125,152	79,373,076	6,247,924	9%
General Service < 50 kW	35,160,634	32,807,440	(2,353,194)	-7%
General Service 50 to 2999 kW	120,608,902	115,252,929	(5,355,973)	-4%
General Service 3000 to 4999 kW	19,295,356	14,887,925	(4,407,431)	-23%
Street Lighting (connections)	1,215,575	1,434,543	218,968	18%
Sentinel Lights	78,431	43,654	(34,777)	-44%
Unmetered Scattered Load	716,623	599,974	(116,649)	-16%
Total	250,200,673	244,399,541	(5,801,132)	-68%

kW (CDM Adjusted)

Customer Class Name	2012 Board Approved	Test Year 2017	Variance	Variance %
Residential				
General Service < 50 kW				
General Service 50 to 2999 kW	303,629	291,085	(12,544)	-4%
General Service 3000 to 4999 kW	47,442	36,771	(10,671)	-22%
Street Lighting (connections)	3,343	3,853	510	15%
Sentinel Lights	218	133	(85)	-39%
Unmetered Scattered Load				
Total	354,632	331,842	(22,790)	-50%

Ex. 1/Tab 4/Sch.4 - Rate Base and Capital Planning

A Rate Base is the value of the property on which a utility is permitted to earn a specified rate of return in accordance with rules set by the OEB. The Rate Base underlying LUI's revenue requirement includes a forecast of net fixed assets, plus a working capital allowance defined as 7.5% of the sum of the cost of power and controllable expenses. Controllable expenses include operations and maintenance, billing and collecting and administration expenses. LUI's proposed 2017 Rate Base is \$19,768,900. Table 1.2 and 1.3 below shows a comparison of the 2012 Board Approved Revenue Requirement versus the 2017 Test Year proposed Revenue Requirement.

Table 1.2: Rate Base

Particulars	Board Approved 2012	Test Year 2017	Variance \$	Variance %
Capital Assets in Service:				
Gross Fixed Assets (average)	11,229,219	16,881,601	5,652,382	50%
Accumulated Depreciation (average)	16,168,133	17,519,752	1,351,619	8%
Average Balance	13,698,676	17,200,676	3,502,000	26%
Working Capital Allowance	3,961,344	2,568,224	(1,393,120)	-35%
Total Rate Base	17,660,020	19,768,900	2,108,880	12%

Table 1.3: Working Capital Allowance

Expenses for Working Capital	Board Approved 2012	Test Year 2017	Variance \$	Variance %
Eligible Distribution Expenses:				
3500-Distribution Expenses - Operation	724,871	525,404	(199,467)	-28%
3550-Distribution Expenses - Maintenance	322,942	195,787	(127,156)	-39%
3650-Billing and Collecting	412,387	566,316	153,929	37%
3700-Communication Relations	6,824	20,219	13,395	196%
3800-Administrative and General Expenses	1,056,309	1,048,304	(8,005)	-1%
6105-Taxes other than Income Taxes	40,837	62,359	21,523	53%
6205-Sub-account LEAP Funding	5,000	5,850	850	17%
Total Eligible Distribution Expenses	2,569,170	2,424,239	(144,931)	-6%
3350-Power Supply Expenses	23,839,792	31,818,751	7,978,959	33%
Total Expenses for Working Capital	26,408,962	34,242,990	7,834,028	30%
Working Capital Factor	15.00%	7.50%	-7.50%	-50%
Total Working Capital	3,961,344	2,568,224	(1,393,120)	-35%

The proposed Rate Base for the 2017 Test Year of \$19,768,900 reflects an increase of \$2,108,880 from the 2012 Board Approved. The increase suggests a prudent and reasonable investment in the distribution assets and is necessary in order to meet obligations towards its distribution system such as maintaining its assets at high electrical safety standards.

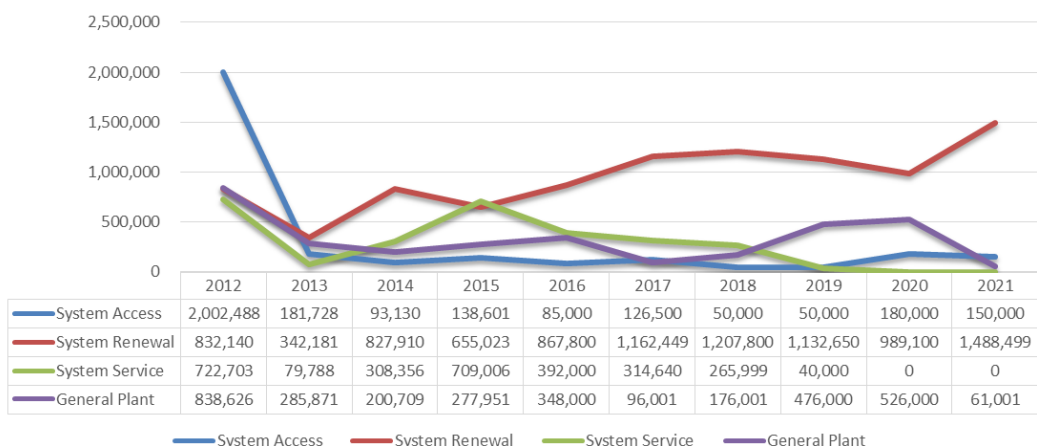
Distribution System Plan

Table 1.4 presented below summarizes the historical capital additions since the utility's last Cost of Service and also forecasts five years of planned capital investments.

Table 1.4: Capital Expenditure Summary

Category	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
System Access	1,988,426	209,120	93,130	138,601	85,000	126,500	50,000	50,000	50,000	50,000
System Renewal	843,943	314,790	827,910	722,176	888,800	1,183,449	1,228,800	1,098,650	1,010,100	1,509,499
System Service	694,888	79,788	308,356	662,152	392,000	314,640	265,999	94,999	130,000	100,000
General Plant	868,700	285,871	200,709	257,652	327,000	75,001	155,001	455,001	505,000	40,001
Total	4,395,957	889,568	1,430,104	1,780,581	1,692,800	1,699,590	1,699,800	1,698,650	1,695,100	1,699,500

Capital Expenditures - 2012-2021



In creating the Distribution System Plan, LUI believes the objective and scope of the 2016 to 2021 investment plan speaks directly to the RRFE and LUI's core values and also to the Board's DSP evaluation criteria of efficiency, customer value and reliability. The main drivers in the DSP are system renewal of overhead lines and underground plans, voltage conversion, investments in resources to increase LUI's ability to detect and troubleshoot power quality concerns, and investments in distribution efficiencies. The DSP and LUI's asset management plan seeks to find the right balance between capital investments in new infrastructure, and operating and maintenance costs so that the combined total cost over the life of an asset is minimized.

The major drivers associated with the DSP are:

- Regulatory initiatives e.g. smart meters;
- Elimination of environmental/health or safety risks;
- System reliability;
- New load growth and development projects;
- Municipality driven projects;

- Distribution automation;
- Infrastructure renewal projects.

Lakefront Utilities Inc. has adopted good utility practices of the electricity distribution industry. This has included adhering to the OEB's Distribution System Code that "sets out both good utility practices, minimum performance standards for electricity distribution systems in Ontario, and minimum inspection requirements for distribution equipment". Consistent with good utility practices, over the years LUI has strived to maintain its equipment in safe and reliable working order and upgraded or replaced its equipment often in conjunction with government and regulatory customer entered themes. Historically, this has been achieved with only a moderate increase to customers. Lakefront has been prudent when incurring costs as customer satisfaction survey results indicate that the low price of electricity is an important factor to customers.

In developing the DSP, LUI's objective is to ensure that the future distribution system is designed to deliver power at the quality and reliability levels desired by customers and to optimize asset lifetime costs by balancing preventative maintenance and end-of-life replacement.

LUI is not proposing to recover any costs from any rate class for renewable energy connections/expansions, smart grid, regional planning initiatives or O.Reg 339/09 planned recovery.

Ex.1/Tab 4/Sch.5 - Overview of Operation Maintenance and Administrative Costs

As of 2014, LUI had the 4th lowest OM&A cost per customer out of 72 utilities in the province, according to the 2014 Electricity Distributor Yearbook.

According to the 2014 PEG report, LUI continues to perform well with a “cost per customer” of \$451, which is ranked 4th lowest in the province and a cost per kilometer of line at \$23,584, which is ranked 22nd lowest in the province. Overall efficiency rating of -15.3% is ranked 17th best in the province and LUI has been assigned to Cohort II. Assuming the OM&A and capital costs in this application, LUI’s overall cohort ranking will remain the same.

Table 1.5: Summary of Recoverable OM&A Expenses

	Board Approved	2017	Variance \$	Variance %
Operations	724,871	525,404	(199,467)	-27.52%
Maintenance	322,942	195,787	(127,156)	-39.37%
Billing and Collecting	412,387	566,316	153,929	37.33%
Community Relations	6,824	20,219	13,395	196.29%
Administrative and General	1,056,309	1,048,304	(8,005)	-0.76%
Taxes other than Income Taxes	40,837	62,359	21,523	52.70%
Sub-account LEAP Funding	5,000	5,850	850	16.99%
Total	2,569,170	2,424,239	(144,931)	-5.64%

The proposed OM&A expenditures for the 2017 Test Year have been derived through a detailed budgeting and business planning process aligned with LUI’s strategic and core values. These expenditures are required so that LUI can maintain the distribution business service quality and reliability standards in compliance with the Distribution System Code and other regulatory bodies while also responding to customer needs and preferences.

Between 2012 and 2017, LUI experienced a decrease in its OM&A as a result of a significant number of retirements in 2015 as well as efficiency gains and automation in certain areas of the organization. The decrease in OM&A was offset by an increase in demand by customers for services and new provincial policy initiatives such as:

- New service rules for low income customers;
- Low Energy Assistance Program;
- Renewed Regulatory Framework with increased regulatory requirements;
- Renewable generator connection and settlement obligations;
- Increased customer engagement requirements on local and provincial industry issues

All the above have been introduced over this timeframe, resulting in increased OM&A. LUI has willingly embraced these initiatives and worked hard to implement them at minimal cost, without adversely impacting customer service.

The primary drivers for the OM&A costs shown in Table 1.5 above are more fully described as follows:

Wages

Wages are a significant driver in LUI's OM&A expenses as it is for any utility. Between 2012 and 2016, wages for unionized staff have increased between 1.75% annually to 3.00% annually and benefit costs have increased as a result of higher OMERS pension costs.

As discussed above, LUI had a significant number of retirements in 2015 resulting in a decrease in wages and benefits. Total staffing levels decreased by 3.70 FTE since LUI's last Cost of Service. Based on the given specialization of the industry and the additional engineering resources required for LUI to remain technologically relevant and continually update and execute its DSP, LUI proposes to hire a journeyman lineman in 2016.

Wages are also a significant driver in the Billing and Customer Service department. In 2015, LUI had two Customer Service Representatives (CSR) retire. LUI has a strong commitment to provide relevant and timely consumer information to its customers, including proactive communications as it relates to the local distribution system and related electricity issues that impact rate payers. The Customer Service Department has implemented the following:

- Low Energy Assistance Program;
- Ontario Electricity Support Program;
- Social Media – Facebook, Twitter, LinkedIn;
- Website redesign;
- Promotion of E-Care and E-Billing;

With an increased focus on corporate and customer communications, LUI is proposing to hire one additional CSR in 2016.

Maintenance

LUI's operations strategy is to provide safe, reliable service at an appropriate level of quality throughout the licensed service area. LUI's maintenance strategy is an important part of its overall plan of minimizing the life cycle costs of assets by minimizing reactive and emergency-type work through an effective planned maintenance program. These strategies are implemented through policies and work practices that promote a good experience for the customer with regard to safety, security of supply, continuity of service, timely restoration of service and minimization of undesirable service conditions.

LUI's maintenance costs include all costs relating to the operation and maintenance of LUI's distribution system. LUI's maintenance costs have decreased from 2012, and LUI's SAIDI and SAIFI are well below the industry average.

Administration and Financial

LUI's administration and financial costs are driven by the organization's annual audit costs and includes the preparation of statutory, management and financial reporting. This includes LUI's commitment to comply with Ontario's evolving energy market, changing government policy and evolving regulatory framework. The increased complexity in the regulatory environment, such as the RRFE, Distribution System Plan, etc. has increased the costs since 2012.

Inflation

LUI applied for an estimated increase for 2017 Test Year based on the CPI of 1.95% and budgeted increase in distribution revenue and customer growth.

Salaries for non-union staff are adjusted in accordance with the Collective Agreement which can be found in Exhibit 4. Overall employee costs have decreased 9.71% or \$185,678 since 2012 Board Approved. This includes a reduction of 3.70 FTE from the 2012 Board Approved.

Ex.1/Tab 4/Sch.6 - Statement of Cost of Capital Parameters

LUI has followed the Report of the Board on Cost of Capital for Ontario's Regulated Utilities, December 11, 2009 in determining the cost of capital.

In calculating the cost of capital, LUI has used the deemed capital structure of 56% long-term debt, 4% short-term debt, and 40% equity, and the Cost of Capital parameters in the OEB letter of October 15, 2015, for the allowed return on equity and where appropriate for debt.

LUI's cost of capital for 2017 has been calculated as 6.28%, as shown in the Table 1.6 below. LUI is not deviating from the Board's Cost of Capital methodology.

Table 1.6: Overview of Capital Structure

Particulars	Cost Rate
	%
Debt	
Long-term Debt	4.54
Short-term Debt	1.65
Total Debt	4.35
Equity	
Common Equity	9.19
Preferred Shares	0
Total Equity	9.19
Total	6.28

LUI understands that the OEB will most likely update the ROE for 2017 at a later date; LUI commits to updating its Capital Structure accordingly as new information becomes available.

Ex.1/Tab 4/Sch.7 - Overview of Cost Allocation and Rate Design

The main objectives of a Cost Allocation study is to provide information on any apparent cross-subsidization among a distributor's rate classifications and to eventually be used in future rate applications.

LUI has prepared and is filing a cost allocation information filing consistent with the utility's understanding of the Directions, the Guidelines, the Model and the Instructions issued by the Board back in November of 2006 and all subsequent updates.

LUI has prepared a Cost Allocation Study for 2017 based on an allocation of the 2017 Test Year costs (i.e., the 2017 forecast revenue requirement) to the various customer classes using allocators that are based on the forecast class loads (kW and kWh) by class, customer counts, etc.

Furthermore, LUI applied the following principles when developing its cost allocation proposal:

1. Consistency with the last practice used in the previous Cost of Service application;
2. Rate stability;
3. The avoidance of rate shock.

LUI has used the updated Board-approved Cost Allocation Model and followed the instructions and guidelines issued by the Board to enter the 2015 data into this model. The table below shows the utility's proposed Revenue to Cost reallocation based on an analysis of the proposed results from the Cost Allocation Study vs the Board imposed floor and ceiling ranges.

Table 1.7: Proposed Allocation

Class	Previously Approved Ratios	Status Quo Ratios	Proposed Ratios	Policy Range
	Most Recent Year: 2012	(7C + 7E) / (7A)	(7D + 7E) / (7A)	
	%	%	%	%
Residential	94.80%	92.53	94.57	85 - 115
GS < 50 kW	99.60%	101.71	102.09	80 - 120
GS 50-2999 kW	120.00%	104.55	104.60	80 - 120
GS 3000-4999 kW	57.50%	108.82	109.00	80 - 120
Street Lighting	111.70%	212.54	166.31	80 - 120
Sentinel Lighting	117.20%	96.38	96.02	80 - 120
Unmetered Scattered Load (USL)	94.80%	152.74	124.43	80 - 120

Distribution revenue is derived through a combination of fixed monthly charges and volumetric charges based either on consumption (kWhs) or demand (kW). Revenues are collected from seven classes of

customers including: Residential, General Service less than 50 kW, General Service 50-2999 kW, General Service 3000-4999 kW, Sentinel Lights, Street Lighting, and Unmetered Scattered Load.

Fixed rate revenue is determined by applying the current fixed monthly charge to the number of customers or connections in each of the customer classes in each month. Variable rate revenue is based on volumetric rates and includes a component to recover allowances for transformer ownership. Commodity charges, deferral and variance rate riders, along with LUI specific other adders and rate riders added to the distribution rates to arrive at a final all-encompassing bill.

Existing volumetric rates include a component to recover allowances for transformer ownership. Commodity charges, deferral and variance rate riders, along with LUI specific other adders such as LRAMVA are used along with the current and proposed distribution rates to produce total bill impacts.

LUI has incorporated the fixed rate design changes for Residential customer class set out in: *Implementing a New Rate Design for Electricity Distributors* (EB-2012-0410) released July 16, 2015.

Recently, the OEB released its staff discussion paper on Rate Design for Commercial and Industrial Electricity Customers. In its discussions, the OEB suggests six options for the GS<50, GS>50, and large user classes. The proposed options are as follows:

1. Fully Fixed Charge: Rates are determined by taking distribution revenue and dividing by the number of customers.
2. Time of Use Distribution Rate: Uses a combination of off-peak and on-peak times to calculate rates.
3. Energy Use Blocks: Costs are broken down into percentiles based on their on-peak consumption and then separated into five blocks. Fixed charges are determined based on the revenue generated and number of customers in each block.
4. Minimum Bill: Each customer class is broken down by percentile based on consumption and are then subject to a minimum bill rate.
5. Three Part Demand Rate: Rates are determined based on whether the customer is identified as peaking or non-peaking.
6. Time of Use Demand Rate: Classifies customers into two groups with rates determined by average monthly on-peak maximum demand.

The OEB has invited stakeholders to comment on the above by May 27, 2016. At this point, LUI is uncertain as to whether any of these options will be adopted before the 2017 rates are approved.

Ex.1/Tab 4/Sch.8 - Overview of Deferral and Variance Account Disposition

LUI proposes to dispose of a credit of \$535,428 related to Group 1 and Group 2 Variance/Deferral Accounts. This credit includes carrying charges up to and including December 31, 2016.

The total credit of \$535,428 is split between \$250,284 RPP and (\$785,712) non-RPP.

Group 1 and Group 2 DVA balances are proposed to be disposed of over 1 year. LUI has followed the OEB's guidance as provided in the OEB's Electricity Distributor's Disposition of Variance Accounts Reporting Requirements Report.

Table 1.8: Account and Balances sought for disposition/recovery

Group 1 Accounts	USoA	Principal and Interest December 31, 2015	Disposition in 2016	Interest to December 31, 2016	Total Claim
LV Variance Account	1550	653,873	348,194	7,089	312,768
Smart Metering Entity Charge Variance Account	1551	5,599	7,370	83	(1,688)
RSVA - Wholesale Market Service Charge	1580	(692,617)	(219,275)	(7,515)	(480,857)
RSVA - Retail Transmission Network Charge	1584	(265,431)	(236,325)	(2,848)	(31,954)
RSVA - Retail Transmission Connection Charge	1586	(162,307)	(204,374)	(1,724)	40,343
RSVA - Power (excluding Global Adjustment)	1588	879,030	491,095	9,863	397,798
RSVA - Power - Sub-account - Global Adjustment	1589	(1,550,984)	(782,205)	(16,933)	(785,712)
Recovery of Regulatory Asset Balances - 2011	1595	(13,921)	0	(83)	(14,004)
Recovery of Regulatory Asset Balances - 2013	1595	3,317	0	54	3,371
Recovery of Regulatory Asset Balances - 2014	1595	(96,982)	0	653	(96,329)
Group 1 Sub-Total (including Account 1589 - Global Adjustment)		(1,240,423)	(595,520)	(11,361)	(656,265)
Other Regulatory Assets	1508	1,814	0	14	1,828
Retail Cost Variance Account - Retail	1518	15,832	0	148	15,980
Retail Cost Variance Account - STR	1548	16,797	0	127	16,924
RSVA - One-Time	1582	(423)	0	(37)	(460)
Group 2 Sub-Total		34,020	0	252	34,272
LRAM Variance Account	1568	85,545	0	1,020	86,565
Total		(1,120,858)	(595,520)	(10,089)	(535,428)

LUI is requesting a new deferral/variance account: Account 1595 – sub-account 2017. Upon approval of disposition, LUI is requesting Board approval to establish 1595-sub-account 2017 to track costs, revenues, and interest for amounts disposed of in LUI's 2017 application.

Ex.1/Tab 4/Sch.9 - Overview of Bill Impacts

A summary of the bill impacts by class is presented below. Detailed explanations of the bill impacts are presented at Exhibit 8.

Table 1.9: Bill Impact Summary by Rate Class

Rate Class	Usage		Total 2015 Bill	Total 2016 Bill	\$ Difference	% Difference
	kWh	kW				
Residential - RPP	750		144.17	145.01	0.84	0.58%
Residential - non-RPP	750		125.13	121.16	(3.97)	-3.17%
Residential - RPP - 10th percentile	232		55.73	58.66	2.93	5.26%
Residential - non-RPP - 10th percentile	232		49.84	51.28	1.44	2.89%
GS <50 kW - RPP	2,000		377.05	378.96	1.91	0.51%
GS <50 kW - non-RPP	2,000		326.27	315.35	(10.92)	-3.35%
GS 50-2999 kW	71,944	191	10,881.47	10,376.41	(505.06)	-4.64%
GS 3000-4999 kW	1,245,322	2,822	191,621.40	183,699.83	(7,921.57)	-4.13%
Unmetered Scattered Load	558		133.18	124.35	(8.83)	-6.63%
Sentinel Lighting	68	0.2037	19.92	19.92	0.00	0.00%
Street Lighting	45	0.1057	14.11	12.25	(1.86)	-13.18%

The impact also includes the rate riders to dispose of the significant balances owed to ratepayers that have accumulated in certain variance accounts. LUI notes that the utility, its shareholders, and all of LUI's customers will be affected by the outcome of this Application.

Detailed Bill Impacts by rate class are presented at Exhibit 8.

Furthermore, Lakefront received approval on March 17, 2016 for an inflationary increase. Based on the rate increase effective May 1, 2016, table 1.10 details the impact per rate class.

Table 1.10: 2016 IRM Bill Impact Summary by Rate Class

Rate Class	Usage		Total 2015 Bill	Total 2016 Bill	\$ Difference	% Difference
	kWh	kW				
Residential - RPP	800		147.59	148.71	1.12	0.76%
Residential - non-RPP	800		136.51	132.39	(4.12)	-3.02%
Residential - RPP - 10th percentile	242		53.48	56.15	2.67	4.99%
Residential - non-RPP - 10th percentile	242		50.13	51.22	1.09	2.17%
GS <50 kW - RPP	2,000		363.95	367.07	3.12	0.86%
GS <50 kW - non-RPP	2,000		336.26	326.27	(9.99)	-2.97%
GS 50-2999 kW	69,543	183	10,883.28	10,509.92	(373.36)	-3.43%
GS 3000-4999 kW	1,048,686	3,050	170,773.77	168,238.45	(2,535.32)	-1.48%
Unmetered Scattered Load	498		116.41	118.08	1.67	1.43%
Sentinel Lighting	325	5	139.45	147.46	8.01	5.74%
Street Lighting	369	113	3,800.20	3,704.49	(95.71)	-2.52%

Customer Engagement

Ex.1/Tab 5/Sch.1 - Overview of Customer Engagement

Lakefront Utilities Inc. proudly provides safe and reliable power to approximately 9,000 customers in the Town of Cobourg and approximately 1,000 customers in the Village of Colborne. LUI's primary goal is to maintain a high level of customer satisfaction which is achieved through a variety of customer engagement initiatives. LUI believes that customer engagement programs and events are fundamental for meeting customers' needs. A company is only as good as its people and Lakefront has a dedicated team of individuals who have a passion for their work and strive to deliver overall superior experiences for the customer.

LUI regularly seeks customer feedback to help shape the direction and development of community investment and outreach as well as preferred methods of communication. It is important to connect with customers to ensure that their expectations are being met and to receive suggestions on how LUI can improve their overall customer experience.

LUI is also becoming more customer-centric by investing in new capabilities, programs, and technologies that allow us to communicate more effectively with our customers.

The following section highlights Lakefront Utilities' current customer engagement initiatives in order to maintain and enhance customer engagement and overall public perception of the utility.

1 **Table 1.11: Customer Engagement Activities (Appendix 2-AC)**

Provide a list of customer engagement activities	Provide a list of customer needs and preferences identified through each engagement activity	Actions taken to respond to identified needs and preferences. If no action was taken, explain why
E-Billing - Online account services	Customers need online access to their consumption data, invoice and details, as well as their historical data.	LUI created the E-billing account service which provides electronic access to customer invoices and consumption data, current and historical.
CDM and SaveOnEnergy programs - Inform and assist customer on IESO conservation and demand management programs	Customers expressed the need for consultation and assistance with these programs. Greater details and conditions of RetroFit and SaveOnEnergy programs were requested.	Marketing of programs through LUI's online website and newspaper ads, as well as group and one-on-one consultations.
Bi-annual customer survey - Identify customer needs and opinions	Customers were given the opportunity to express their needs and opinions by completing an online or hard copy survey. The results identified an overall good or excellent performance of the utility.	As the survey identified possible areas where LUI could improve, the following actions were taken: - build a database of customers opinions and establish trends
Christmas lights	LUI works with the Town of Cobourg to install Christmas lights for the Town's Christmas Magic festivities.	LUI's crew sets up Christmas lights.
Financial Assistance Program (LEAP)	Low-income customers need assistance to pay for higher costs of heating during winter months.	LUI continues to verbally promote, emergency financial assistance programs that are designed to help low-income customers having difficulty making their electricity bill payments.
In-Office Customer Engagement	LUI's office is located downtown and open to all customers.	Concerns and issues are dealt with immediately and any concerns that need to be escalated are brought forward to senior management.
EmPower Hour	LUI held an "open house" each Friday in August and allowed customers to come in and ask questions regarding CDM, their bill, etc.	Provided customers with the opportunity to ask questions in a casual environment.

Ex.1/Tab 5/Sch.2 – Customer Satisfaction Survey

“Putting the Consumer First” was part of the title of the Report of the Ontario Distribution Sector Review Panel. Its findings and recommendations added an additional level of challenges and opportunities. While the Report challenges the structural nature and efficiency of LDCs in Ontario, the “customer” remains focused on their own needs and expectations. The customer is primarily concerned about their overall costs for their electricity rather than the costs of the individual components of producing, transmitting, distributing and regulating electricity.

For the past 15 years, the only constant Ontario LDCs and their customers have faced is constant change. With topics such as SMART Meters, SMART Grid, Green Energy, infrastructure renewal, coupled with the recommendations from the Ontario Distribution Sector Review Panel, it is easy to predict that change will continue – for many years to come. One of the challenges for utilities today is to determine how to educate empower and engage their residential and business customers. The goal for utilities being to cut through the fog of fear, misinformation and confusion that exists amongst its customers, regarding a myriad of subjects, while retaining a very high level of trust, respect and credibility.

Trust and credibility are the foundational building blocks for ensuring that customers have both their rational and emotional requirements fulfilled. The attributes which help an LDC to be seen as highly credible are knowledge, integrity, involvement and trust.

The old adage, “you cannot command respect, you have to earn respect” is a lesson that aptly describes the loyalty effect with customers. Many people mistakenly think doing a good job will lead to loyalty; that a satisfied customer equals a loyal customer. Customers have expectations of their electric utility that go far beyond “keeping the lights on”, “billing me properly” and “restoring power quickly”.

The Process

The survey was developed in-house through the use of Survey Monkey after discussions with LUI’s Board of Directors and customers. Prior to releasing the survey to the public, LUI released the draft survey to various residential and commercial customers for the purpose of receiving feedback regarding the quantity and quality of questions. Based on the comments received by the sample group, the survey was further revised to adopt the recommendations of the customers. The survey was also released to LUI’s Board of Directors and was revised based on the comments received.

The main purpose of the above was to minimize the cost of the survey by the sharing of intellect and resources.

LUI briefly contemplated using a 3rd party company to conduct the survey, however, the costs, estimated at approximately \$20,000 or \$1.97 per customer, were prohibitive. Another disadvantage of a 3rd party survey was that the surveys are administered by telephone to random residential customers with home based land lines. LUI felt that all of its customers should have equal opportunity to complete the survey, rather than a

random sample. Lastly, the quantity of questions asked by a 3rd party company were significant when compared to the internal survey.

LUI received 243 responses and of the responses, 221 (or 92.47%) identified themselves as residential customers.

Summarized results were as follows:

Customer Preference

- 82% rate the overall value of their electricity service between good to excellent.

Reliability

- 9% of customers felt that LUI should be spending more to decrease the frequency and duration of outages, with the understanding that it could increase their hydro bill. Overall, 78% found the existing level of reliability to be acceptable.
- 94% rated LUI's performance in restoring service from good to excellent.
- 74% of respondents indicated LUI's performance in restoring services as good to excellent during extended outages.

Billing and Payment Options

- 34% of customers indicated they have a fair to poor understanding of LUI's bills.
- 9% of customers are not satisfied with the payment options offered by LUI.
- 87% of customers indicated that they received good to excellent service from LUI's customer service staff.
- 2% indicated they received fair to poor service from LUI's field staff.

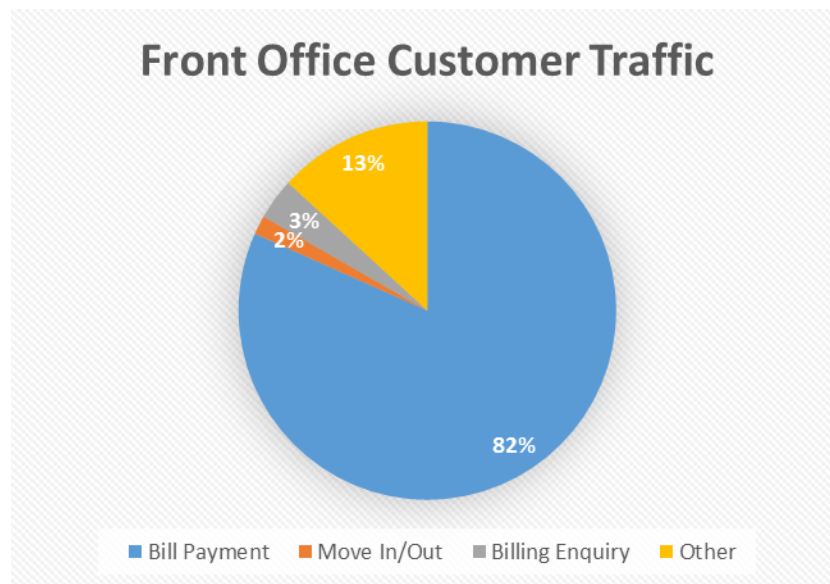
Public Perception, Opinion, and General Awareness

- 70% of customers have not had any communication with LUI during the past 12 months.
- 74% of respondents indicated that LUI was good to excellent at communicating with them.

Ex.1/Tab 5/Sch.3 – Front Desk Support

LUI currently maintains an open front office desk support, allowing the customers and the utility to interact on a direct basis pertaining to bill payments, change of occupancy requests, etc. Social interaction is still one of the best ways to be in close contact with the customer, including LUI's senior population. With a front desk, information is exchanged regularly with every customer's interaction. Data gathered through these interactions can then be used to improve business outcomes. In this sense, front office staff become pivotal to the business and bridge the gap between the customer and other utility staff. LUI plans to continue its front office operations as a form of customer engagement and to ensure expected customer service levels are maintained.

For the month of February 2016, LUI's Customer Service Representatives monitored the interaction with customers that use the front office. As detailed below, 82% of the 682 customers used the front office to pay their bill. The majority of the other enquiries were related to CDM, OESP, etc.



Below is a summary of customers that registered for Pre-Authorized Payments ("PAP"), Equal Billing, and E-Billing, during 2015:

Particulars	Number of Customers Registered
PAP	2,895
Equal Billing	1,036
E-Billing	860

Ex.1/Tab 5/Sch.4 – Publications

The majority of LUI's customers receive a physical bill in the mail, and LUI takes advantage of this opportunity to communicate additional information via messages on the outside of the envelope, separate inserts, and messages on the bill itself. Many of these messages are coordinated with announcements from the OEB, IESO, and other agencies, and include information about retailers, rate changes, conservation and demand management programs, electrical safety, and references to our website.

Ex.1/Tab 5/Sch.5 – Conservation and Demand Management

Lakefront Utilities Inc. delivers the IESO's saveONenergy programs aimed at reducing the strain on the provincial electricity grid and saving customers money on their energy bills. The programs cover energy efficient and money saving solutions for residential, commercial and institutional, industrial and low-income customers in LUI's service territory. LUI participates in many community events, such as the Cobourg Waterfront Festival, Habitat for Humanity's ReStore and Ribfest, raising awareness of the benefits of conservation. The Home Assistance Program has installed energy efficient products in 275 qualifying homes since the program rolled out in 2012, helping low-income customers save on their energy bills as well as making their homes more comfortable.



Ex.1/Tab 5/Sch.6 – Community Involvement

LUI is more than just about providing safe and reliable electricity to its customers. The utility participates, sponsors, organizes and volunteers at several events within the community. LUI is proud to give back to the community, which benefits many organizations, highlighting LUI's community investment and outreach values.

Electrical Safety Presentations in Schools (Sponsorship)

LUI is committed to public safety, awareness, and conservation. As part of this initiative, LUI hired Electricity and Safety Conservation to attend all public schools in the service area to promote safety and conservation. The presentation included information on electrical hazards in the home, the dangers within substations, and what to do if they are in a car accident involving a utility pole and power lines. Approximately 2,800 Kindergarten – Grade 8 students received the presentation.



LUI Scholarships

LUI offers a renewable \$1,000 scholarship to each of the two secondary schools in the service area every year. Criteria for this scholarship includes high academic achievements and proof of acceptance into a post-secondary program in a utility related field as determined by the Scholarship Committee. The recipients are eligible to receive the scholarship each year that they are returning to the program as long as they meet the required 3.0 GPA. LUI strongly values investing in the youth of the community.

Sponsorships

Lakefront is proud to support a variety of community-based events in Cobourg through sponsorship. This is Lakefront's way of connecting with customers and communities. Lakefront prefers to support local community events that attract a broad audience; they should be one of the major events on the community calendar.





United Way

Lakefront employees support United Way events throughout the year including the annual Day of Caring in June.

Workplace Safety

The safety of employees and the public is the top priority for LUI and is a core value. LUI takes great pride in ensuring the safety of its employees and is proud of the work that they do in sometimes dangerous weather and settings. Not only does Lakefront promote safety but employees put safety first and create a dynamic safety culture where everyone looks out for one another. Ongoing safety training provides employees with information on how to perform their jobs safely. Due to the collective effort of employees and their commitment to safety, the company has hit several milestones throughout the years including most recently working 169,464 hours (January 2016) with zero lost time due to accidents. LUI has over 680,000 hours (since Feb 15, 2005) with no major incident.



Lakefront Day of Sharing

Lakefront Utilities shuts down its regular business operations for one day in October and all employees work on meaningful projects in the community like painting, yard work and minor home renovations for those in need. LUI's Day of Sharing provides an opportunity for staff to give back to the communities that the utility services, reflecting LUI's gratitude for being entrusted with the important tasks of managing one of the municipality's most valuable assets and providing safe and reliable utility services.





LUI Golf Tournament

Lakefront recently held its fifth annual Charity Golf Tournament. In the last 5 years this event has raised over \$6,500 for various community agencies like the local food bank and the Northumberland United Way (Lakefront Day of Sharing). LUI is able to provide support to these charitable organizations through the donations of participating golfers.



Salvation Army (Adopt a Family Program)

Lakefront employees participate in the Adopt-A-Family program and purchase food and gifts for a family in need during the Christmas holiday season.

Ex.1/Tab 5/Sch.7 – emPOWER Hour

Lakefront Utilities Inc. hosted a series of information events called “emPOWER Hour” every Friday from 11am until 1pm in August 2015. These events were designed to increase communication between Lakefront and its customers as well as to gather essential feedback from the community. The drop-in events provided an excellent occasion for residents of Cobourg and Colborne to learn about LUI, ask questions, and meet some of the staff in an informal atmosphere. Topics at the emPOWER Hour events ranged from:

- Understanding electricity bills;
- Billing options;
- Managing usage through conservation programs;
- Time-of-use pricing;
- Solar programs

The total attendance at the four events was 21 customers.

Before customers left, staff asked them to complete a short six question survey about the event. Feedback was as follows:

Quality of Event	Percentage
Excellent	62%
Good	38%

Based on the feedback that LUI received:

- 36% of attendees would like LUI to host events about reducing their bill;
- 18% would like to see more events similar to emPOWER Hour;
- 18% would like to see events focusing on conservation

Additional feedback was received regarding the venue as many attendees felt the Lakefront location was a “good venue” and that LUI has “knowledgeable staff”.

Though LUI didn’t spend any money on advertising the event, the press release garnered significant media attention and was covered by the majority of local outlets:

- EDA e-newsletter
- 107.9 The Breeze
- Star 93.3
- Northumberland View
- Northumberland Today
- SNAP Magazine

Ex.1/Tab 5/Sch.7 – Social Services

Low Income Assistance

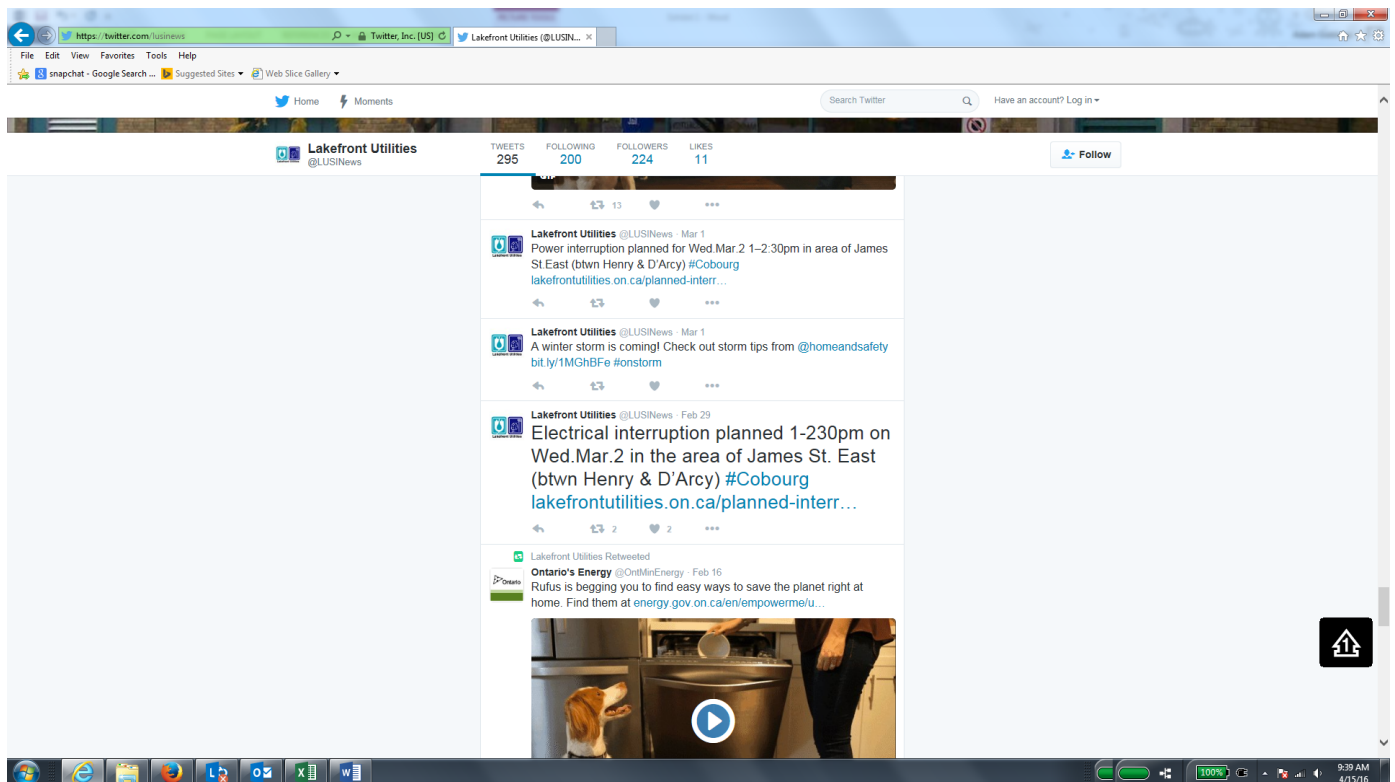
The Low-Income Energy Assistance Program (LEAP) was set in place to help those who struggle to pay their energy bills. LUI's contribution through LEAP helped households with their electricity bill payment. LUI assisted 47 customers in 2014 and 39 in 2015.

Ex.1/Tab 5/Sch.8 – Other Engagement Activities

Social Media

Social media is changing the way most companies do business, offering new communication platforms that allow companies to learn more about their customers in ways that were previously not possible. This type of customer interaction can help build stronger, more successful business and customer relationships.

Engaging customers using social media has been a benefit in notifying customers about crucial information and regular day to day updates including outages. In 2013 LUI experienced a severe ice storm that resulted in multiple outages. With social media customers could remain up to date with how the utility was handling the situation. Other updates include posts about Conservation & Demand Management Programs that are ongoing and upcoming, as well as save on energy, coupon notifications advising customers of the details and where they are available. Other types of updates such as upcoming community events, office closures, etc. are also provided through social media.



Customer Disruptions/Project Communication

Lakefront Utilities ensures that detailed communication and engagement is provided in advance relating to any significant capital project, or any type of disruption to the customers' service in any way. Lakefront provides customers with the details, such as the purpose, the timelines, and the benefit of the project or power disruption. The communication is sent to the affected customers by letter, the details are posted to LUI's website. If the service area is small, the customers will also be contacted by phone. Once the customers receive the information, they have sufficient time to contact LUI's office to address any concerns they may have or receive further clarification on the details of the project.



THE CORPORATION OF THE TOWN OF COBOURG

PUBLIC NOTICE

Corporate Communications Department
Telephone (905) 372-4301
Toll Free 1-888-972-4301
Fax (905) 372-7421
Email: communications@cobourg.ca

Town of Cobourg and LUSI Advising all Residents to Conserve Energy

(Issued June 27 at 2:45 p.m. EST) –The Town of Cobourg would like to advise all residents that Lakefront Utility Services Inc. (LUSI) is currently experiencing capacity restrictions on their electric distribution system. The Town of Cobourg and LUSI is asking all residents to conserve power to their best ability to avoid outages and ensure the continued reliability of the electric system.

To assist residents in conserving energy within their homes and businesses LUSI has provided the following tips. By working together and making small changes, we can all help ensure the reliability of our electricity system.

Tips to Conserve Energy:

- Avoid running large appliances: use a clothes line, use a microwave or enjoy a summer barbeque!
- Turn your thermostat up a few degrees, use fans and close blinds to keep the heat out.

For additional information please contact Lakefront Utility Services Inc. at: 905-372-2193

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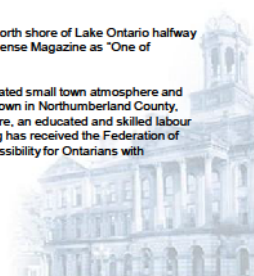
Media Contacts

Kara Euale
Communications Officer
Town of Cobourg
p: 905-372-4301 x 4105
e: keuale@cobourg.ca

About The Town of Cobourg

The Town of Cobourg is a lakeside community (population 18,500) located on the north shore of Lake Ontario halfway between Toronto and Kingston and has been recognized multiple times by MoneySense Magazine as "One of Canada's Best Places to Live" in populations under 25,000.

Founded in 1798, Cobourg is rich in heritage offering a vibrant downtown, sophisticated small town atmosphere and renowned waterfront that serves as a popular getaway destination. As the largest town in Northumberland County, Cobourg is personified by historic Victoria Hall, hosts a 27.4 million community centre, an educated and skilled labour force, flourishing commercial sector and supportive municipal government. Cobourg has received the Federation of Canadian Municipalities Sustainable Communities Award, accolades from the Accessibility for Ontarians with Disabilities Act Alliance, and multiple heritage, environmental, and event awards.



For more information visit Cobourg.ca, 'like' us on Facebook, follow us on Twitter and watch us on YouTube.



[/townofcobourg](https://www.facebook.com/townofcobourg)



[@townofcobourg](https://twitter.com/townofcobourg)



[TownCobourg](https://www.youtube.com/TownCobourg)



[Town of Cobourg](https://www.linkedin.com/company/Town of Cobourg)

eCare

This function allows customers to view their usage, consumption and, payment history, as well as compare to current and previous bills. Customer Service Representatives are able to view the same information along with the customer to assist with their inquiries. The new version of eCare has been implemented and is now being used by both CSRs and customers.

mCare

mCare allows Lakefront to communicate with the Field Service Representative for service orders in real time as well as eliminate the use of paper. MCare is directly linked to LUI's host CIS system and remotely transfers the service order information as completed.

E-billing

Lakefront has notified customers that this service is available and provided an incentive in 2015 to customers signing up for e-billing; the incentives includes a credit on the customer account and a donation to Gananaska Region Conservation Authority to plant a tree in the customer's name. A bill insert was sent out with all bills, to promote e-billing the information was also posted on social media platforms.

Website

Lakefront's corporate website is a powerful tool to communicate with its customers and is often the first place people will go for information about the company and its operations. Customers see Lakefront's website as a valuable and reliable source of information. Although the website is constantly updated for accuracy, the website was redesigned in 2015 with the following new features: an innovative responsive design to meet accessibility standards and ensure usability on any device, a clean customer friendly layout to easily locate information, a home page alert bar to immediately notify customers of major outages, and a comprehensive regulatory database.

Ex.1/Tab 5/Sch.9 – Incorporating Customer Engagement in LUI's Application

The Process

In response to the Board's Filing Requirements to engage customers on the specific proposals contained in this application, LUI retained Innovative Research Group Inc. ("Innovative") to design, collect feedback, and document its customer engagement and consultation process.

Working together with Innovative, LUI sought to engage customers on the following matters specific to the application:

1. General satisfaction;
2. System reliability;
3. Acceptance of the investment plan;
4. Impact of outages;
5. Operating budget and cost drivers;
6. Proposed plan and rate impact

A complete copy of the Innovative customer engagement report is included as Attachment A.

The consultation encompassed three core elements of customer engagement:

1. Residential and General Service Consultation Groups: This qualitative phase of the consultation was designed to educate customers, assess their preferences and priorities, gauge reaction to proposed rate changes, and ultimately inform the quantitative phases of the consultation. The groups were randomly recruited from across LUI's service territory and consultations were held in Cobourg. A workbook was used to provide the participants with core information about the provincial and local electricity system, LUI's proposed capital investment and operating spend to maintain system reliability, as well as the rate impact for each respective rate class. Participants were provided incentives in recognition of their time commitment.
2. Online Workbook: The online workbook was promoted through radio and online advertising with local media outlets, social media, as well as LUI's website. This phase of the consultation was available to any LUI residential or GS<50 kW customer who wanted to participate.
3. Key Account Validation Interviews: Large use accounts were consulted on the proposed five year plan by LUI staff. Innovative followed-up by telephone with large users after their consultation session to validate the process and to verify that LUI provided these customers with the information they needed to provide informed feedback on the proposed plan.

1 LUI's engagement associated with the workbook was the following:

DATE	DISTRIBUTION CHANNEL	COMMUNICATION PRODUCT	AUDIENCE SIZE	AUDIENCE
March 15, 2016	Focus Group	Face-to-face conversation with randomly selected small businesses	7	GS<50
March 15, 2016	Focus Group	Face-to-face conversation with randomly selected residents	10	Residential
March 21, 2016	Email	Email to LUI Staff informing them of the workbook	10	Internal Staff
March 21, 2016	Chamber of Commerce Email	eBlast sent out to Chamber members with link to www.LUIworkbook.com	380	GS<50 & GS>50
March 21 - April 10	LakefrontUtilities.on.ca	Alert on Homepage with link to www.LUIworkbook.com	2,034	Ratepayers
March 21 - April 10	Classic Rock 107.9	Radio Ads	37,700	Ratepayers
March 21 - April 10	93.3 myfm	Radio Ads	37,500	Ratepayers
March 21 - April 10	Tear Sheets	1/4 page take-away sheets available in Front Office	511	Ratepayers
March 21 - April 10	Sign	Sign in front office promoting workbook	511	Ratepayers
March 21 - April 10	Customer Service TV	Rotating Ad on Street Facing Window TV	3,225	Ratepayers
March 21 - March 27	NorthumberlandNews.com	PushDown Banner on Website with Link to www.LUIworkbook.com	91,000	Ratepayers
March 22, 2016	Press Release	Article distributed to local media outlets	15	Media
March 22 - April 10	LakefrontUtilities.on.ca	Article about workbook posted in "What's New" section	2,034	Ratepayers
March 22, 2016	Twitter	Shared Link to www.LUIworkbook.com	219	Ratepayers
March 24, 2016	Facebook	Shared Link to www.LUIworkbook.com	113	Ratepayers
March 26, 2016	Facebook	Shared Link to www.LUIworkbook.com	113	Ratepayers
March 28, 2016	Chamber of Commerce Email	eBlast sent out to Chamber members with link to www.LUIworkbook.com	380	GS<50 & GS>50
March 28 - April 10	NorthumberlandNews.com	Banner ad on Website with Link to www.LUIworkbook.com	10,000 Impressions	Ratepayers
March 28 - April 10	NorthumberlandNews.com	Big Box ad on Website with Link to www.LUIworkbook.com	10,000 Impressions	Ratepayers
March 29, 2016	NorthumberlandToday.com	Online Article promoting Cost of Service Filing and Engagement	93,200	Ratepayers
March 30, 2016	CobourgInternet.com	Online Article discussing Cost of Service Filing and workbook	500	Ratepayers
April 1, 2016	Facebook	Shared link to NorthumberlandToday.com article	113	Ratepayers
April 1 - April 4	Facebook	Sponsored Ad with Link to www.LUIworkbook.com	3,948 (confirmed)	Ratepayers
April 4, 2016	Twitter	Shared Link to www.LUIworkbook.com	219	Ratepayers
April 4 - April 7	Facebook	Sponsored Ad with Link to www.LUIworkbook.com	3,515	Ratepayers
April 4 - April 10	93.3 myfm	workbook featured in Local News Segment	37,500	Ratepayers
April 5, 2016	Chamber of Commerce Email	eBlast sent out to Chamber members with link to www.LUIworkbook.com	380	GS<50 & GS>50
April 6, 2016	Face-to-Face	Key Account Meeting	1 - Weston Bakeries	GS>50
April 7, 2016	Face-to-Face	Key Account Meeting	1 - Jebco	GS>50
April 7, 2016	Face-to-Face	Key Account Meeting	1 - Arclin	GS>50
April 7, 2016	Face-to-Face	Key Account Meeting	1 - Linmac	GS>50
April 8, 2016	Face-to-Face	Key Account Meeting	1 - Town of Cobourg Streetlights	GS>50
April 7, 2016	Facebook	Shared Link to www.LUIworkbook.com	113	Ratepayers
April 7, 2016	Twitter	Shared Link to www.LUIworkbook.com	219	Ratepayers
April 8, 2016	Facebook	Shared Link to www.LUIworkbook.com	113	Ratepayers
April 10, 2016	Facebook	Shared Link to www.LUIworkbook.com	113	Ratepayers

2

3

4 The Innovative report shows that almost all LUI customers are satisfied with the job the utility is doing at

5 managing the electricity distribution system. This pattern was consistent across all rate classes in all

6 phases of the customer consultation.

7 Addressing Customer Needs and Preferences

8 Many of the customer engagement process findings corroborated what LUI had been hearing recently from

9 customers, via the ongoing dialogue through the day-to-day engagement described throughout this Exhibit.

10 However, some new key learnings emerged:

12 ■ Affordable Rates

14 The most common suggestion for the General Service customers was to keep rates low. LUI

15 recognizes the need to keep distribution rates reasonable and affordable for its customers and

1 believes it has addressed this by budgeting efficiently and carefully for the future in this application.
2 This is evident by the proposed bill impacts shown in Ex.1/Tab 4/Sch.9 which would result in many
3 customers experiencing declining distribution rates starting on January 1, 2017.
4

5 While completing the online workbook, customers noted the need for explanations for bill increases
6 without usage increase, as a suggested improvement to service. In order to assist customers with
7 energy and billing literacy, LUI will continue to leverage its website and explore ongoing annual
8 customer focus groups, emPower hour sessions, etc.
9

10 ■ Improving Reliability
11

12 An increased focus on improving reliability. LUI believes that its DSP centered around a risk-based
13 optimization program, will allow for maintenance, or improvement, of reliability and power quality
14 while maintaining a prudent and consistent capital spend level in accordance with recent historical
15 years.
16

17 Power based on customer quality disturbances include a wide range of detrimental effects
18 including: voltage sags and swells, harmonics, voltage flicker, voltage imbalance and other brief
19 disturbances. Power quality is a key focus because the LUI service territory has many
20 manufacturing facilities that have very low tolerances for voltage variations. Momentary outages
21 can result in time consuming stoppages to the manufacturing process and significant costs.
22

23 LUI is implementing a new plan for the CDM/Key Account Representative to visit key accounts on
24 a regular basis to discuss any potential power quality issues, and better understand and control
25 their energy usage.
26

27 ■ Transparency of Financial Information
28

29 While completing the online workbook, many customers noted that financial statements and
30 financial information (profits, salaries, and profit margins) was missing. Customers would have
31 liked to seen this information included or have these questions answered. Furthermore, customers
32 noted that better communication/transparency as a suggested improvement to service.
33

34 In terms of transparency of financial information, LUI has worked on preparing an annual report for
35 2015, to be completed in May/June 2016. The annual report will detail the financial information and
36 include a summary of the financial statements.
37

38 In 2015 LUI promoted its 2014 Scorecard, through Facebook, Twitter, LUI's website, and on-bill
39 messaging, which contained financial information. In terms of enhanced customer communication,
40 LUI took key steps towards improving its digital communication channels in 2015 with the redesign

1 of the LUI website and the launch of social media channels such as Facebook, Twitter, and
2 LinkedIn. LUI will continue to utilize the communication channels to ensure that customers are
3 aware of the 2015 Scorecard and the annual report. Further, it became apparent from the customer
4 engagement activities that a portion of customers are still not aware of the existing online offerings.
5 Accordingly, LUI will launch a marketing plan to drive additional customer awareness, as
6 evidenced in the increased community relations expenses noted in Exhibit #4.

7
8 ■ Customer Service

9
10 During the workbook-based facilitated discussions there was mention of more engaged customer
11 service. There was also a suggestion regarding a follow-up when contacting Lakefront Utilities with
12 questions or concerns.

13
14 Lakefront had explored the option of using Interactive Voice Recognition (“IVR”) however, many
15 customers during the focus group session noted that they would rather have a customer service
16 person who is knowledgeable and familiar with the operation. As a result, LUI will re-assess
17 implementing IVR and will replace a Customer Service staff member.
18

Financial Information

Ex.1/Tab 6/Sch.1 – Historical Financial Statements

Final financial information is included below for fiscal 2014 and fiscal 2015:

- Year ended December 31, 2014
- Year ended December 31, 2015

**FINANCIAL STATEMENTS OF
LAKEFRONT UTILITIES INC.**

December 31, 2014

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	
FINANCIAL STATEMENTS	
Balance Sheet	1
Statement of Retained Earnings	2
Statement of Income	3
Statement of Cash Flows	4
Notes to the Financial Statements	5 - 14



INDEPENDENT AUDITORS' REPORT

To the Shareholder of
Lakefront Utilities Inc.

Collins Barrow Kawartha LLP
272 Charlotte Street
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Report on the Financial Statements

We have audited the accompanying financial statements of Lakefront Utilities Inc., which comprise the balance sheet as at December 31, 2014, and the statements of retained earnings, income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal controls as management determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal controls relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Lakefront Utilities Inc. as at December 31, 2014, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Collins Barrow Kawartha LLP


Chartered Professional Accountants
Peterborough, Ontario
April 24, 2015

LAKEFRONT UTILITIES INC.
BALANCE SHEET
As at December 31, 2014

	2014	2013
	\$	\$
ASSETS		
Current assets		
Cash	1,921,385	3,430,142
Accounts receivable	2,274,739	1,819,936
Unbilled revenue	3,553,308	4,218,564
Inventory	231,824	271,215
Prepaid expenses	1,615	24,691
Income taxes receivable (note 10)	280,740	208,500
	<u>8,263,611</u>	<u>9,973,048</u>
Other assets		
Future income taxes (note 10)	151,000	204,700
Property, plant and equipment (note 3)	15,785,061	15,347,347
Deferral accounts (note 4)	289,895	-
	<u>16,225,956</u>	<u>15,552,047</u>
	<u>24,489,567</u>	<u>25,525,095</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (note 5)	4,241,539	3,678,589
Customer deposits refundable within one year	46,647	56,497
Operating loan (note 13)	490,000	-
Current portion of long-term debt (note 6)	190,376	183,513
	<u>4,968,562</u>	<u>3,918,599</u>
Long-term liabilities		
Customer deposits	52,757	55,710
Long-term debt (note 6)	10,084,889	10,275,265
Deferral accounts (note 4)	-	2,055,691
Employee future benefits (note 7)	293,644	282,730
	<u>10,431,290</u>	<u>12,669,396</u>
Shareholders' equity		
Share capital (note 9)	5,293,376	5,293,376
Retained earnings	3,796,339	3,643,724
	<u>9,089,715</u>	<u>8,937,100</u>
	<u>24,489,567</u>	<u>25,525,095</u>

Approved on behalf of the Board

 Director

 Director

The accompanying notes are an integral part of these financial statements

LAKEFRONT UTILITIES INC.
STATEMENT OF RETAINED EARNINGS
For the year ended December 31, 2014

	2014	2013
	\$	\$
Retained earnings - beginning of year	3,643,724	3,569,125
Net income for the year	412,715	459,699
Dividends paid	(260,100)	(385,100)
Retained earnings - end of year	3,796,339	3,643,724

The accompanying notes are an integral part of these financial statements:

LAKEFRONT UTILITIES INC.
STATEMENT OF INCOME
For the year ended December 31, 2014

	2014	2013
	\$	\$
Revenue		
Service revenue	4,079,922	4,239,332
Cost of power revenue	26,772,828	26,129,213
	30,852,750	30,368,646
Cost of power purchased	26,772,828	26,129,213
Gross profit	4,079,922	4,239,332
Other operating revenue	646,247	454,613
Gross income from operations	4,726,169	4,693,945
Expenses		
Amortization	932,271	861,205
Customer billing and collecting	594,312	574,811
Distribution	852,636	892,050
General and administration	1,109,649	1,123,278
Interest	693,126	641,102
	4,181,994	4,092,446
Income before income taxes	544,175	601,499
Provision for income taxes (note 10)		
Current	77,760	41,500
Future	53,700	100,300
	131,460	141,800
Net income for the year	412,715	459,699

The accompanying notes are an integral part of these financial statements.

LAKEFRONT UTILITIES INC.
STATEMENT OF CASH FLOWS
For the year ended December 31, 2014

	2014 \$	2013 \$
CASH PROVIDED FROM (USED FOR)		
Operating activities		
Net income for the year	412,715	459,699
Items not affecting cash		
Amortization	932,271	861,205
Future income taxes	53,700	100,300
Employee future benefits	10,914	10,868
Loss (gain) on disposal of capital assets	11,230	(9,250)
	1,420,830	1,422,822
Change in non-cash working capital items (note 11)	763,627	136,074
	2,184,457	1,558,896
Investing activities		
Purchase of property, plant and equipment	(1,396,713)	(1,081,344)
Proceeds on disposal of property, plant and equipment	15,500	9,250
Deferral accounts	(2,345,586)	436,887
	(3,726,799)	(635,207)
Financing activities		
Decrease of customer deposits	(12,802)	(14,247)
Decrease in long-term debt	(183,513)	(88,880)
Dividends paid	(260,100)	(385,100)
	(456,415)	(488,227)
Increase (decrease) in cash	(1,998,757)	435,462
Cash - beginning of year	3,430,142	2,994,680
Cash - end of year	1,431,385	3,430,142
Cash consists of:		
Cash	1,921,385	3,430,142
Operating loan	(490,000)	-
	1,431,385	3,430,142

The accompanying notes are an integral part of these financial statements

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2014

1. NATURE OF OPERATIONS

Lakefront Utilities Inc. was incorporated under the Business Corporations Act (Ontario) on April 12, 2000 and is engaged in the distribution of electricity and associated business activities.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The significant policies are detailed as follows:

(a) Electricity regulation

The Company is regulated by the OEB under the authority of the Ontario Energy Board Act, 1988. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and ensuring that distribution companies meet their obligations to connect and service customers. The following regulatory policy is practiced in a rate regulated environment:

Deferral Accounts

Deferral accounts represent future revenue or expenses incurred in current or prior periods, that are expected to be recovered (repaid) through the rate setting process. These assets and liabilities include various rate and retail variance accounts which arise from differences in amounts billed to customers (based on regulated rates) and the actual cost of electricity services to the Company. These amounts are accumulated for accounting purposes because it is probable that they will be recovered (repaid) in future rates. Deferral accounts recognized at December 31, 2014 are disclosed in Note 4.

(b) Revenue recognition

Revenue is recognized on the accrual basis when the energy is supplied to the users, whether billed or unbilled. Interest is accrued as earned.

Revenues related to Conservation and Demand Management ("CDM") agreements with the Ontario Power Authority ("OPA") are recognized on a net basis. Performance fees are recognized as CDM programs are delivered.

(c) Inventory

Inventory is recorded at the lower of cost and net realizable value, where cost is generally determined using the average cost basis.

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2014

2. SIGNIFICANT ACCOUNTING POLICIES, continued

(d) Property, plant and equipment

Property, plant and equipment are recorded at cost. The Company provides for amortization using the straight-line method at rates designed to amortize the cost of the property, plant and equipment over their estimated useful lives. The annual amortization rates are as follows:

Buildings	10-50 years
Equipment and other	5-10 years
Transportation equipment	5-8 years
Distribution Stations	45 years
Meters	25 years
Distribution lines - overhead	25-55 years
Distribution lines - underground	25-55 years
Transformers	40 years

Capital contributions in aid of construction toward the cost of constructing distribution assets are recorded with capital assets as a contra account. Contributions are amortized based on the useful life of the asset.

The Company monitors events and changes in circumstances which may require an assessment of the recoverability of its long lived assets. If the carrying value of an asset is not recoverable, an impairment loss is recognized in operations, measured by comparing the carrying amount of the asset to its fair value.

Property, plant and equipment categorized as construction in process are not amortized until they are put into service.

(e) Customer deposits

Customer deposits are cash collections from customers to guarantee the payment of energy bills. Deposits expected to be refunded to customers within the next fiscal year are classified as a current liability.

(f) Management estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period.

Key areas where management has made complex or subjective judgments (often as a result of matters that are inherently uncertain) include, among others, impairment of assets; inventory provisions; useful lives, amortization and carrying values of property, plant and equipment; carrying value of regulatory assets and liabilities; unbilled revenue; allowance for doubtful accounts; employee future benefits; and income taxes. Actual results could differ from these and other estimates, the impact of which would be recorded in future periods.

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2014

2. SIGNIFICANT ACCOUNTING POLICIES, continued

(g) Pension plan

The Company accounts for its participation in the Ontario Municipal Employee Retirement System ("OMERS"), a multi employer public sector pension fund, as a defined benefit plan. Both participating employers and employees are required to make plan contributions based on the participating employees' contributory earnings. The Company recognizes the expense related to this plan as contributions are made.

(h) Employee future benefits

The Company pays certain medical and life insurance benefits on behalf of its retired employees. The Company recognizes these post-retirement costs in the period in which the employees earn the benefits. The cost of employee future benefits earned by employees is actuarially determined using the projected benefit method prorated on length of service and management's best estimate of salary escalation, retirement ages of employees, employee turnover and expected health care costs.

The excess of the net actuarial gains (losses) over 10% of the accrued benefit obligation are amortized on a straight-line basis over the average remaining service life of the active employees. Details related to the post-employment benefits are detailed in Note 8.

(i) New accounting pronouncements

International Financial Reporting Standards (IFRS)

In 2008, the Accounting Standards Board (AcSB) confirmed that IFRS will be required to be adopted by publicly accountable enterprises and certain government enterprises for annual reporting purposes for fiscal years beginning on or after January 1, 2011. In 2010, the AcSB allowed the option of a one year deferral of IFRS adoption for entities subject to rate regulation. Subsequent to this, through a series of additional one year extensions, the mandatory change over date for entities with rate regulated activities has been extended to January 1, 2015.

The Company will be adopting IFRS effective January 1, 2015. The Company does anticipate a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required and any necessary system changes to gather and process the information.

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2014

3. PROPERTY, PLANT AND EQUIPMENT

	Cost \$	Accumulated amortization \$	2014 Net book value \$	2013 Net book value \$
Land	219,284	-	219,284	219,284
Buildings	1,201,211	210,710	990,501	966,277
Equipment and other	1,544,083	557,118	986,965	829,461
Transportation equipment	1,154,767	610,169	544,598	612,835
Construction in process	297,013	-	297,013	330,404
Distribution Stations	3,057,582	1,828,583	1,228,999	1,202,765
Meters	3,147,550	1,025,795	2,121,755	2,233,803
Distribution lines - overhead	7,970,513	1,721,272	6,249,241	5,775,881
Distribution lines - underground	4,955,403	2,563,546	2,391,857	2,473,498
Transformers	5,794,769	2,828,108	2,966,661	3,015,663
	29,342,175	11,345,301	17,996,874	17,659,871
Contributions in aid of construction	(2,945,414)	(733,601)	(2,211,813)	(2,312,524)
	26,396,761	10,611,700	15,785,061	15,347,347

4. DEFERRAL ACCOUNTS

As described in Note 2(a), the Company has recorded the following deferral accounts.

	2014 \$	2013 \$
Cost of power variance accounts	(597,623)	(1,055,468)
Retail settlement variance accounts	(845,547)	(992,666)
2011/2012 IESO Form 1598 adjustments	737,547	-
Low voltage variance	344,024	180,315
Regulatory balances - recovery and disposition	434,099	(130,322)
Other deferral accounts	17,395	(57,550)
	289,895	(2,055,691)

The deferral accounts are accumulated as prescribed by regulatory policy and will be subject to review and disposition through future rate review processes. The Company continually assesses the likelihood of the recovery (repayment) of these deferral accounts.

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2014

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2014	2013
	\$	\$
Accounts payable - energy purchased	3,242,095	2,975,427
Other accounts payable and accrued liabilities	955,488	358,084
Deferred revenue - CDM Program	43,956	345,078
	<u>4,241,539</u>	<u>3,678,589</u>

6. LONG-TERM DEBT

	2014	2013
	\$	\$
Demand note payable, Corporation of the Town of Cobourg, 7.25%	7,000,000	7,000,000
Infrastructure Ontario Loan, 4.03%, blended repayments of \$82,668 semi-annually, due September 5, 2028	1,755,867	1,847,658
Infrastructure Ontario Loan, 3.83% per annum, blended repayments of \$72,708 semi-annually, due October 1, 2027	1,519,398	1,611,120
	10,275,265	10,458,778
Less principal payments due within one year	190,376	183,513
Due beyond one year	<u>10,084,889</u>	<u>10,275,265</u>

The note payable has been classified as a long-term liability as the Town has indicated that they will not demand repayment prior to January 1, 2016. During the year the Company paid \$507,500 in interest on the note.

Estimated principal repayments are as follows:

	\$
2015	190,376
2016	197,498
2017	204,888
2018	212,556
2019	220,514
Subsequent years	<u>9,249,433</u>
	<u>10,275,265</u>

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2014

7. EMPLOYEE FUTURE BENEFITS

The Company provides certain health, dental and life insurance benefits for retired employees pursuant to the Company's policy. The accrued benefit obligation and net periodic expense for the year were determined by actuarial valuation. The most recent valuation was performed for the year ended December 31, 2012.

Significant actuarial assumptions employed for the valuations are as follows: future general inflation level of 2%, discount rate of 4%, salary and wage level increases at 3.3% per annum. A 4.8% annual rate of increase in the per capita cost of covered dental costs was assumed for 2014 and thereafter. A 6.93% annual rate of increase for health costs was assumed for 2014, decreasing by 0.53% per annum until 2018.

Information about the Company's defined benefit plan is as follows:

	2014 \$	2013 \$
Accrued Benefit Obligation, beginning of the year	282,730	271,862
Current service cost	13,887	13,353
Interest on accrued benefit obligation	16,744	16,464
Benefits paid	(19,717)	(18,949)
Accrued Benefit Obligation, end of the year	293,644	282,730

8. DUE TO RELATED PARTIES AND RELATED PARTY TRANSACTIONS

During the year, the Company collected rent recoveries of \$64,800 (2013 - \$55,600) from related parties.

Related party transactions are in the normal course of operations and are measured at the exchange value being the amount of consideration established and agreed to by both parties.

In addition, the Company receives hydro and service revenue from related companies and the Corporation of the Town of Cobourg, the ultimate shareholder. During the year, the Company collected revenues of \$43,605 (2013 - \$64,180) from the Town of Cobourg and paid expenses of \$50,314 (2013 - \$51,037) and interest of \$507,500 (2013 - \$507,500) as detailed in Note 5.

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2014

9. **SHARE CAPITAL**

Authorized

Unlimited number of common shares

Issued

	2014	2013
	\$	\$
11,300,000 Common shares	5,293,376	5,293,376

10. **INCOME TAXES**

a) The components of future income tax balances are as follows:

	2014	2013
	\$	\$
Future income tax asset		
Tax basis of equipment in excess of carrying amount	73,200	74,900
Reserves	77,800	129,800
	151,000	204,700

b) The provision for income taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 38.5% (2013 - 38.5%) to the income for the years as follows:

	2014	2013
	\$	\$
Income for the year before income taxes	544,000	601,000
Expected tax at statutory rates of 38.5%	209,440	231,385
Ontario small business deduction	(11,600)	(14,513)
General rate reduction	(65,280)	(72,120)
Other	(1,100)	(2,952)
Provision for income taxes	131,460	141,800

Income taxes receivable in the amount of \$280,740 represent 2014 tax instalments made in excess of 2014 taxes owing and the application of the 2013 refund balance to the 2014 instalment account.

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2014

11. STATEMENT OF CASH FLOWS

(a) Change in non-cash working capital items

	2014	2013
	\$	\$
Decrease (increase) in accounts receivable	(454,803)	513,310
Decrease (increase) in unbilled revenue	665,256	(814,553)
Decrease (increase) in inventory	39,391	(634)
Decrease in prepaid expenses	23,076	32,347
Increase in income taxes receivable	(72,240)	(208,500)
Increase in accounts payable and accrued liabilities	562,947	722,291
Decrease in income taxes payable	-	(108,187)
	763,627	136,074
Interest paid	653,248	602,950
Income tax paid	150,000	250,000

12. PENSION AGREEMENT

The Company makes contributions to the Ontario Municipal Employees' Retirement System (O.M.E.R.S.), which is a multi-employer plan, on behalf of its employees. The plan is a defined benefit plan which specifies the amount of retirement benefits to be received by the employees based on the length of service and rates of pay.

The amount that the Company contributed to O.M.E.R.S. for the year ended was \$147,632 (2013 - \$138,415).

13. CREDIT FACILITIES

The Company has a \$2,500,000 (2013 - \$2,500,000) credit facility consisting of \$1,000,000 (2013 - \$1,000,000) operating line and \$1,500,000 (2013 - \$1,500,000) stand-by letters of guarantee.

The operating line bears interest at prime rate plus 0.5% per year and is secured by a General Security Agreement covering substantially all of the Company's assets. At year end, the company had drawn \$490,000 from this line (2013 - \$nil).

The Company has posted \$1,500,000 (2013 - \$1,222,663) in stand-by letters of guarantee with the Independent Electricity System Operator, as required by regulation. The facility bears interest at 0.75% per annum.

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2014

14. CONTINGENCIES

The Company participates with other municipal utilities in Ontario in an agreement to exchange reciprocal contracts of indemnity through the Municipal Electric Association Reciprocal Insurance Exchange. Under this agreement, the Company is contingently liable for additional assessments to the extent that premiums collected are not sufficient to cover actual losses, claims and costs experienced.

15. ASSET RETIREMENT OBLIGATION

The Company recognizes that there may be future costs for the environmental remediation of certain properties and for future removal and handling costs related to distribution equipment currently in service. The Company assumes that these sites will remain in use for perpetuity and therefore no retirement obligation exists. If factors indicate that a particular site will not remain in use for perpetuity and an obligation to remediate the site exists, only at this time will the Company attempt to value the liability.

16. FINANCIAL INSTRUMENTS

Financial instruments consist of recorded amounts of cash, accounts receivable, unbilled revenue which will result in future cash receipts, as well as accounts payable and accrued liabilities, customer deposits and long-term debt which will result in future cash outflows. The Company does not believe that it is exposed to significant liquidity or foreign exchange risk. The Company is exposed to the following risks in respect of certain financial instruments held:

(a) Fair value

The Company's carrying value of cash, accounts receivable, unbilled revenue, accounts payable and accrued liabilities and customer deposits approximates its fair value due to the immediate or short-term maturity of these instruments.

The carrying value of the note payable and Infrastructure Ontario loans approximates the fair value as the interest rates are consistent with the current rates offered to the Company for debt with similar terms.

(b) Interest rate risk

The Company manages its exposure to interest rate risk through a combination of fixed and floating rate borrowings. The fixed rate debt is subject to interest rate price risk, as the value will fluctuate as a result of changes in market rates. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates.

(c) Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company is exposed to credit risk from customers.

The Company carries out credit checks on its customers on a continuing basis, retains a deposit where allowed by OEB regulation and maintains provisions for contingent credit losses.

The Company has a significant number of customers which minimizes concentration of credit risk.

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2014

17. CAPITAL DISCLOSURES

The Company's primary objective when managing capital is to address the expectations as outlined in the Shareholder Agreement between the Company's shareholder, Town of Cobourg Holdings Inc. and its shareholder, the Corporation of the Town of Cobourg. The expectation is that the Company will maintain a prudent financial structure in order to safeguard the Company's assets and to provide adequate returns for its shareholders and benefits to the stakeholders.

The Ontario Energy Board sets rates based on a deemed capital structure of 60% debt and 40% equity.

The Company's current capital structure is defined as follows:

	2014 \$	2013 \$
Infrastructure Ontario loans	3,275,265	3,458,778
Note payable	7,000,000	7,000,000
	<u>10,275,265</u>	<u>10,458,778</u>
	2014 \$	2013 \$
Share capital	5,293,376	5,293,376
Retained earnings	3,796,339	3,643,724
	<u>9,089,715</u>	<u>8,937,100</u>

18. COMPARATIVE AMOUNTS

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year earnings.

FINANCIAL STATEMENTS OF
LAKEFRONT UTILITIES INC.
December 31, 2015

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	
FINANCIAL STATEMENTS	
Statement of Financial Position	1 - 2
Statement of Changes in Equity and Accumulated Other Comprehensive Income	3
Statement of Income	4
Statement of Comprehensive Income	5
Statement of Cash Flows	6
Notes to the Financial Statements	7 - 32

1



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Lakefront Utilities Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Lakefront Utilities Inc., which comprise the statement of financial position as at December 31, 2015, December 31, 2014 and January 1, 2014, and the statements of changes in equity and accumulated other comprehensive income, income, comprehensive income and cash flows for the years ended December 31, 2015 and December 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal controls as management determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal controls relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Lakefront Utilities Inc. as at December 31, 2015, December 31, 2014 and January 1, 2014, and its financial performance and its cash flows for the years ended December 31, 2015 and December 31, 2014 in accordance with International Financial Reporting Standards.

2

1

INDEPENDENT AUDITORS' REPORT, continued

Comparative Information

Without modifying our opinion, we draw attention to note 4 to the financial statements which describes that Lakefront Utilities Inc. adopted International Financial Reporting Standards on January 1, 2015 with a transition date of January 1, 2014. These standards were applied retrospectively by management to the comparative information in these financial statements, including the statement of financial position as at December 31, 2014 and January 1, 2014, and the statements of changes in equity and accumulated other comprehensive income, income, comprehensive income and cash flows for the year ended December 31, 2014 and related disclosures.

Collins Barrow Kawartha LLP

Chartered Professional Accountants
Licensed Public Accountants

Peterborough, Ontario
April 13, 2016

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LAKEFRONT UTILITIES INC.
STATEMENT OF FINANCIAL POSITION
As at December 31, 2015

	December 31, 2015	December 31, 2014 Restated (note 4)	January 1, 2014 Restated (note 4)
	\$	\$	\$
ASSETS			
Current assets			
Cash	91,036	1,921,385	3,430,142
Accounts receivable	2,580,510	2,274,739	1,819,936
Unbilled revenue	2,932,088	3,553,308	4,218,564
Inventories (note 5)	243,320	231,824	271,215
Prepaid expenses	62,680	1,615	24,691
Income taxes receivable	200,652	280,740	208,500
	6,110,286	8,263,611	9,973,048
Other assets			
Property, plant and equipment (note 6)	18,401,247	17,808,773	17,414,464
Intangible asset (note 7)	303,837	188,099	245,406
Deferred tax asset (note 8)	100,800	151,000	204,700
	18,805,884	18,147,872	17,864,570
	24,916,170	26,411,483	27,837,618
Regulatory deferral account debit balances (note 9)	3,767,397	2,772,874	137,243
	28,683,567	29,184,357	27,974,861

The accompanying notes are an integral part of these financial statements

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LAKEFRONT UTILITIES INC.
STATEMENT OF FINANCIAL POSITION
As at December 31, 2015

	December 31, 2015	December 31, 2014 Restated (note 4)	January 1, 2014 Restated (note 4)
	\$	\$	\$
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities (note 10)	2,987,310	4,241,536	3,678,588
Operating loan (note 11)	-	490,000	-
Customer deposits refundable within one year	46,647	46,647	56,497
Current portion of long-term debt (note 12)	197,498	190,376	183,513
	<u>3,231,455</u>	<u>4,968,559</u>	<u>3,918,598</u>
Long-term liabilities			
Long-term debt (note 12)	9,887,391	10,084,889	10,275,265
Contributions in aid of construction (note 13)	2,163,551	2,211,814	2,312,524
Customer deposits (note 14)	156,405	52,757	55,710
Employee future benefits (note 15)	395,709	444,914	432,812
	<u>12,603,056</u>	<u>12,794,374</u>	<u>13,076,311</u>
Shareholders' equity			
Share capital (note 17)	5,293,376	5,293,376	5,293,376
Retained earnings	3,924,933	3,643,140	3,486,642
Accumulated other comprehensive income	16,490	1,929	7,000
	<u>9,234,799</u>	<u>8,938,445</u>	<u>8,787,018</u>
	<u>25,069,310</u>	<u>26,701,378</u>	<u>25,781,927</u>
Regulatory deferral account credit balances (note 9)	<u>3,614,257</u>	<u>2,482,979</u>	<u>2,192,934</u>
	<u>28,683,567</u>	<u>29,184,357</u>	<u>27,974,861</u>

Approved on behalf of the Board

 Director

 Director

The accompanying notes are an integral part of these financial statements

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LAKEFRONT UTILITIES INC.
STATEMENT OF FINANCIAL POSITION
As at December 31, 2015

	December 31, 2015	December 31, 2014 Restated (note 4)	January 1, 2014 Restated (note 4)
	\$	\$	\$
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	12,603,056	12,794,374	13,076,311
Shareholders' equity			
Share capital (note 17)	5,293,376	5,293,376	5,293,376
Retained earnings	3,924,933	3,643,140	3,486,642
Accumulated other comprehensive income	16,490	1,929	7,000
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Regulatory deferral account credit balances (note 9)	3,614,257	2,482,979	2,192,934
	28,683,567	29,184,357	27,974,861

Approved on behalf of the Board

 Director

 Director

The accompanying notes are an integral part of these financial statements

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LAKEFRONT UTILITIES INC.
STATEMENT OF CHANGES IN EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME
For the year ended December 31, 2015

	Share capital \$	Retained earnings \$	Accumulated other comprehensive income (loss) \$	Total \$
Balance, January 1, 2014	5,293,376	3,486,642	7,000	8,787,018
Net income for the year	-	416,598	-	416,598
Other comprehensive loss	-	-	(5,071)	(5,071)
Dividends paid	-	(260,100)	-	(260,100)
Balance, December 31, 2014	5,293,376	3,643,140	1,929	8,938,445
Net income for the year	-	487,793	-	487,793
Other comprehensive income	-	-	14,561	14,561
Dividends paid	-	(206,000)	-	(206,000)
Balance, December 31, 2015	5,293,376	3,924,933	16,490	9,234,799

The accompanying notes are an integral part of these financial statements

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LAKEFRONT UTILITIES INC.
STATEMENT OF INCOME
For the year ended December 31, 2015

	2015	2014
	\$	\$
Revenue		
Distribution revenue	4,132,096	4,079,922
Cost of power revenue	28,754,746	24,427,242
Contribution in aid of construction (note 13)	106,728	100,710
	32,993,570	28,607,874
Cost of power purchased	28,617,992	26,772,828
Gross profit	4,375,578	1,835,046
Other operating revenue (note 20)	377,598	599,150
Gross income from operations	4,753,176	2,434,196
Expenses		
Amortization	1,121,030	1,032,981
Operating expenses (note 19)	2,288,422	2,535,970
Loss (gain) on sale of property, plant and equipment	(2,500)	11,230
	3,406,952	3,580,181
Income (loss) before undernoted items and income taxes	1,346,224	(1,145,985)
Finance income (note 18)	(101,756)	(58,327)
Finance costs (note 18)	699,288	709,870
	597,532	651,543
Income (loss) before income taxes and net movement in regulatory deferral accounts	748,692	(1,797,528)
Provision for income taxes (note 8)		
Current	79,245	77,760
Deferred	44,900	53,700
	124,145	131,460
Income (loss) before net movement in regulatory deferral accounts	624,547	(1,928,988)
Net movement in regulatory deferral accounts	136,754	(2,345,586)
Net income for the year	487,793	416,598

The accompanying notes are an integral part of these financial statements

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LAKEFRONT UTILITIES INC.
STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2015

	2015	2014
	\$	\$
Net income for the year	487,793	416,598
Other comprehensive income (loss)		
Actuarial gain (loss), net of deferred tax, not reclassified to profit or loss	14,561	(5,071)
Total comprehensive income for the year	502,354	411,527

The accompanying notes are an integral part of these financial statements

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LAKEFRONT UTILITIES INC.
STATEMENT OF CASH FLOWS
For the year ended December 31, 2015

	2015	2014
	\$	\$
CASH PROVIDED FROM (USED FOR)		
Operating activities		
Net income for the year	487,793	416,598
Items not affecting cash		
Amortization of property, plant and equipment	1,020,785	956,275
Amortization of intangible asset	100,245	76,706
Deferred income taxes	44,900	53,700
Loss (gain) on sale of property, plant and equipment	(2,500)	11,230
Current income tax	79,245	77,760
Net financing costs	597,532	651,543
Employee future benefits	(29,344)	7,031
Recognition of contribution in aid of construction	(106,728)	(100,710)
	2,191,928	2,150,133
Change in non-cash working capital items (note 21)	(805,091)	731,392
	1,386,837	2,881,525
Investing activities		
Purchase of property, plant and equipment	(1,613,259)	(1,377,314)
Proceeds on disposal of property, plant and equipment	2,500	15,500
Regulatory deferral accounts	136,754	(2,345,586)
Intangible asset	(215,983)	(19,399)
Contribution in aid of construction received	58,466	-
	(1,631,522)	(3,726,799)
Financing activities		
Repayment of long-term debt	(190,376)	(183,513)
Interest paid	(699,288)	(709,870)
Operating loan	(490,000)	490,000
Dividends paid	(206,000)	(260,100)
	(1,585,664)	(663,483)
Decrease in cash	(1,830,349)	(1,508,757)
Cash - beginning of year	1,921,385	3,430,142
Cash - end of year	91,036	1,921,385

The accompanying notes are an integral part of these financial statements

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LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2015

1. NATURE OF OPERATIONS

Lakefront Utilities Inc. (the "Company") is a subsidiary of the Town of Cobourg Holdings Inc. and was incorporated under the Business Corporations Act (Ontario) on April 12, 2000. The address of its registered office and its principal place of business is 207 Division Street, Cobourg, Ontario, K9A 3P6.

The principal activity of the Company is to distribute electricity to the residents and businesses in the Town of Cobourg under licence issued by the Ontario Energy Board (OEB). The Company is regulated by the OEB and adjustments to its distribution rates require OEB approval.

2. STATEMENT OF COMPLIANCE

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). These are the Company's first annual financial statements prepared in accordance with IFRS. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in note 4.

The financial statements for the year ended December 31, 2015 (including comparatives) were approved and authorized for issue by the board of directors on April 13, 2016.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with International Financial Reporting Standards. The significant policies are detailed as follows:

(a) Basis of measurement

The financial statements are prepared on the historical cost basis except for certain financial instruments which are measured at their fair values, as explained in the relevant accounting policies.

The financial statements are presented in Canadian dollars which is also the Company's functional currency.

(b) Electricity regulation

The Company is licensed and regulated by the Ontario Energy Board (OEB) under the authority of the Ontario Energy Board Act, 1988. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and ensuring that distribution companies meet their obligations to connect and service customers.

The following regulatory policy is practiced in a rate regulated environment:

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LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2015

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(b) Electricity regulation, continued

Regulatory accounts

Regulatory accounts represent future revenue or expenses incurred in the current or prior periods, that are expected to be recovered (repaid) through the rate setting process.

These assets and liabilities include various rate and retail variance accounts which arise from differences in amounts billed to customers (based on regulated rates) and the actual cost of electricity services to the Company. These amounts are accumulated for accounting purposes because it is probable that they will be recovered (repaid) in future rates. The Company continually assesses the likelihood of the recovery of regulatory assets and likelihood or repayment of regulatory liabilities. If recovery or repayment is no longer considered probable, the amounts are charged to operations in the year the assessment is made.

Regulatory accounts recognized at December 31, 2015 and December 31, 2014 are disclosed in note 9.

(c) Revenue recognition

Service revenue is measured based on the OEB approved rate and the meter readings for customer usage, net of sales tax and debt retirement charge. Service revenue also includes unbilled revenue accrued in respect of electricity delivered but not yet billed. Revenue is recognized as electricity is delivered and consumed by customers and measured.

Cost of power revenue is recorded on the basis of the power billed by the Independent Electricity System Operator.

Contributions in aid of construction represent certain items of property, plant and equipment which are acquired or constructed with financial assistance in the form of contributions from developers. Such contributions, whether in cash or in-kind, are recognized as contributions in aid of construction and amortized into income over the life of the related assets. Contributions in aid of construction in-kind are valued at their fair value at the date of their contribution.

Revenues related to Conservation and Demand Management ("CDM") agreements with the Ontario Power Authority ("OPA") are recognized on a net basis. Performance fees are recognized as CDM programs are delivered.

Other operating revenue is recorded when services are provided.

(d) Cash

Cash consists of balances with financial institutions.

(e) Inventories

Inventories, which consist of parts and supplies acquired for internal construction or consumption, are valued at the lower of cost and net realizable value. Cost is determined on an average cost basis and includes expenditures incurred in acquiring the inventories and other costs to bring the inventories to their existing location and condition.

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LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2015

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated amortization and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset or its development when those costs are necessarily incurred for the asset to function in the manner intended by management. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

All assets having limited useful lives are amortized using the straight-line or declining balance method over their estimated useful lives. Assets are amortized from the date of acquisition. Internally constructed assets are amortized from the time an asset is capable of operating in the manner intended by management.

In the year of acquisition, amortization is taken at one-half of the above rates on buildings, equipment and vehicles and distribution equipment.

The residual value, useful life and amortization method applied to each class of assets are reassessed at each reporting date.

The methods of amortization and amortization rates applicable for each class of asset are as follows:

Buildings	50 years
Equipment and vehicles	5-20 years
Distribution equipment	15 to 55 years

An impairment loss is recognized when the carrying amount of these assets is not recoverable and exceeds their fair value.

(g) Intangible assets

Intangible assets include computer software. They are accounted for using the cost model whereby capitalized costs are amortized on a straight-line basis over their estimated useful lives, as these assets are considered finite. Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing. The useful lives of the intangibles are as follows:

Computer software	5 years straight-line
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Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software, (expenditure relating to patches and other minor updates as well as their installation), are expensed as incurred.

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2015

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(h) Contributions in aid of construction

When capital contributions in aid of construction are received toward the cost of constructing distribution assets, they are initially recorded at fair value with the corresponding amount recognized as contributions in aid of construction on the statement of income. Contributions are amortized based on the useful life of the related asset.

(i) Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(j) Customer deposits

Customers may be required to post security to obtain electricity or other services, which are refundable. Where the security posted is in the form of cash or cash equivalents, these amounts are recorded in the accounts as deposits, which are reported as part of the Company's own cash. Deposits to be refunded within the next fiscal year are classified as current. Interest rates paid on customer deposits are based on the Bank of Canada's prime business rate less 2.0%.

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2015

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(k) Employee future benefits

The Company accounts for its participation in the Ontario Municipal Employee Retirement System ("OMERS"), a multi employer public sector pension fund, as a defined benefit plan. Both participating employers and employees are required to make plan contributions based on the participating employees' contributory earnings. The Company recognizes the expense related to this plan as contributions are made. No liability has been established for this plan.

The Company pays certain medical and life insurance benefits on behalf of its retired employees. These plans are not funded and accordingly have no plan assets. The Company's net obligation is calculated by estimating the amount of future benefits that are expected to be paid out discounted to determine its present value. This calculation is actuarially performed using the projected unit credit method. The last valuation performed was as at December 31, 2014. Service costs are recognized in the Statement of Income in operating expenses, and include current and past service costs as well as gains and losses on curtailment. Net interest expense is included in finance costs.

Details related to the post-employment benefits are detailed in Note 15.

(l) Income taxes

Under the Electricity Act, 1998, the Company is required to make payments in lieu of income taxes (PILS) to the Ontario Electricity Financial Corporation (OEFC). Deferred income taxes are calculated using the liability method of tax accounting. In providing for corporate income taxes, temporary differences between the tax basis of assets or liabilities and their carrying amounts are reflected as deferred income taxes. The tax rates anticipated to be in effect when these temporary differences reverse are used to calculate deferred income taxes. Additional details related to the calculation and method of accounting for PILS is included in note 8.

(m) Related parties

Related party transactions are in the normal course of operations and have been measured at the exchange amount which is the amount of consideration established and agreed to by the related parties. Details of related party transactions and balances are disclosed in note 16.

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2015

3. **SIGNIFICANT ACCOUNTING POLICIES, continued**

(n) Provisions

A provision is recognized in the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Some of the Company's assets may have provision obligations. As the Company expects to use the majority of its fixed assets for an indefinite period, no removal costs can be determined and, consequently, a reasonable estimate of the fair value of any asset retirement obligations has not been made at this time.

(o) Finance income and finance costs

Finance income comprises interest income on funds invested and gains on the disposal of financial assets. Interest income is recognized as it accrues in income, using the effective interest method.

Finance costs comprise interest expense on borrowings, net interest on employee future benefits, unwinding of the discount on provisions and impairment losses recognized on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in comprehensive income using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that the Company incurs in connection with the borrowing of funds.

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2015

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(p) Significant accounting estimates and judgments

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The significant accounting estimates, judgments and assumptions include the following:

Unbilled revenue - The measurement of unbilled revenue is based on an estimate of the amount of electricity delivered to customers between the date of the last bill and the end of the year.

Useful lives of depreciable assets - Depreciation and amortization expense is based on estimates of the useful lives of property, plant and equipment and intangible assets. The Corporation estimates the useful lives of its property, plant and equipment and intangible assets based on management's judgment, historical experience and an asset study conducted by an independent consulting firm.

Payment in lieu of taxes payable - The company is required to make payments in lieu of taxes calculated on the same basis as income taxes on taxable income earned. Significant judgment is required in determining the provision and liability or asset for income taxes. Changes in deferred taxes may be required due to changes in future tax rates.

Employee future benefits - The cost of providing certain health, dental and life insurance benefits on behalf of its retired employees are determined using actuarial valuations. The actuarial valuation uses managements assumptions for among other things, the discount rate, retirement age, health care costs and inflation.

Accounts receivable impairment - In determining the allowance for doubtful accounts, the Company considers historical loss experience of account balances based on the aging and arrears status of accounts receivable balances.

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2015

3. **SIGNIFICANT ACCOUNTING POLICIES, continued**

(q) Financial instruments

Financial assets and financial liabilities are initially measured at fair value. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL") are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss. Transactions to purchase or sell these items are recorded on the trade date. During the year, there has been no reclassification of financial instruments.

Loans and receivables

The Company has classified cash, accounts receivable and unbilled revenue as loans and receivables.

Loans and receivables are subsequently measured at their amortized cost. Amortized cost is the amount at which the financial asset is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, plus or minus any reduction for impairment or uncollectability. Net gains and losses arising from changes in fair value are recognized in comprehensive income upon de-recognition or impairment.

Financial liabilities measured at amortized cost

The Company has classified accounts payable and accrued liabilities, customer deposits, operating loan and long term debt as financial liabilities measured at amortized cost.

Financial liabilities measured at amortized cost are measured at their amortized cost subsequent to initial recognition. Amortized cost is the amount at which the financial liability is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount. Net gains and losses arising from changes in fair value are recognized in comprehensive income upon de-recognition or impairment.

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2015

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(r) *New Standards and interpretations not yet effective or adopted*

The following pronouncements issued by the IASB will become effective for annual periods beginning on or after January 1, 2016, with earlier adoption permitted.

IFRS 14 Regulatory Deferral Accounts, an interim standard, permits first-time adopters to continue to recognize amounts related to rate regulation in accordance with previous GAAP requirements when they adopt IFRS, with the effect of rate regulation presented separately from other items. The Company has early adopted this IFRS and such continues to recognize rate regulated activities.

IAS 1 Presentation of Financial Statements: Amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements.

The following pronouncements issued by the IASB will become effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted.

IFRS 9 - Financial Instruments addresses the classification and measurement of financial assets. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value. The new standard also requires a single impairment method to be used. Additionally, a new hedge accounting model that will allow entities to better reflect their risk management activities has been included in the standard.

IFRS 15 Revenue from Contracts with Customers is a new standard issued by the IASB. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.

The Company has not yet completed its evaluations of the effect of adopting IAS1, IFRS 9 or IFRS 15 and the impact it may have on its financial statements.

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2015

4. IMPACT OF THE CHANGE IN THE BASIS OF ACCOUNTING

These are the Company's first financial statements prepared in accordance with IFRS.

The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended December 31, 2015, the comparative information presented for the year ended December 31, 2014 and the opening IFRS Statement of Financial Position as at January 1, 2014 (the Company's date of transition).

IFRS 1 sets out the procedures that the Company must follow when it adopts IFRS for the first time as the basis for preparing its financial statements. The Company is, in general, required to apply these policies retrospectively to determine the IFRS opening Statement of Financial Position as at its date of transition, January 1, 2014.

In preparing its opening IFRS Statement of Financial Position, the Company has adjusted amounts reported previously in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position and performance is set out in the following tables and notes.

IFRS 1 also provides a number of exemptions to the retrospective restatement of the opening Statement of Financial Position. The Company has applied the following exemptions in its transition from Canadian GAAP to IFRS:

Deemed cost

IFRS 1 provides an optional exemption for a first-time adopter with rate-regulated activities to use the carrying amount of property, plant and equipment (PP&E) as deemed cost on transition date when the carrying amount includes costs that do not qualify for capitalization in accordance with IFRS. The Company elected this exemption and used the carrying amount of the PP&E under Canadian GAAP as deemed cost on transition date.

Business combinations

IFRS 1 provides an optional exemption whereby a first-time adopter may elect not to apply IFRS retrospectively to business combinations that occurred prior to the date of transition. The Company elected this exemption and did not restate business combinations that occurred prior to the date of transition.

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2015

4. IMPACT OF THE CHANGE IN THE BASIS OF ACCOUNTING, continued

(a) *Opening statement of financial position at January 1, 2014:*

	As previously reported \$	Effects of transition \$	As restated \$
ASSETS			
Property, plant and equipment (i)	15,347,346	2,067,118	17,414,464
Intangible asset (i)	-	245,406	245,406
Regulatory assets (ii)	-	137,243	137,243
	15,347,346	2,449,767	17,797,113
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Contribution in aid of construction (i)	-	2,312,524	2,312,524
Employee future benefits (iii)	282,730	150,082	432,812
Regulatory liabilities (ii)	2,055,691	137,243	2,192,934
	2,338,421	2,599,849	4,938,270
Shareholders' equity			
Retained earnings (iii)	3,643,724	(157,082)	3,486,642
Other comprehensive income (iii)	-	7,000	7,000
	3,643,724	(150,082)	3,493,642
	5,982,145	2,449,767	8,431,912

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2015

4. **IMPACT OF THE CHANGE IN THE BASIS OF ACCOUNTING, continued**

(b) *Statement of financial position at December 31, 2014:*

	As previously reported \$	Effects of transition \$	As restated \$
ASSETS			
Property, plant and equipment (i)	15,785,058	2,023,715	17,808,773
Intangible asset (i)	-	188,099	188,099
Regulatory accounts (ii)	289,895	2,482,979	2,772,874
	16,074,953	4,694,793	20,769,746
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Contributions in aid of construction (i)	-	2,211,814	2,211,814
Employee future benefits (iii)	293,644	151,270	444,914
Regulatory liabilities (ii)	-	2,482,979	2,482,979
	293,644	4,846,063	5,139,707
Shareholders' equity			
Retained earnings (iii)	3,796,339	(153,199)	3,643,140
Other comprehensive income (iii)	-	1,929	1,929
	3,796,339	(151,270)	3,645,069
	4,089,983	4,694,793	8,784,776

(i) Increase in property, plant and equipment (PP&E) is the result of reclassifying intangible assets and contributions in aid of construction to their own lines on the statement of financial position.

Under IFRS, intangible assets are accounted for separately from PP&E with no change to the cost or amortization expense.

Under IFRS, contribution in aid of construction is accounted for separately from PP&E, with the amortization being shown as revenue, not netted against the amortization expense. The impact of showing contributed capital in accordance with IFRS is an increase in assets, liabilities, revenue and expenses.

(ii) IFRS 14 permits a first-time adopter of IFRS to retrospectively account for regulatory deferral account balances in accordance with its previous GAAP. The impact of this standard on the Company is that the account balances must be presented separately from all other account debit and credit balances on the statement of financial position, and any profit or loss related to these accounts must be reported below continuing operations.

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2015

4. IMPACT OF THE CHANGE IN THE BASIS OF ACCOUNTING, continued

(iii) The Company has adopted IAS 19, Employee Benefits, on January 1, 2014 and now accounts for its employee benefits as described in its accounting policies. Actuarial gains and loss have been accounted for in other comprehensive income and all other changes have been accounted for through retained earnings.

(c) *Income statement, for the year ended December 31, 2014:*

	As previously reported \$	Effects of transition \$	As restated \$
Revenue	30,852,750	(2,244,876)	28,607,874
Expenses	(31,086,282)	2,295,856	(28,790,426)
Income before other income	(233,532)	50,980	(182,552)
Other income	646,247	(47,097)	599,150
Net income	412,715	3,883	416,598

5. INVENTORIES

Inventory recognized as an expense during the year amounted to \$26,790 (2014 - \$54,955).

6. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings \$	Equipment and vehicles \$	Distribution equipment \$	Work in process \$	Total \$
Cost					
At January 1, 2015	1,239,791	1,583,320	15,644,924	297,013	18,765,048
Additions	-	287,191	1,335,872	-	1,623,063
Transfers	-	-	-	(9,804)	(9,804)
At December 31, 2015	1,239,791	1,870,511	16,980,796	287,209	20,378,307
Accumulated amortization					
At January 1, 2015	30,007	239,856	686,412	-	956,275
Amortization	30,550	266,368	723,867	-	1,020,785
At December 31, 2015	60,557	506,224	1,410,279	-	1,977,060
Net book amount at December 31, 2015	1,179,234	1,364,287	15,570,517	287,209	18,401,247

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2015

6. PROPERTY, PLANT AND EQUIPMENT, continued

	Land and buildings \$	Equipment and vehicles \$	Distribution equipment \$	Work in process \$	Total \$
Cost					
At January 1, 2014	1,185,560	1,196,890	14,701,610	330,404	17,414,464
Additions	54,231	413,160	943,314	297,012	1,707,717
Transfers	-	-	-	(330,403)	(330,403)
Disposals	-	(26,730)	-	-	(26,730)
At December 31, 2014	1,239,791	1,583,320	15,644,924	297,013	18,765,048
Accumulated amortization					
At January 1, 2014	-	-	-	-	-
Amortization	30,007	239,856	686,412	-	956,275
At December 31, 2014	30,007	239,856	686,412	-	956,275
Net book amount at December 31, 2014	1,209,784	1,343,464	14,958,512	297,013	17,808,773

7. INTANGIBLE ASSET

	Cost \$	Accumulated amortization \$	December 31, 2015 Net book value \$
Intangible asset	480,789	176,952	303,837
	Cost \$	Accumulated amortization \$	December 31, 2014 Net book value \$
Intangible asset	264,806	76,707	188,099
	Cost \$	Accumulated amortization \$	January 1, 2014 Net book value \$
Intangible asset	245,406	-	245,406

During the year, there were additions of \$215,983 (2014 - \$19,399) and \$nil disposals (2014 - \$nil).

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2015

8. INCOME TAXES

(a) The components of deferred income tax balances are as follows:

	2015	2014 Restated (note 4)
	\$	\$
Deferred income tax asset		
Tax basis of equipment in excess of carrying amount	(4,000)	77,800
Reserves deductible when paid	104,800	73,200
	100,800	151,000

(b) The provision for income taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 39.50% (2014 - 39.50%) to the income (loss) for the years as follows:

	2015	2014 Restated (note 4)
	\$	\$
Income (loss) for the year	748,692	(1,797,528)
Net movement in regulatory deferral accounts	(136,754)	2,345,586
	611,938	548,058
Anticipated income tax	241,716	216,483
Tax effect of the following:		
Ontario small business deduction	-	(11,600)
Prior year adjustment to employee future benefits	(60,000)	-
Timing income differences	2,400	670
General rate reduction	(81,700)	(70,750)
Impact of tax rate and change and other	21,729	(3,343)
Provision for income taxes	124,145	131,460

	Opening balance at January 1, 2015	Recognize in net income	Recognize in OCI	Closing balance at December 31, 2015
	\$	\$	\$	\$
Deferred tax assets				
Employee future benefits	151,000	(44,900)	(5,300)	100,800

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2015

8. **INCOME TAXES, continued**

	Opening balance at January 1, 2014 \$	Recognize in net income \$	Recognize in OCI \$	Closing balance at December 31, 2014 \$
Deferred tax assets				
Employee future benefits	204,700	(53,700)	-	151,000
		December 31, 2015 \$	December 31, 2014 Restated (note 4) \$	January 1, 2014 Restated (note 4) \$
Deferred tax assets to be recovered after more than 12 months		100,800	151,000	204,700

9. **REGULATORY DEFERRAL ACCOUNTS**

	Note	Remaining recovery/ reversal period (years)	2014 \$	Balances arising in the period \$	Recovery/ reversal \$	2015 \$
Regulatory deferral account debit						
IESO adjustments	i	2	737,547	-	(737,547)	-
Low voltage	ii	1-2	344,024	310,670	(819)	653,875
Other DVA	iv	1-2	32,540	(7,089)	14,594	40,045
Cost of power	v	1-2	28,714	263,740	604,177	896,631
Recovery account	iii	1-2	1,630,049	(2,279,690)	2,826,487	2,176,846
			2,772,874	(1,712,369)	2,706,892	3,767,397
Regulatory deferral account credit						
Cost of power	v	1-2	626,337	642,955	299,294	1,568,586
Retail settlement	vi	1-2	645,547	469,771	5,458	1,120,776
Recovery account	iii	1-2	1,195,950	(1,860,234)	1,588,658	924,374
Other DVA	iv	1-2	15,145	(14,609)	(15)	521
			2,482,979	(762,117)	1,893,395	3,614,257

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2015

9. REGULATORY DEFERRAL ACCOUNTS, continued

i) 2011/2012 IESO Form 1598 Adjustments

As a result of the findings of the OEB's DVA audit, there were adjustments made to prior year IESO forms 1598. The debit adjustment of \$737,547 was included in the Company's 2015 IRM submission.

ii) Low voltage variance account

This account is used to record the variances arising from low voltage transactions which are not part of the electricity wholesale market. The account is used to record the net of the amount charged by a host distributor to an embedded distributor for transmission or low voltage services and the amount billed to the embedded distributor's customers based on the embedded distributor's approved rates.

iii) Regulatory balances – recovery and disposition

This control account is used to record the disposition of deferral and variance account balances for electricity distributors receiving approval to recover (or refund) account balances in rates as part of the regulatory process.

iv) Other deferral accounts

The balance consists of the following accounts:

1518 – Retail cost variance account – retail: Is used to record the revenue derived, including accruals from establishing service agreements, distributor-consolidated billing, and retailer-consolidated billing. The account also includes costs of entering into service agreements, and related contract administration, monitoring, necessary to maintain the contract, as well as incremental costs incurred to provide the services as applicable and the avoided costs credit arising from retailer-consolidated billing, including accruals.

1548 – Retail cost variance – STR: Is used to record the revenues derived, including accruals, from the Service Transaction Request services and charged by the distributor, in the form of a request fee, processing fee, information request fee, default fee, and other associated costs. The account also includes the cost of labour, internal information system maintenance costs, and delivery costs related to the provision of the services associated with the service transaction request services.

v) Cost of power variance accounts

This account includes the following accounts:

1588 – RSVA Power: This account records the difference between the energy amount billed to customers and the energy charge to a distributor using the monthly settlement invoice received from the Independent Electricity System Operator.

1589 – RSVA Global Adjustment: This account records the difference between the global adjustment amounts billed to non-Regulated Price Plan consumers and the global adjustment charge to a distributor for non-Regulated Price Plan consumers using the monthly settlement invoice received from the IESO.

vi) Retail settlement variance accounts

Account includes RSVA accounts 1580, 1582, 1584, and 1586, which are used to record the amount charged by the IESO, based on the settlement invoice, for:

- a) the operation of the IESO administered markets and the operation of the IESO-controlled grid
- b) wholesale market service charges
- c) transmission networks services
- d) transmission connection services and the amount billed to customers using Board-approved rates.

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2015

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2015	December 31, 2014 Restated (note 4)	January 1, 2014 Restated (note 4)
	\$	\$	\$
Accounts payable - energy purchased	2,466,798	3,242,092	2,975,426
Other trade accounts payable and accrued liabilities	520,512	955,488	358,084
Deferred revenue - CDM Program	-	43,956	345,078
	<u>2,987,310</u>	<u>4,241,536</u>	<u>3,678,588</u>

11. CREDIT FACILITIES

The Company has a \$2,500,000 (2014 - \$2,500,000) credit facility consisting of \$1,000,000 (2014 - \$1,000,000) operating line and \$1,500,000 (2014 - \$1,500,000) stand-by letters of guarantee.

The operating line bears interest at prime rate plus 0.5% per year and is secured by a General Security Agreement covering substantially all of the Company's assets. At year end, the Company had drawn \$Nil from this line (2014 - \$490,000).

The Company has posted \$1,222,663 (2014 - \$1,222,663) in stand-by letters of guarantee with the Independent Electricity System Operator, as required by regulation. The facility bears interest at 0.75% per annum.

12. LONG-TERM DEBT

	December 31, 2015	December 31, 2014 Restated (note 4)	January 1, 2014 Restated (note 4)
	\$	\$	\$
Demand note payable, Corporation of the Town of Cobourg, 7.25% per annum	7,000,000	7,000,000	7,000,000
Infrastructure Ontario Loan, 4.03% per annum, blended repayments of \$82,668 semi-annually, due September 5, 2028	1,660,340	1,755,867	1,847,658
Infrastructure Ontario Loan, 3.83% per annum, blended repayments of \$72,708 semi-annually, due October 1, 2027	1,424,549	1,519,398	1,611,120
	<u>10,084,889</u>	<u>10,275,265</u>	<u>10,458,778</u>
Less principal payments due within one year	197,498	190,376	183,513
Due beyond one year	<u>9,887,391</u>	<u>10,084,889</u>	<u>10,275,265</u>

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2015

12. LONG-TERM DEBT, continued

The note payable is unsecured and without specific repayment terms. The note has been classified as a long-term liability as the Town has indicated that they will not demand repayment prior to January 1, 2017. During the year the Company paid \$507,500 in interest on the note.

The estimated principal repayments for 2016-2020 and subsequent years are related to the Company's loans with Infrastructure Ontario. Also included in subsequent years is the \$7,000,000 demand note payable with the Town of Cobourg. Estimated principal repayments are as follows:

	\$
2016	197,498
2017	204,888
2018	212,556
2019	220,514
2020	228,773
Subsequent years	9,020,660
	<u>10,084,889</u>

13. CONTRIBUTION IN AID OF CONSTRUCTION

The continuity of deferred customer contributions in aid of construction is as follows:

	December 31, 2015 \$	December 31, 2014 \$	January 1, 2014 \$
Deferred contributions, net, beginning of year	2,211,813	2,312,524	2,312,524
Contributions in aid of construction received	58,466	-	-
Contributions in aid of construction recognized as revenue	(106,728)	(100,710)	-
Deferred contributions, net, end of year	<u>2,163,551</u>	<u>2,211,814</u>	<u>2,312,524</u>

14. CUSTOMER DEPOSITS

Customer deposits represents cash deposits from electricity distribution customers and retailers, as well as construction deposits.

Deposits from electricity distribution customers are refundable to customers demonstrating an acceptable level of credit risk as determined by the Company in accordance with policies set out by the OEB or upon termination of their electricity distribution service.

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2015

15. EMPLOYEE FUTURE BENEFITS

The Company provides certain health, dental and life insurance benefits for retired employees pursuant to the Company's policy. The accrued benefit obligation and net periodic expense for the year were determined by actuarial valuation. The most recent valuation was performed for the year ended December 31, 2014.

Information about the Company's defined benefit plan is as follows:

	2015 \$	2014 \$
Accrued benefit obligation, beginning of period	444,914	432,812
Current service cost	10,513	9,830
Interest on accrued benefit obligation	16,257	16,918
Benefits paid	(56,124)	(19,717)
	415,560	439,843
Actuarial gains (loss) arising from changes in financial assumptions	(19,851)	5,071
Accrued benefit obligation, end of period	395,709	444,914

Current service costs and interest on accrued benefit obligation are recognized in the statement of income. Actuarial gains (loss) arising from changes in financial assumptions are accounted for in other comprehensive income. The total benefit costs for the year is \$6,918 (2014 - \$31,819).

The actuarial assumptions used in the valuation are the consumer price index at 2% (2014 - 2%), discount rate of 4.3% (2014 - 3.9%), salary increase rate of 3% (2014 - 1.75%), health benefits include both health benefits 6.5% (2014 - 6.93%) and dental benefits 4.5% (2014- 4.8%) and retirement age of 60 (2014 - 60). The health benefits are expected to decrease at 0.25% per year until 2023 when it reaches 4.50% and dental benefits will remain at 4.50 to 2023.

The impact of a change in the actuarial assumptions would have the following impact on the obligation:

	2015	2014	Reasonable possible change	Benefit obligation increase \$	Benefit obligation decrease \$
Discount rate	4.30%	3.90%	+/- 1%	53,000	42,000
Retirement age	60	60	- 2 Years	10,000	10,000
Health benefits	-	-	+/- 1%	8,000	12,000

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2015

16. DUE TO RELATED PARTIES AND RELATED PARTY TRANSACTIONS

During the year, the Company collected rent recoveries of \$60,930 (2014 - \$64,800) from related parties.

Related party transactions are in the normal course of operations and are measured at the exchange value being the amount of consideration established and agreed to by both parties.

In addition, the Company receives hydro and service revenue from related companies and the Corporation of the Town of Cobourg, the ultimate shareholder. During the year, the Company collected revenues of \$33,629 (2014 - \$43,605) from the Town of Cobourg and paid expenses of \$68,008 (2014 - \$50,314) and interest of \$507,500 (2014 - \$507,500) as detailed in Note 12.

The Company is also engaged in transactions in the normal course of operations with affiliated companies and the Waterworks of the Town of Cobourg. The parties are related due to common control.

The key management personnel of the corporation has been identified as members of its board of directors and management team members. Total wages and benefits to these individuals total \$412,969 (2014 - \$568,916).

At year-end, included in accounts receivable is \$5,291 (2014 - nil) due from the Town of Cobourg and \$25,811 (2014 - nil) due from Cobourg Networks Inc.

17. SHARE CAPITAL

Authorized

Unlimited number of common shares

Issued

	December 31, 2015	December 31, 2014 Restated (note 4)	January 1, 2014 Restated (note 4)
	\$	\$	\$
11,300,000 common shares	5,293,376	5,293,376	5,293,376

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2015

18. FINANCE (INCOME) COSTS

Finance income, recognized in profit and loss:

	2015	2014
	\$	\$
Interest income on receivables	68,293	51,551
Interest income on bank deposits	33,463	6,776
	101,756	58,327

Finance costs, recognized in profit and loss:

	2015	2014
	\$	\$
Interest on long term debt	637,928	638,039
Interest on deferral accounts	32,019	39,878
Other interest	13,084	15,209
Net interest on employee future benefits	16,257	16,744
	699,288	709,870

19. EXPENSES BY NATURE

	2015	2014
	\$	\$
Customer billing and collecting	512,705	594,312
Distribution	733,966	835,892
General and administration	1,041,751	1,105,766
	2,288,422	2,535,970

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2015

20. OTHER OPERATING REVENUE

	2015	2014
	\$	\$
Rentals	137,622	129,893
Miscellaneous	102,406	99,608
Modified IFRS	14,609	69,822
Feed-in-tariff invoicing	5,635	85,103
Recoverable work	67,031	74,209
Sewer Billing	30,000	30,000
CDM	20,295	110,515
	377,598	599,150

21. CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	2015	2014
	\$	\$
Increase in accounts receivable	(305,771)	(454,803)
Decrease in unbilled revenue	621,220	665,256
Decrease (increase) in inventories	(11,496)	39,391
Decrease (increase) in prepaid expenses	(61,065)	23,076
Increase (decrease) in accounts payable and accrued liabilities	(1,254,226)	562,948
Increase (decrease) in deposits held	103,648	(12,803)
Income taxes (paid)/received	843	(150,000)
Interest received	101,756	58,327
	(805,091)	731,392

22. PENSION AGREEMENT

The Company makes contributions to the Ontario Municipal Employees' Retirement System (O.M.E.R.S.), which is a multi-employer plan, on behalf of its employees. The plan is a defined benefit plan which specifies the amount of retirement benefits to be received by the employees based on the length of service and rates of pay.

The amount that the Company contributed to O.M.E.R.S. for the year ended was \$122,812 (2014 - \$147,632).

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2015

23. CAPITAL DISCLOSURES

The Company's primary objective when managing capital is to address the expectations as outlined in the Shareholder Agreement between the Company's shareholder, Town of Cobourg Holdings Inc. and its shareholder, the Corporation of the Town of Cobourg. The expectation is that the Company will maintain a prudent financial structure in order to safeguard the Company's assets and to provide adequate returns for its shareholders and benefits to the stakeholders.

The Ontario Energy Board sets rates based on a deemed capital structure of 60% debt and 40% equity.

The Company's current capital structure is defined as follows:

	2015	2014 Restated (note 4)
	\$	\$
Infrastructure Ontario loans	3,084,889	3,275,265
Note payable	7,000,000	7,000,000
Total debt	10,084,889	10,275,265
Share capital	5,293,376	5,293,376
Retained earnings and OCI	3,941,423	3,645,069
Capital	9,234,799	8,938,445
Debt-to-adjusted capital ratio	1.09	1.15

24. FINANCIAL INSTRUMENTS

Financial instruments consist of recorded amounts of cash, accounts receivable and unbilled revenue which will result in future cash receipts, as well as accounts payable and accrued liabilities, customer deposits, accounts payable and accruals, advances payable and long term debt which will result in future cash outflows.

The Company does not believe that it is exposed to significant foreign exchange risk.

The Company is exposed to the following risks in respect of certain financial instruments held:

(a) *Fair value*

The estimated fair values of cash, accounts receivable, unbilled revenue, accounts payable and accrued liabilities, customer deposits, accounts payable and accrued liabilities approximate their carrying values due to the relatively short-term nature of the instruments and/or floating interest rates on the instruments. The estimated fair values of long-term debt also approximate carrying values due to the fact that effective interest rates are not significantly different from market rates.

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2015

24. FINANCIAL INSTRUMENTS, continued

(b) *Interest rate risk*

The Company manages its exposure to interest rate risk through a combination of fixed and floating rate borrowings. The fixed rate debt is subject to interest rate price risk, as the value will fluctuate as a result of changes in market rates. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates.

(c) *Credit risk*

Financial assets carry credit risk that a counter-party will fail to discharge an obligation which would result in a financial loss. Financial assets held by the Company, such as accounts receivable, expose it to credit risk. The Company earns its revenue from a broad base of customers located in the service area. No single customer accounts for revenue in excess of 10% of total revenue.

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment and the amount of related impairment loss is recognized in the income statement. Subsequent recoveries of receivables previously provisioned are credited to the income statement. The balance of the allowance for impairment at December 31, 2015 is \$43,000 (2014 - \$43,000). The Corporation's credit risk associated with accounts receivable is primarily related to payments from distribution customers. The Company has approximately 10,000 customers, the majority of which are residential. Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. As at December 31, 2015, the Company holds security deposits in the amount of \$203,052 (2014 - \$99,404). The Company's activities provide for a variety of financial risks, particularly credit risk, market risk and liquidity risk.

The following table sets out the maturities of accounts receivable:

	Trade accounts receivable \$	Accounts receivable - recoverable work \$	Allowance for doubtful accounts \$	Total \$
0-30 days	2,277,993	140,936	-	2,418,929
31-60 days	109,750	-	-	109,750
61-90 days	16,067	1,659	-	17,726
90+ days	76,627	478	(43,000)	34,105
	2,480,437	143,073	(43,000)	2,580,510

(d) *Market risk*

The Company is not exposed to significant market risk given they do not have investments in foreign currency, and have minimal investment in interest bearing instruments.

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2015

24. FINANCIAL INSTRUMENTS, continued

(e) *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company monitors its liquidity risk to ensure access to sufficient funds to meet operational and investment requirements. The Company's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Company has access to a \$1,000,000 line of credit and monitors cash balances to ensure that sufficient levels of liquidity are on hand to meet financial commitments as they come due.

The following table sets out the contractual maturities (representing undiscounted contractual cash-flows) of financial liabilities:

	Between 1-12 months \$	Between 1-2 years \$	Over 2 years \$
Accounts payable and accrued liabilities	2,987,311	-	-
Customer deposits	46,647	156,405	-
Long term debt	197,498	204,888	9,682,503
Employee future benefits	-	-	395,709
	<u>3,231,456</u>	<u>361,293</u>	<u>10,078,212</u>

25. CONTINGENCIES

The Company participates with other municipal utilities in Ontario in an agreement to exchange reciprocal contracts of indemnity through the Municipal Electric Association Reciprocal Insurance Exchange. Under this agreement, the Company is contingently liable for additional assessments to the extent that premiums collected are not sufficient to cover actual losses, claims and costs experienced.

1 [Ex.1/Tab 6/Sch.2 – Reconciliation between Financial Statements and Results Filed](#)

2

3 LUI has no reconciliation items between financial results shown in LUI's RRR filings, audited financial
4 statements and with the regulatory financial results filed in the application.

Lakefront Utilities Inc.
BALANCE SHEET
YEAR ENDED DECEMBER 31, 2015

	ACCOUNT	2015
BALANCE SHEET		
CURRENT ASSETS		
Cash in Bank	1005	409,206
Accrued Utility Revenues	1120	2,932,088
Customer Accounts Receivable	1100	2,471,847
Acct Rec. - Merchandise, Jobbing	1105	153,247
Other Accounts Receivable	1110	(1,583)
Acct. Prov. For Uncollect. Acct	1130	(43,000)
Accounts Receivable from Assoc. Corporations	1200	(318,170)
Prepayments	1180	62,680
		<u>5,666,314</u>
INVENTORIES		
Plant Materials and Operating Supplies	1330	242,364
Merchandise	1340	956
		<u>243,320</u>
OTHER REGULATORY ASSETS AND LIABILITIES		
RCVA Retail	1508	1,814
Other Regulatory Assets	1518	15,832
RCVA Service Transaction Request	1520	(517)
Power Purchase Variance Account	1548	16,797
RSVA - Shared LV Line	1550	653,875
Smart Metering Entity Charge	1551	5,598
IFRS-CGAAP Transitional	1580	(692,615)
RSVA One-Time	1582	(424)
RSVA NW	1584	(265,431)
RSVA CN	1586	(162,306)
RSVA Power	1588	879,030
RSVA Power - Global Adjustment	1589	(1,550,984)
Disposition and Recovery of Regulatory	1595	1,252,472
		<u>153,141</u>

PROPERTY AND EQUIPMENT

Miscellaneous Intangible Plant	1610	(60)
Land	1805	219,284
Buildings and Fixtures	1808	1,020,508
Distribution Station Equipment	1820	1,623,228
Poles, Towers and Fixtures	1830	2,032,947
Overhead Conductor and Devices	1835	4,712,699
Underground Conduit	1840	799,452
Underground Conductors and Devices	1845	1,572,462
Line Transformers	1850	3,191,202
Services	1855	706,338
Meters	1860	2,342,529
Other Installations on Customer's Premises	1865	807
Buildings and Fixtures	1908	2,400
Office Furniture and Equipment	1915	77,553
Computer Equipment - Hardware	1920	95,557
Computer Software	1925	480,788
Transportation Equipment	1930	690,680
Tools, Shop and Garage Equipment	1940	502,144
Measurement and Testing Equipment	1945	15,572
Miscellaneous Equipment	1960	160,984
System Supervisory Equipment	1980	324,816
Contributions and Grants - Credit	1995	(2,370,989)
Construction Work in Progress - Electric	2055	287,209
		<u>18,488,107</u>
Acc. Amort. - Amortization of Electric Utility	2105	<u>(1,946,574)</u>
Net Assets		<u>22,604,308</u>

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Lakefront Utilities Inc.
BALANCE SHEET
YEAR ENDED DECEMBER 31, 2015

	ACCOUNT	2015
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	2205	2,743,823
Customer Credit Balances	2208	201,523
Current Portion of Customer Deposits	2210	46,647
Misc. Current and Accrued	2220	38,204
Current Portion of Long-Term Debt	2260	197,498
Commodity Taxes	2290	59,830
Accrual for Taxes, Payment in Lieu of Taxes	2294	(200,652)
Future Income Taxes - Current	2296	(100,800)
		<u>2,986,072</u>
NON-CURRENT LIABILITIES		
Employee Future Benefits	2306	395,709
Long-Term Customer Deposits	2335	156,405
		<u>552,114</u>
OTHER LIABILITIES		
Other Regulatory Liability	2405	(56,067)
Debentures Outstanding - Long Term Portion	2505	2,887,391
Other Long Term Debt	2520	7,000,000
		<u>9,831,324</u>
SHAREHOLDER'S EQUITY		
Common Shares Issued	3005	5,293,376
Unappropriated Retained Earnings	3045	3,645,069
Appropriations of Retained Earnings - Current Period	3047	502,353
Dividend Payable - Common Shares	3049	(206,000)
		<u>9,234,799</u>
		<u>22,604,308</u>

Lakefront Utilities Inc.
INCOME STATEMENT
YEAR ENDED DECEMBER 31, 2015

	ACCOUNT	2015
SERVICE REVENUE		
SALE OF ELECTRICITY		
Residential Energy Sales - COP - First 750 kwh	4006	7,527,308
Commercial Energy Sales - COP - First 750 kwh	4010	2,603,506
Industrial Energy Sales - COP - First 750 kwh	4015	1,558,247
Street Lighting Energy Sales - COP - Internal Metering	4025	109,092
Sentinel Lighting Energy Sales - COP - First 750 k	4030	64,522
General Energy Sales - GS<50 - COP - First 750 k	4035	11,672,238
Energy Sales for Retailers - Residential - COP	4055	1,086,711
Billed WMS - Residential	4062	965,338
Billed NW - Residential	4066	1,543,246
Billed CN - Residential	4068	1,099,984
Billed - LV	4075	295,876
Billed - Smart Metering Entity Charge	4076	91,925
		<u>28,617,992</u>
REVENUES FROM SERVICES		
Distribution Service Revenue	4080	4,085,864
Retail Services Revenue - Distributor - Consolidated	4082	8,056
STR Revenues - Request Fee	4084	2,620
SSS Administration Revenue	4086	35,555
		<u>4,132,096</u>
OTHER OPERATING REVENUES		
Interdepartmental Rent	4205	60,930
Rent from Electric Property	4210	76,692
Late Payment Charges	4225	68,477
Miscellaneous Services Revenues	4235	307,026
		<u>513,125</u>
OTHER INCOME AND DEDUCTIONS		
Loss on Disposition of Utility and Other Property	4360	2,500
Revenues from Non-Utility Operations	4375	347,395
Expenses from Non-Utility Operations	4380	(327,099)
		<u>22,795</u>
INTEREST INCOME		
Interest and Dividend Income - Interest	4405	<u>33,463</u>
TOTAL REVENUES		<u>33,319,472</u>

COST OF SALES

POWER SUPPLY EXPENSES

Power Purchased	4705	24,710,928
Power Purchased - Global Adjustment	4707	965,338
Charges - Network Services (NW)	4714	1,544,779
Charges - Connections (CN)	4715	1,101,072
Shared LV Line	4750	295,876
		<u>28,617,992</u>

DISTRIBUTION EXPENSES - OPERATIONS

Operation Supervision and Engineering	5005	99,345
Distribution Station Equipment - Op Labour	5016	52,874
Distribution Station Equipment - Op Supplies	5017	1,452
OH Dist Lines and Feeders - Operation Labour	5020	186,591
OH Dist Lines and Feeders - Op Supplies and Expenses	5025	52,075
UG Dist Line Feeders - Operation Labour	5040	104,234
UG Dist Lines and Feeders - Op Supplies and Expenses	5045	2,287
Misc Distribution Expenses - Warehouse - Labour	5085	9,479
		<u>508,337</u>

DISTRIBUTION EXPENSES - MAINTENANCE

Maintenance of OH Services - Labour	5130	49,343
OH Distribution Lines and Feeders - Right of Way	5135	45,421
Maintenance of UG Services - Labour	5155	30,940
Maintenance of Line Transformers - Labour	5160	9,997
Maintenance of Meters - Labour	5175	39,302
		<u>175,003</u>

BILLING AND COLLECTING

Meter Reading Expenses - Labour	5310	260,413
Customer Billing - Labour	5315	173,403
Collecting - Services for internal purposes - Labour	5320	30,140
Collecting - Cash Over and Short	5325	(506)
Collection Charges	5330	9,684
Bad Debt Expenses - Residential	5335	24,824
Misc Cust Account Exp - Communication Service	5340	33,178
		<u>531,136</u>

COMMUNITY RELATIONS

Community Relations - Sundry	5410	<u>12,773</u>
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ADMINISTRATIVE AND GENERAL

Executive Salaries and Expenses - Labour	5605	61,205
Management Salaries and Expenses	5610	207,878
General Admin Salaries and Expenses - Salaries	5615	301,421
Office Supplies and Expenses	5620	93,139
Outside Service Employed	5630	92,587
Property Insurance	5635	31,802
Injuries and Damages - WSIB	5640	30,334
Regulatory Expenses	5655	39,238
Maintenance of General Plant	5675	55,770
Membership Dues	5680	65,000
		<u>978,374</u>

AMORTIZATION

Depreciation General Plant	5705	<u>1,121,030</u>
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INTEREST ON LONG-TERM DEBT

Interest on Long-Term Debt	6005	507,500
Other Interest Expense	6035	175,531
		<u>683,031</u>

PAYMENT-IN-LIEU OF TAXES

Taxes Other Than Income Taxes	6105	59,997
Income Taxes	6110	79,245
Future Income Taxes Expense	6115	44,900
		<u>184,142</u>

UNUSUAL AND OTHER ITEMS

Donations - Leap Funding	6205	<u>5,301</u>
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TOTAL EXPENSES		32,817,119
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NET INCOME		502,353
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Ex.1/Tab 6/Sch.3 – Annual Report

LUI intends to prepare an annual report for 2015, to be finalized in May/June 2016 and posted on its website.

Ex.1/Tab 6/Sch.4 – Prospectus and Recent Debt/Share Issuance Update

LUI does not issue debt or shares nor do they publish any prospectus.

1 Ex.1/Tab 6/Sch.5 – Other Relevant Information

2
3 **Tax Status**

4 The utility is not seeking any changes in its tax status.

5
6 **Existing/Proposed Accounting Orders**

7 The Accounting Standards Board (“AcSB”) deferred mandatory adoption of IFRS for qualifying rate-
8 regulated entities to January 1, 2016. However, per the Board’s letter of July 17, 2013, electricity
9 distributors electing to remain on CGAAP were required to implement regulatory accounting changes for
10 depreciation expenses and capitalization policies by January 1, 2013. LUI choose to implement the change
11 in useful lives under CGAAP as of January 1, 2012 and submitted this in LUI’s 2012 Cost of Service. LUI
12 has prepared this application under MIFRS.

13
14 **Accounting Standards used in Application**

15 Lakefront Utilities Inc.’s last rebasing was for 2012 rates. Within that application the 2012 rates were
16 derived using MIFRS as noted in the OEB’s Decision and Order EB-2011-0250.

17 In accordance with the Filing Requirements, LUI has provided information for 2012, 2013, and 2014 Actual
18 under MIFRS. The 2015 actual, 2016 Bridge Year, and 2017 Test Year have also been provided under
19 MIFRS. The only change for LUI is the reallocation of Account 1995 Contributed Capital to Account 2240
20 Deferred Revenue.

21 As a result, Appendix 2-Y is not applicable.

22
23 **Segregation of Rate Regulated Activities**

24 LUI is engaged in the delivery of the IESO’s Conservation and Demand Management Programs. The
25 accounting of these activities is segregated from LUI’s rate regulated activities in accordance with the
26 Board’s Accounting Procedures Handbook for Electricity Distributors.

Materiality Threshold

Ex.1/Tab 7/Sch.1 – Materiality Threshold

Lakefront's estimated revenue requirement for the 2017 test year is \$4,414,540. As Lakefront has a distribution revenue requirement greater than \$10 million and less than \$200 million, the materiality threshold used in this application is at a rate of 0.5% which equates to a materiality threshold of \$50,000.

Corporate Governance

Ex.1/Tab 8/Sch.1 – Corporate Governance Structure

LUI has described its corporate and utility organizational structure, including descriptions of the activities of each of LUI's affiliates.

There are no planned changes in corporate or operational structure.

Ex.1/Tab 8/Sch.2 – Board of Directors

LUI's Board of Directors is comprised of three (3) members, one (1) of whom is an independent member as defined in the OEB's Affiliate Relationship Code ("ARC"). In 2015, as per the table below, the LUI board had five regular meetings. The Board of Directors composition is compliant with ARC, which requires that at least one-third of a regulated distribution company's directors is independent from any affiliate.

None of the directors is an officer or employee of Lakefront Utilities or any of its affiliates, which is the same standard for independence as is provided for corporations under the Business Corporations Act (Ontario). Each director is provided ample time and opportunity to receive relevant information and provided the opportunity at Board meetings to appropriately challenge how executive officers are discharging their duties and achieving their goals.

Furthermore, the Board of Directors' composition and practices facilitates the exercise of independent judgement. The directors are selected based on a desire to achieve diversity in business skills (e.g., human resources, legal, operational, financial). It is this diversity that ensures that all voices are valued and heard for their input and perspective.

The background of each LUI board member is as follows:

Barry Gutteridge, Chair

- M.B.A. University of Toronto, Hon. B.A. Urban Studies, Architecture
- Current Board of Director – Town of Cobourg Holdings Inc.
- Former Commissioner of Works and Emergency Services of the Corporation of the City of Toronto. Department of 9300 employees with an annual operating budget of \$1.5 billion and a capital budget of over \$600 million.
- Board of Management/Commissioner of City Works Services – City of Toronto
- Director, Realty Services Division City Property Department – City of Toronto
- Project Manager, Real Estate, Planning Division – Marshall Macklin Monaghan Ltd.
- Director, Portfolio Management Branch, Realty Group – Ministry of Government Services

Stanley M. Stewart

- Hon. B.A. Business Admin, Wilfred Laurier, ICD.D
- Former Director, Globalive Wireless Management Corporation
- Member, Independent Review Committee, Heritage Education Fund
- Former Director, Phenomenome Discoveries Inc.
- Former Chair and Director, Induran Ventures Inc.
- Former Chair of the Board, Director and Trustee, Amtelecom Income Fund
- President, CEO and Director, Amtelecom Group

- Former Exec VP and Chief Credit Officer, Schedule A Bank
- Former Exec VP and COO, Canadian Trust Company
- Senior VP Corporate Development, Federally chartered insurance company

Gil Broncanier

- Mayor, Corporation of the Town of Cobourg
- Current Chair of the Board – Town of Cobourg Holdings Inc.
- Former Manufacturing Manager – General Foods/Kraft Canada. Responsible for annual operating budgets of \$44 million

Ex.1/Tab 8/Sch.3 – Board Mandate

Lakefront Utilities, through its parent company, Town of Cobourg Holdings Inc., is governed by a Shareholders Agreement (the “Agreement”) among Lakefront Utilities and Town of Cobourg Holdings Inc. The agreement provides for the following, among other matters:

- Composition of the Board of Directors;
- Qualifications of Board Members;
- Term of Directors;
- Meeting frequency;
- Quorum;
- Identification of the Board Committees; and
- Other matters related to corporate governance

The Agreement requires that LUI’s Board of Directors “manage or supervise the management of the business and affairs of the Corporation”.

The Agreement provides that the Board of Directors consists of individuals with a cross-section of skills and experience. Board members are recruited based on assessments of their sound judgement and integrity and a set of qualifications that may include:

1. Financial expertise – experience regarding significant commercial transactions, marketing, product development, corporate mergers and acquisitions;
2. Awareness of public policy issues related to the Corporation or a Subsidiary as applicable;
3. Regulated industry knowledge, including, but not limited to Ontario’s electricity sector, water industry and/or telecommunication services;
4. Network/infrastructure industry experience; and
5. Knowledge and experience with risk management strategy.

Ex.1/Tab 8/Sch.4 – Board Meetings

The Board of Directors has 5 (five) regularly scheduled meetings each year; meetings of committees of the Board are scheduled prior to the Board meeting, if applicable. In addition, ad-hoc Board meetings may be held to discuss pertinent issues arising outside of the normal meeting cycle, as necessary. The 2015 schedule of the Lakefront Utilities Board of Directors and Board Committees is provided as follows:

Table 1.12: 2015 Board Meeting Schedule

Date	Directors Present	Description
February 12, 2015	3	President's Report; CDM Report; Approval of Q4 2014 Balance Sheet and Income Statement; Approval of 2014 Allowance for Doubtful Accounts; Key Performance Indicator Review; Operations Report; Human Resources Report; Business of the Organization
April 16, 2015	3	President's Report; CDM Report; Customer Service Report; Approval 2014 Audited Financial Statements; 2015 IRM Synopsis; Operations Report; Human Resources Report;
June 15, 2015	3	President's Report; CDM Report; Customer Service Report; Approval of Q1 2015 Balance Sheet and Income Statement; Key Performance Indicator Review; Q1 2015 Capital Summary; Q1 2015 Accounts Receivable Write-Off; Operations Report; Human Resources Report;
September 10, 2015	3	President's Report; EmPower Hour Report; Customer Service Report; Approval of Q2 2015 Balance Sheet and Income Statement; Key Performance Indicator Review; Q2 2015 Capital Summary; Q2 2015 Accounts Receivable Write-Off; OEB 2014 Yearbook Analysis; Regulatory Report and Information Items; Operations Report; Human Resources Report;
November 12, 2015	3	President's Report; CDM Report; Customer Service Report; Approval of Q3 2015 Balance Sheet and Income Statement; Key Performance Indicator Review; Q3 2015 Capital Summary; Q3 2015 Accounts Receivable Write-Off; 2014 Scorecard Analysis; Draft 2016 OM&A and Capital Budgets; Regulatory Report and Information Items; Operations Report; Human Resources Report;

Overall attendance of the LUI board members has been exemplary, at minimum, each Director has attended 100% of the meetings in 2015.

1 LUI's 2016 board schedule is provided as follows:

2 **Table 1.13: 2016 Board Meeting Schedule**

Date	Directors Present	Description
February 4, 2016	3	President's Report; CDM Report; Approval of Q4 2015 Balance Sheet and Income Statement; Key Performance Indicator Review; Q4 2015 Capital Summary; 2015 Allowance for Doubtful Account Approval; Approval of 2016 OM&A and Capital Budgets; Regulatory Report and Information Items; Operations Report; Human Resources Report;
April 13, 2016	3	President's Report; CDM Report; Approval 2015 Audited Financial Statements; Revised/updated 2016 OM&A Budget; Allowance for Doubtful Accounts - Bad Debt Write Off; Dividend Discussion; 2016 IRM Synopsis; Operations Report; Solar MicroFit Project; Human Resources Report; 2016 Primary Objectives and Core Activities; Regulatory Report and Information Items - DSP Review and Exhibit #1 Review;
June 9, 2016		
September 1, 2016		
November 9, 2016		

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Ex.1/Tab 8/Sch.5 – Orientation and Continuing Education

New directors attend an orientation session scheduled with the Corporate Secretary and receive a briefing and written materials on Lakefront Utilities, its governance, its activities and their responsibilities. The following table provides the orientation materials for directors, by major topic.

Table 1.14: Orientation Materials

Topic	Related Material
Board Mandate and Corporate Governance	By-law No. 1
	Board of Directors and Committee Mandates, and the Role of the Chair
	Corporate Governance
	Code of Conduct and Conflict of Interest
	Directors and Officers Insurance
	Indemnity Agreement
	Dividend Policy
	Shareholder Agreement
Lakefront Utilities' Corporate Information and Policies	Beliefs, Vision, and Mission
	Audited Financial Statements and MD&A
	Current Sustainability-Based Annual Report
	Whistleblower Policy
	Sustainability Policy
	Environmental Policy
	Privacy Policy
	Public Safety Policy
	Health and Safety Policies
Legislation	Ontario Energy Board Act, 1998
	Electricity Act, 1998
	Information on Proposed and Pending Legislation
OEB Requirements	Distribution System Code
	Affiliate Relationship Code
	Standard Supply Service Code
	Retail Settlement Code

Furthermore, new Board members are provided with copies of the minutes of the Board meetings for the previous year.

Continuing Education

Human Resources is responsible for periodically reviewing the adequacy of the director orientation and continuing education programs. Management prepares presentations throughout the year to provide the Board of Directors with more detailed information and education on specific topics; such presentations are generally provided at regularly scheduled Board of Directors meetings.

Board members have the opportunity to attend industry conferences and are regularly invited and encouraged to attend various breakfast or luncheon events organized by such associations as the EDA, which feature industry leaders as speakers. Management also provides relevant electricity distribution rate application decisions and briefings on OEB policy papers to the Board of Directors as these are released. Board members also receive news releases or clippings of relevant industry news items.

In 2016, LUI Chair Barry Gutteridge attended the EDA Director's Summit.

Ex.1/Tab 8/Sch.6 – Ethical Business Conduct/Conflict of Interest

Lakefront Utilities' Board of Directors has adopted the same Code of Conduct that pertains to all Lakefront Utilities employees. Directors of the Board and Officers of the company are required to review the Code of Conduct annually and to complete a Conflict of Interest Declaration each year.

Potential conflicts of interest are declared and assessed at the outset of all Board meetings.

Ex.1/Tab 8/Sch.7 – Nomination of Directors

In order to assist in identifying candidates for the LUI Board's most recent vacancy, an advertisement was published in the local newspaper and interest in the position was solicited from the public. Applications are reviewed by the Holdco Board Nominating Committee. Interviews are conducted and final selections are recommended to the Holdco Board for consideration. The Nominating Committee has a developed process to identify and evaluate candidates in order to recommend a slate of qualified candidates to the Board.

Ex.1/Tab 8/Sch.8 – Board Committees

The Board of Directors has two Board Committee as follows:

Audit and Finance Committee – This committee is responsible for the review of Lakefront Utilities' financial results and annual audit, risk management and internal control; and the information systems activities. Two members of this committee are independent, and all members of this committee are required to be financially literate.

Nomination Committee – This committee is responsible for identifying candidates for any vacancies, reviewing applications, conducting interviews, and making a recommendation to the Holdco Board of Directors for appointment to the LUI Board.

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2 **Letters of Comment**

3

4 **Ex.1/Tab 9/Sch.1 – Letter of Comment**

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6 Lakefront Utilities will respond to any matters that are raised in letters of comment filed with the Board
7 during the course of this proceeding and file those responses as additional evidence.

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Scorecard Performance Evaluation

Ex.1/Tab 10/Sch.1 – Scorecard Performance Evaluation

On March 15, 2014, the Board issued its report on “Performance Measurement for Electricity Distributors: A Scorecard Approach”. The report sets out the Board’s policies on the measures that will be used by the Board to assess a distributor’s effectiveness and improvement in achieving customer focus, operational effectiveness, public policy responsiveness, and financial performance to the benefit of existing and future customers. Under this approach, a distributor is also expected to demonstrate continuous improvement in its understanding of the needs and expectations of its customers and its delivery of services.

With the above in mind, LUI would like to provide an overview of this utility in terms of the Renewed Regulatory Framework RRFE and the Distributor Scorecard. Since the scorecard has been developed to measure the outcomes of the RRFE on an ongoing basis the following outlines how the outcomes of the RRFE have been reflected in the preparation of this application. LUI continues to improve in its understanding of the needs and expectations of its customers and its delivery of services.

LUI is measured on four main categories:

Customer Focus

Particulars	2011	2012	2013	2014	2015	Target
Customer Focus						
Service Quality						
New Residential/Small Business Services Connected On Time	100.00%	100.00%	100.00%	93.90%	100.00%	90.00%
Scheduled Appointments Met On Time	100.00%	100.00%	100.00%	100.00%	100.00%	90.00%
Telephone Calls Answered on Time	100.00%	100.00%	100.00%	96.60%	92.16%	65.00%
Customer Satisfaction						
First Contact Resolution				99.58%	99.95%	
Billing Accuracy				99.98%	100.00%	98.00%
Customer Satisfaction Survey Results				A	A	

1 Over the past five years LUI has exceeded all of these measures including new services connected on
2 time, scheduled appointments met, and telephone calls answered within 30 seconds. LUI attributes this
3 success to its open door policy to its customers. Employees answer the telephone themselves with no
4 automated phone system, and make personal arrangements for appointments. Customers are generally
5 helped immediately with questions or issues at the first point of contact, whether by phone or in person.

6 LUI received 13,427 incoming calls in 2015. The DSC requires calls to be answered within 30 seconds
7 when a customer calls into the customer care line. The Ontario Energy Board has a target for utilities to
8 achieve at least a 65% answering time within 30 seconds from qualifying incoming calls. LUI exceeded this
9 expectation by performing at 92.16%.

10
11 The Ontario Energy Board issued a new measure to see how successful utilities are at resolving customer
12 requests from the first point of contact with the utility, starting July 1, 2014. Since this was a new
13 implementation, utilities were given the opportunity to independently strategize how they could measure
14 their first contact resolution. LUI performed the task of measuring this requirement by logging all calls,
15 letters, and emails received, and then tracking if the inquiry was successfully answered at the first point of
16 contact. A series of logged calls have been created to assist the customer service representatives to
17 accurately choose the logged call pertaining to the inquiry received. A specific order has been created to
18 track any calls, letters, or emails that were not resolved at the first point of contact. If the log was not
19 successfully completed at first contact a second request is logged. In 2014, LUI performed at 99.58% with
20 logging only four requests needing secondary attempts to resolve. In 2015, LUI performed at 99.95%,
21 logging only two requests needing secondary attempts to resolve.

22
23 Similar to the First Contact Resolution measure, Billing Accuracy is a relatively new measure being
24 governed by the Ontario Energy Board (OEB) which began in 2014. It is a crucial part of LUI's business to
25 ensure the accuracy of customer bills. LUI performs due diligence by testing the consumption levels in
26 correlation to the amount expensed to its customers. The utility also performs analysis of meter reading
27 data and correcting errors that may arise, before it is allocated to the customer's bill. From October 2014 to
28 year end (period of prescribing measurement by the Ontario Energy Board), LUI issued 17,153 bills with
29 only three being inaccurate and requiring revision. LUI performed at 99.98% which is above the OEB's
30 standard of 98%. In 2015, LUI issued 84,649 bills with only three bills being inaccurate. LUI performed at
31 100% (rounded from 99.9965%), above the OEB standard of 98%.

32
33 LUI's Customer Satisfaction Survey is a new measure introduced for 2014 and is still a work in progress.
34 The Ontario Energy Board (OEB) is working diligently on defining this measure in more detail over the next
35 few years after analyzing how utilities perform using their own approach. Utilities are required to report on
36 this measure every second year. LUI performed a customer satisfaction survey in 2013. Based on the
37 survey results, LUI received a grade of A. For 2015, LUI engaged their customers by requesting they
38 complete a questionnaire consisting of 25 questions using an online tool called Survey Monkey. This
39 ensured that the cost of performing the survey would be minimal to the customer. The questions were

formatted in a multiple choice format touching on the areas of service reliability, billing and payment options, customer service, online services, communication, and overall performance. Customers were invited to participate in the survey in person, online through a link accessible on the utility's website, and advertised on LUI's Twitter and Facebook. Overall, 82% of respondents valued their electricity service between good to excellent. LUI is planning on continuing their relationship with Innovative Research for customer engagement, including the 2017 survey.

Operational Effectiveness

Particulars	2011	2012	2013	2014	2015	Target
Operational Effectiveness						
Safety						
Level of Public awareness					79.00%	
Level of Compliance with Ontario Regulation 22/04	NI	NI	C	C	C	C
Serious Electrical Incident Index - Number of General Public Incidents	0	0	0	0	0	0
Serious Electrical Incident Index - Rate per 10, 100, 1000 km of line	0.00	0.00	0.00	0.00	0.00	0.00
System Reliability						
Average Number of Hours that Power to a Customer is Interrupted	1.94	0.50	2.48	1.06	0.69	.50 - 2.95
Average Number of Times that Power to a Customer is Interrupted	1.51	1.00	1.24	0.34	0.49	1.00 - 1.55
Asset Management						
Distribution System Plan Implementation Progress				In-progress	Completed	
Cost Control						
Efficiency Assessment		2	2	2	2	
Total Cost per Customer	427	430	465	451	445	
Total Cost per Km of Line	36,999	36,506	39,825	23,584	23,455	

LUI has remained in compliance with Ontario Regulation 22/04 and has had no general public safety incidents in its history. Reliability which measures the average number of hours and number of times that power to a customer is interrupted varies from year to year. In 2015, LUI's reliability indices decreased below the provincial average, primarily due to LUI's high degree of success in its maintenance and vegetative management program.

LUI is remitting its Distribution System Plan with this application and is committed to following the plan.

The Ontario Energy Board, along with consultants from the Pacific Economics Group LLC ("PEG"), prepared a report in order to evaluate all LDCs efficiencies. These efficiencies are based on each utility's actual cost compared to the average levels predicted by a study conducted by PEG. Based on the

efficiency levels achieved, each utility is grouped in their ranking with the most efficient being assigned to Group 1 and the least efficient to Group 5. LUI followed the approach used by Milton Hydro and updated the PEG report with LUI's 2015 data. Based on the updated report, LUI has a total cost per customer of \$445, a decrease of \$6 (or 1.33%) from 2014. In addition, total cost per Km of line decreased by \$129 (or .55%) from 2014. Based on the above, LUI's efficiency assessment remains in Group/Cohort 2.

Public Policy Responsiveness

Particulars	2011	2012	2013	2014	2015	Target
Public Policy Responsiveness						
Conservation and Demand Management						
Net Annual Peak Demand Savings (Percent of target achieved)	8.22%	16.97%	29.16%	40.20%		
Net Cumulative Energy Savings (Percent of target achieved)	39.83%	55.22%	66.62%	76.88%		
Connection of Renewable Generation						
Renewable Generation Connection Impact Assessments Completed On Time						
New Micro-embedded Generation Facilities Connected On Time			100.00%	N/A	100.00%	100.00%

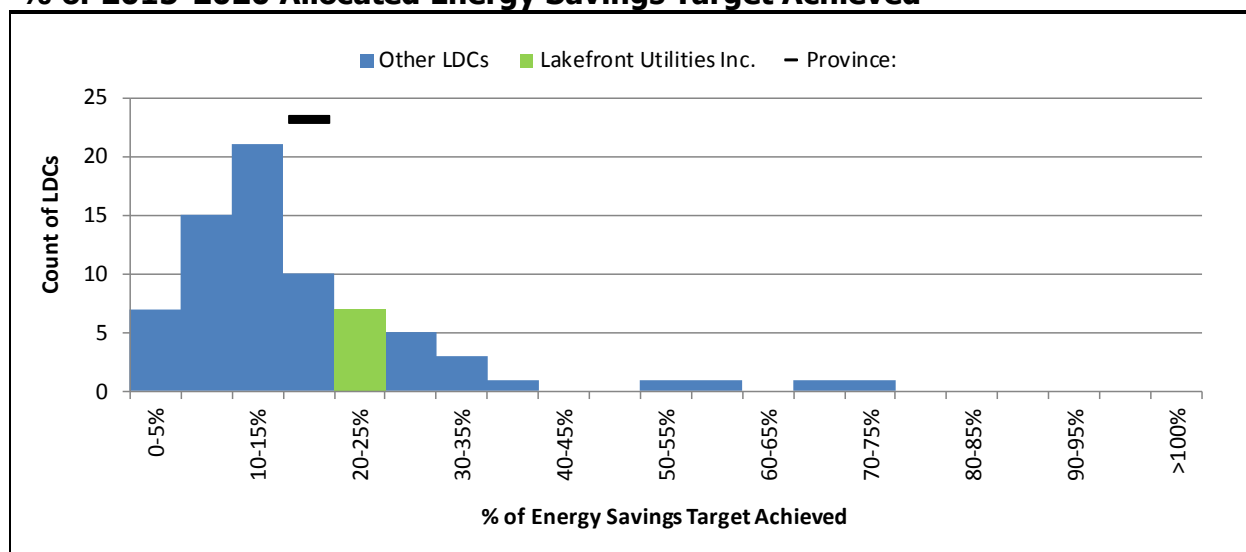
The Ontario Energy Board introduced a mandatory function of Conservation and Demand Management (CDM) for electric utilities. Targets had to be achieved for each utility to contribute to the province's total savings of 1,330 MW of peak demand by 2014. To reach this goal, the Ontario Power Authority (now the IESO) initiated programs for the utilities to participate in for the purpose of reducing electricity consumption and demand. These programs are intended for all rate classes from residential to commercial and industrial electricity customers.

LUI achieved 40.20% (1.1 MW) of its Net Annual Peak Demand (kW) Savings target of 2.77 MW at the end of 2014. This was possible by attaining a Roving Energy Manager who assisted in developing energy plans and energy efficiency opportunities.

LUI achieved 76.88% (10.4 GWh) of its four-year Net Cumulative Energy (kWh's) Savings target of 13.59 GWh. LUI is prepared for the new CDM framework along with new targets to be measured starting in 2015 and the forwarding five years. LUI's approach will be to maximize energy savings while ensuring administrative costs required to support the achievement do not exceed the approved budgets.

LUI's 2015 data is based on preliminary results and has not been verified by the OPA. Based on the below Participation and Cost Report from the IESO, LUI is consistent with other LDCs in meeting their 2015-2020 allocated energy savings target.

% of 2015-2020 Allocated Energy Savings Target Achieved



Financial Ratios

Particulars		2011	2012	2013	2014	2015	Target
Financial Performance							
Financial Ratios							
Liquidity: Current Ratio (Current Assets/Current Liabilities)		3.37	2.53	2.74	1.68	1.90	
Leverage: Total Debt (includes short-term and long-term debt to Equity Ratio)		1.33	1.19	1.17	1.18	1.15	
Profitability: Regulatory Return on Equity: Deemed		8.57%	9.12%	9.12%	9.12%	9.12%	
Profitability: Regulatory Return on Equity: Achieved		8.64%	11.40%	9.20%	6.50%	7.50%	

The current ratio is a test to see if a company is capable of paying its short-term debts and financial obligations. A ratio under 1 indicates the company's current liabilities are greater than its current assets possibly causing them the inability to meet their short-term obligations. On the other hand, a greater than 1 ratio shows the company has a good standing with meeting its creditors' demand. Although it depends from industry to industry an adequate current ratio falls between 1.5 and 3.

In 2015, LUI's current ratio improved by 0.22 from 2014. The increase in current ratio is due to a decrease in accounts payable as the 2014 balance included a significant amount related to capital projects completed before December 31, 2014. LUI continues to monitor the current ratio and reports the figure at its quarterly Board meetings.

The total debt to equity ratio is a measure of financial leverage used to finance a company's assets. This leverage is evaluated from the proportion between the shareholder's equity and debt. Ideally, the Ontario Energy Board structured the capital mix at a 60/40 (or 1.5) ratio. A ratio of more than 1.5 means the

1 company may be highly leveraged with financing and possibly unable to generate adequate cash flow to
2 pay its debt. LUI's debt-to-equity ratio of 1.15 has decreased from 2014 and is the result of a decrease in
3 debt due to principal repayments and an increase in net income.
4

5 In 2012, a rate application was submitted by LUI to the Ontario Energy Board where a deemed rate of
6 9.12% was approved. The OEB permits an electricity distributor to earn within +/- 3% of the expected
7 9.12% return of equity. When a distributor performs outside of this earning threshold, a regulatory audit of
8 the distributor's financials could be initiated by the OEB. LUI achieved a return of equity of 7.5% in 2015,
9 which is within the 6.12% to 12.12% range allowed by the Ontario Energy Board. The consistency with
10 meeting the required return allowance has been evident since 2011. LUI makes every effort to comply with
11 its profitability levels by regularly managing its financial position with a cost reduction approach as opposed
12 to revenue generation. In addition, the ROE is monitored and reported to the LUI Board of Directors on a
13 quarterly basis.
14

15 LUI's management team has had discussions with its major shareholder, the Town of Cobourg, regarding
16 future dividend payments. The Town of Cobourg accepted management's proposal regarding postponing
17 future dividend payments to the Town of Cobourg for the purpose of re-investing the money into LUI's
18 distribution system.
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1 Attachment A - Innovative Research Report



Customer Consultation Report

2017-2021 Distribution System
Investment Plan Review

April 2016

Prepared for:
Lakefront Utilities Inc.
207 Division St.
Cobourg, Ontario, K9A 4L3



**Lakefront
Utilities
Inc.**

Customer Consultation Report

2017-2021 Distribution System Investment Plan Review

April 2016

This report has been prepared by Innovative Research Group Inc. ("INNOVATIVE") for Lakefront Utilities Inc.

The conclusions drawn and opinions expressed are those of the authors.

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1

Table of Contents

Introduction	4
About this Consultation.....	4
Customer Consultation Overview	5
Workbook Development	5
Executive Summary.....	8
Customers are Highly Satisfied	8
Familiarity with Lakefront Utilities.....	8
Reliability of Service	9
Customer Reaction to Rate Impacts.....	9
Workbook-based Facilitated Discussions	11
Summary	11
Methodology	13
About the General Service and Residential Customer Consultation	13
Recruiting Consultation Participants.....	13
Consultation Session Structure	13
Participant Feedback	15
General Service under 50 kW Rate Class.....	15
General Satisfaction	15
Improving Service of the Local Distribution System.....	15
System Reliability	16
Impact of Outages.....	17
Capital Investment	18
Operating Budget and Cost Drivers.....	19
Proposed Plan and Rate Impact.....	19
How Could the Consultation Process be Improved?.....	19
Residential Rate Class.....	20
General Satisfaction	20
Improving Service of the Local Distribution System.....	20
System Reliability	21
Capital Investment	21
Operating Budget and Cost Drivers.....	22
Proposed Plan and Rate Impact.....	22
How Could the Consultation Process be Improved?.....	23
Questionnaire Results (Workbook)	24
Online Workbook Survey	29
Summary	29

2

1

Methodology	30
A Background on the Online Workbook	30
Respondent Profile	33
Figure 1: Demographics and Firmographics	34
Respondent Feedback	36
Familiarity and Satisfaction	36
Figure 2: Familiarity with Electricity System	36
Figure 3: Explanation of Electricity System	37
Figure 4: Satisfaction with Lakefront Utilities Service	38
Figure 5: Suggested Improvements to Service	39
System Reliability	40
Figure 6: Frequency of Outages in Past Year	40
Figure 7: Frequency and Duration of Outages, Acceptability	41
Figure 8: Cost vs. Reliability	42
Investment in Infrastructure, Buildings, Equipment and IT Systems	43
Figure 9: Investment in Buildings, Equipment and IT Systems	43
Figure 10: Investment in Aging Infrastructure	44
Cost Drivers and Cost Savings	45
Figure 11: Understanding of Cost Drivers	45
Figure 12: Management of Cost Drivers	46
Figure 13: Lakefront Utilities' Spending Plan	47
Figure 14: Satisfaction with Cost Savings by Lakefront Utilities	48
Figure 15: Satisfaction with Cost Savings by Lakefront Utilities	49
Plan for the Future and Acceptance of Rate Change	50
Figure 16: Satisfaction with Cost Savings by Lakefront Utilities	50
Figure 17: Satisfaction with Cost Savings by Lakefront Utilities	51
Figure 18a: Acceptance of Rate Increase	52
Figure 18b: Acceptance of Rate Increase, Includes Exit Ramp	53
Figure 19a: Reasons for Accepting the Rate Change	54
Figure 19b: Reasons for Opposing the Rate Change	55
Appendix: Feedback on the Workbook Design	57
Appendix A: Overall Impression	57
Appendix B: Volume of Information	58
Appendix C: Content Covered	59
Appendix D: Outstanding Questions	60
Appendix E: Suggestions for Future Consultations	61
Key Account Validation Interviews	62
Methodology	62

2

1

Recruiting Key Account Participants	62
Key Account Consultation Process	63
Key Account Interview Structure	63
Participant Feedback	64
Overall Take-Away	64
Customer Experience and Expectations	64
Coverage of Distribution System Topics	64
Rate of System Renewal	65
Rate Impacts	65
Validation Interview Questionnaire Results	65
Appendix: Residential Customer Workbook	68

2

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Introduction

About this Consultation

In the Winter of 2016, Lakefront Utilities Inc. commissioned Innovative Research Group Inc. ("INNOVATIVE") to design and implement a customer engagement research program in order to collect and document customer feedback as part of the development of Lakefront Utilities' 2017-2021 Distribution System Investment Plan.

This Distribution System Investment Plan incorporates both operational and infrastructure components and is a key component of Lakefront Utilities' 2017-2021 rate application to the Ontario Energy Board ("OEB").

As part of its *Renewed Regulatory Framework for Electricity ("RRFE")*, the OEB now requires that all Ontario Local Distribution Companies ("LDC"s) demonstrate that they are providing services in a manner that responds to identified customer needs and preferences¹. LDCs, when submitting a rate application to the OEB, are now required to demonstrate that they have consulted with customers, and that they have taken customer needs and preferences into consideration when developing their Distribution System Investment Plans.

Because this "consumer-centric" approach is a new requirement of the OEB, there are currently no established standard practices for undertaking these customer engagement activities. There are many options available for this type of customer consultation. The following section explains how INNOVATIVE approached this engagement.

Approach to Meaningful Customer Engagement

Engaging customers in a meaningful consultation can be a challenge. Customers often feel they don't know enough to be able to contribute, or they may want to avoid taking what may be perceived as controversial positions on issues. Too often, customers prefer to remain silent and let others do the talking for them. Furthermore, many customers are simply not aware that consultations are taking place, and so even those who want to participate are not able to. All of these factors combine to make it extremely challenging to engage a representative group of customers.

An additional challenge when consulting with customers on a Distribution System Investment Plan is that most customers simply don't understand how the distribution system works, including the role of LDCs and the issues and challenges they face. This has been well documented in OEB research and in INNOVATIVE's own experience in other studies.

In order to overcome the challenges of engaging a representative group of customers, and a lack of knowledge, INNOVATIVE's customer consultation process has been developed based on three key principles:

1. The use of random-sampling research elements to ensure a representative sample of customers are engaged.

¹ OEB Renewed Regulatory Framework for Electricity Sections 2.4.2, 5.0, and 5.0.4.

2. A focus on fundamental value choices, using questions that ask people to choose between key outcomes rather than focus on the technical questions of how to reach those outcomes.
3. Creating an opportunity for the public to learn the basics of the distribution system so they can provide a more informed point of view.

Customer Consultation Overview

With these three guiding principles in mind, INNOVATIVE has designed a customer engagement program which includes various phases designed to capture feedback from multiple customer rate classes as pertains to Lakefront Utilities' 2017-2021 Distribution System Investment Plan.

Lakefront Utilities' customer engagement program was comprised of three elements.

1. **General Service < 50kW and Residential Customer Consultation Groups:** This initial, qualitative, phase of the consultation was designed to educate consumers about the electricity system, Lakefront Utilities' role within it, and the utility's spending and investment plans for the next five years. A workbook was used (see details below) to provide information on the distribution system, the challenges Lakefront Utilities is responding to, and their proposed capital investment and operating spend to maintain system reliability. The workbook also indicated the estimated rate impact for customer. These groups were randomly recruited and held in Cobourg. Participants were provided incentives in recognition of their time commitment.
2. **Online Workbook-based Survey:** An online survey was developed based on the workbook that was used in the qualitative consultation groups. This survey was publicized by Lakefront Utilities so that all customers (residential and small business) had an opportunity to go online to complete the survey. As with other phases of the research program, this phase was designed to educate customers and to gather their feedback on Lakefront Utilities' Distribution System Investment Plan.
3. **Key Account Validation Interviews:** Lakefront Utilities staff held face-to-face meetings with their larger key accounts in order to walk them through their 2017-2021 Distribution System Investment Plan, detail how the plan would impact their rates and to get their feedback on the plan and estimated rate impact. INNOVATIVE then conducted brief follow-up telephone interviews with these individuals to confirm that they understood the information being presented to them and the estimated impact on their rates.

Workbook Development

A lack of consumer familiarity with and understanding of Ontario's electricity system was a key challenge to overcome when designing this research program. There is also a lack of understanding (often combined with misinformation) regarding Lakefront Utilities' role within the provincial system. Furthermore, Lakefront Utilities' proposed Distribution System Plan, capital investment plan and OM&A budget are lengthy documents utilizing technical language. We needed to condense this material and

present it in a consumer-friendly format in order to educate consumers and elicit more informed responses to questions regarding their needs and preferences.

This was accomplished with the development of a 26 page workbook. The consultation workbook was developed by INNOVATIVE and Lakefront Utilities in February and March of 2016. INNOVATIVE provided a framework for the workbook, which contained background information on the rate application process and the provincial electricity system. All content specific to Lakefront Utilities was provided by the utility. Lakefront Utilities executives gave the final sign-off on the workbook prior to the commencement of the research activities.

The final consultation workbook had five distinct chapters:

1. **What is this Consultation About?** The purpose of the discussion, where the discussion fits in the context of electricity planning in Ontario.
2. **Electricity 101:** How the overall system works and the players involved in operating and regulating the system as it relates to Lakefront Utilities' customers.
3. **Lakefront Utilities' Distribution System Today:** A discussion of the structure and key elements of Lakefront Utilities' distribution system.
4. **Pressures on the Distribution System:** A discussion of the various challenges facing Lakefront Utilities' distribution system and an overview of recent and current initiatives to manage the challenges. This section provided an overview on forecasted capital investments and operating spending for 2017-2021.
5. **What the Plan Means for You:** A section covering the estimated impact on rates and overall reaction to the investment plan.

This workbook was used in all three components of the customer consultation program. References to rate impact were customized to the specific rate class, be it residential, General Service <50kW or larger accounts. As the customers went through the consultation workbook, they responded to questions relating to system reliability, system challenges, and preferences on the direction of Lakefront Utilities' proposed system plan, capital investment and operating spend.

The questions progressed from general questions assessing customer needs to more specific questions gauging customer preferences. Initial questions included a basic satisfaction question and an open-ended question on how Lakefront Utilities could improve its service. This allowed customers to raise whatever issues they wished. Subsequent questions asked about outages – experiences, satisfaction with Lakefront Utilities' response, and impact of outages.

When it came to assessing customer preferences, the focus was on value choices as opposed to technical considerations. Key topics for preferences included:

- What should Lakefront Utilities' priority be when planning its level of investment in replacing aging infrastructure?
- Should Lakefront Utilities invest in modernizing the grid?
- How well does Lakefront Utilities' investment plan respond to cost drivers?

The final substantive question asked about the cost of the plan and the outcomes it planned to achieve. In other research, a question of this sort might be accompanied by a simple support or oppose response scale, however we have found that this type of scale does not effectively capture customer responses in this context, and so we included an option that allowed respondents to indicate their displeasure with a

rate increase even though they may agree it is necessary. We gave customers three options to choose from as well as a “don’t know” option:

- The rate change is reasonable and I support it
- I don’t like it, but I think the rate change is necessary
- The rate change is unreasonable and I oppose it
- Don’t know

The workbook concluded with a final set of five questions to assess the workbook and process itself.

The workbook for residential customers can be found in the **Appendix** of this report. The workbook for all other rate class customers is virtually identical, with minor modifications to tailor it for each particular rate class.

Executive Summary

This section provides a high level summary of the findings of the customer engagement research. Subsequent sections of the report will provide more detailed results.

This summary includes feedback from the customers who participated in the consultation focus groups as well as those who completed the online workbook.

Customers are Highly Satisfied

In both the focus groups and the online workbook, customers report that they are generally satisfied with the service they receive from Lakefront Utilities, with residential customers tending to have slightly higher levels of satisfaction than general service customers.

Overall Satisfaction across Consultation Activities:

Response	Directional (Focus Groups)		Directional (Online Workbook)	
	RS	GS	RS	GS
Very satisfied	5	2	38%	2
Somewhat satisfied	3	3	34%	4
Neither satisfied nor dissatisfied	1	1	18%	0
Somewhat dissatisfied	1	1	7%	1
Very dissatisfied	0	0	3%	1
TOTAL	n=10	n=7	n=177	n=8

Note: "GS" = general service customers (<50kW unless otherwise indicated), while "RS" = residential customers

Among the online workbook respondents, lower costs was the most frequently suggested way that Lakefront Utilities can improve its service, followed by an improved billing system and better communication/transparency. In the focus groups, lower rates was mentioned as was a reduction in the number of outages.

Familiarity with Lakefront Utilities

It is apparent that customer satisfaction is not dependent on familiarity with the provincial electricity system and Lakefront Utilities' role within it. Prior to the consultation, fewer than half of online respondents reported being familiar with the various parts of the electricity system – and most of them (41%) are only *somewhat* familiar. Fewer than one in ten (8%) said they are familiar enough to be able to explain the details of the system to others.

Despite only moderate familiarity at the outset, after reading the information provided in the introductory sections of the workbook, almost all online respondents said they understood Ontario's electricity system either *very well* (37%) or *somewhat well* (57%).

Reliability of Service

In the focus groups, General Service customers had very little to say about reliability, whereas residential participants tended to be more concerned about short “flickers” of power rather than lengthy outages. That said, these flickers were generally referred to as being more of an annoyance than something that is of a serious concern.

Online workbook respondents don’t appear troubled by outages either: 28% reported only one outage in the past year, and 11% reported none. Further, a plurality (45%) said they would be willing to accept more and longer power outages if it meant a decrease to their distribution rates.

Customer Reaction to Rate Impacts

At the end of the focus groups and the online workbook, customers were presented with the estimated bill impact for their rate class according to the Distribution System Investment Plan that had been shared with them, and then asked the extent to which they support the rate change by choosing one of the following four options:

- The rate increase/change* is reasonable and I support it
- I don’t like it, but I think the rate increase/change is necessary
- The rate increase/change is unreasonable and I oppose it
- Don’t know

Thus, respondents can express outright support for the rate increase, reluctant support for the increase (don’t like it but think it is necessary), or outright opposition. For the purposes of this analysis, outright and reluctant support are combined to give a total measure of “acceptance”.

Almost all residential focus group participants reluctantly accept the rate increase, while two of the group outright supported it. Given that their rates are estimated to decrease in 2017, it is not terribly surprising that five of the seven GS participants outright support the rate change.

Looking at the online results, there is majority (59%) acceptance among residential customers, but business customers are more evenly divided between reluctant support (n=4) and opposition (n=3). It is important to keep in mind that these results are strictly qualitative in nature due to the small sample size.

Q: Considering what you know about the local distribution system, which of the following best represents your point of view?

Response	Directional (Focus Groups)		Directional (Online Workbook)	
	RS	GS	RS	GS
The rate increase/change* is reasonable and I support it	2	5	17%	0
I don't like it, but I think the rate increase/change is necessary	8	2	42%	4
The rate increase/change is unreasonable and I oppose it	0	0	30%	3
Don't know	0	0	11%	1
TOTAL	n=10	n=7	n=169	n=8

* Following the focus groups, the word “increase” was replaced with the word “change” to reflect the fact that the GS rate class is expected to experience a rate decrease in 2017

Workbook-based Facilitated Discussions

Summary

General Satisfaction:

General Service participants reported a range of satisfaction levels from *somewhat dissatisfied* to *very satisfied*, with the majority being at least *somewhat satisfied*. In terms of improving the system, the most common suggestion was to keep rates low.

Residential participants are for the most part satisfied with the service they receive, however several experience frequent brief power interruptions that detract from their overall level of satisfaction. The majority of suggested improvements revolved around reducing the frequency of these short outages, however there was also some mention of more engaged customer service.

System Reliability:

General Service participants did not report any reliability or power quality issues. The majority experienced only one or two outages in the twelve months prior, and there was mention that reliability has improved over the years. This number of outages was deemed to be reasonable by a majority of the group, and given that the money is reinvested into the system, the majority of participants would be willing to pay a bit more on their electricity bills in order to *maintain* the current level of reliability.

Outages lasting more than a minute were not a concern for Residential participants. The discussion on reliability focused mostly on their experience with the inconvenience of brief power “flickers”. While the discussion was robust, only one participant would be willing to pay much more to reduce the number of power interruptions. Conversely, two participants would be willing to accept more outages in order to decrease the cost of their bills.

Acceptance of the Investment Plan:

Overall, General Service participants felt that Lakefront Utilities is managing the local distribution system and planning for the future quite well. Participants unanimously feel that the proposed plan is going in the right direction, and the majority feel that the proposed rate change is reasonable and they support it. Those who don’t support it outright, acknowledge that the rate change is necessary in order to maintain the overall health and reliability of the system.

Similar to General Service, Residential participants unanimously felt that Lakefront Utilities’ plan is going in the right direction, and all participants are at least somewhat satisfied with the efforts Lakefront Utilities has made to find efficiencies and cost savings. In terms of the rate increase, while most participants don’t like the idea of any sort of increase, they unanimously agree that it is necessary to continue providing reliable service.

Q: Considering what you know about the local distribution system, which of the following best represents your point of view?

Response	GS	RS	COMBINED
The rate increase is reasonable and I support it	5	2	7
I don't like it, but I think the rate increase is necessary	2	8	10
The rate increase is unseasonable and I oppose it	-	-	-
Don't know	-	-	-
Total	7	10	17

Note: "GS" = general service less than 50 kW customers, while "RS" = residential customers.

Methodology

About the General Service and Residential Customer Consultation

INNOVATIVE was engaged by Lakefront Utilities to conduct General Service and Residential customer consultation sessions designed to identify the needs and preferences of customers as they relate to the utility's proposed spending on the distribution system.

The consultation sessions were held in Cobourg on March 15th, 2016. A total of 17 General Service and Residential customers participated in these consultation sessions.

General Service under 50 kW Rate Class	7 participants
Residential Rate Class	10 participants

Recruiting Consultation Participants

General Service customers in the under 50 kW rate class were randomly selected from customer lists and then screened by telephone for appropriateness as session participants. These customers qualified for the consultation if they manage or oversee their business' electricity bill. This was to ensure that they were at least somewhat knowledgeable of their electricity costs and could have an informed discussion on the impact of the proposed rate increase.

Residential customers were screened to ensure they are the person in the household that has primary or shared responsibility for paying the electricity bill.

All customer lists were provided to INNOVATIVE by Lakefront Utilities.

An incentive of \$100 was provided to all General Service and \$80 to all Residential customers who participated in the consultation sessions.

All consultation sessions were video recorded to verify participant feedback and verbatim quotes.

Consultation Session Structure

The consultation sessions were structured around the themes contained in the workbook that was developed by INNOVATIVE and Lakefront Utilities staff.

The workbook themes included the following:

1. What is this Consultation About?
2. Electricity 101
3. Lakefront Utilities' Distribution System Today
4. Pressures on the Distribution System
5. What the Plan Means for You

At the start of the sessions, the facilitator gave an overview explaining the purpose of the consultation and why Lakefront Utilities is seeking feedback from General Service and Residential customers.

After explaining the purpose of the consultation, hardcopy workbooks were distributed to act as a session guide and for participants to record their answers to the questions contained within.

The facilitator then led the participants through the workbook section by section to ensure they understood the information and to answer any questions about the content.

When it came to the questions within the workbook, participants were asked to fill in their answers independently. The facilitator then led a group discussion on the answers participants provided and what the various issues meant for them or their businesses.

While the consultation was largely based on this structure, group discussions arose naturally as participants explored the workbook. Questions and comments were addressed by the moderator, and depending on the topic (i.e. whether or not it fell within the scope of this consultation), participants' impressions were further probed.

Hardcopy workbooks were collected from the participants at the conclusion of each consultation session.

Each consultation session ran for approximately 2 hours.

NOTE: Results contained within this report are based on a limited sample and should be interpreted as directional only.

Participant Feedback

The following sections highlight the general feedback from each consultation group.

General Service under 50 kW Rate Class

To put this consultation in context, the participants were first brought up to speed about the electricity system as a whole, and introduced to the various means by which consumer feedback is collected. They were introduced to Ontario's Long Term Energy Plan, Regional Planning undertaken by the IESO, and informed that this consultation would be centred on Distribution Planning. This section also provided the moderator the opportunity to ensure participants are aware of how the electricity system is regulated.

Early on, one major topic of discussion that arose was changing rates; almost all expected rates to increase in 2017. When discussing their electricity bills some participants were aware that Lakefront Utilities represents a small portion of the bill.

I think it's quite low actually. Less than 50%.

Participants were generally surprised to find out that only 18% of their bill is remitted to Lakefront Utilities. Following this, one participant inquired as to how this compares to other utilities of comparable size. Another participant who owns a retail business felt this to be average for an 'end-of-the-line' business.

That seems to be average. I work in a retail business and I don't get 18%. [Some of my bigger competitors] get it, but I don't get 18% on the end. So that's pretty common. The end guys are only going to make a small percentage.

After exploring Lakefront Utilities' role in Ontario's electricity system, and Lakefront Utilities' distribution system today, participants were asked to outline how familiar they had been with the various parts of the electricity system before this consultation. Most participants had been somewhat familiar, but could not explain all the details of Ontario's electricity system to others.

Following the introduction section, six of the seven participants felt that Ontario's electricity system had been explained to them *somewhat well*, while the other felt it had been explained *very well*.

General Satisfaction

Satisfaction with the service received from Lakefront Utilities ranged from *somewhat dissatisfied* to *very satisfied*, with most participants indicating at least *somewhat satisfied*. One participant who was satisfied shared an experience in which Lakefront Utilities addressed a complaint with overhead lines, while another participant who was less satisfied cited customer service as a detraction to their satisfaction.

I had a slight problem two years ago with them. They had some big lines over my parking at the back. They eventually removed them. I was quite happy.

I found that when I've had to phone in, the service wasn't very friendly. They were short and didn't really want to extend themselves.

Improving Service of the Local Distribution System

Aside from keeping rates low most participants did not have any suggestions for improving the local distribution system.

It's all about money. Reducing cost is always the big thing. We don't have power outages. I mean, there's been some but they've been Cobourg-wide or greater, so it's not the fault of the company, I don't think.

It would be nice to have lower bills, but on the whole I can't complain.

I don't have any issues. I know [the other participants] mentioned lower bills, but at the end of the day hydro costs what it costs. I live out of town so I have a comparison. I live in Toronto and I know what you pay there. And I own another [business] in another town and my hydro is cheaper here in Cobourg. So I personally don't have any issues. I'm happy with it.

In seven years my power has gone out only a handful of times and it's usually because a car hit a pole, or something like that. It has nothing to do with Lakefront.

Several participants had specific suggestions that were unique to them. One participant whose business is construction-related wanted more responsiveness when it came to inquiries about the infrastructure of the system, particularly regarding underground locates. Another felt that costs could be reduced by Lakefront Utilities moving out of their downtown location and that the overhead wires along Division St took away from the downtown aesthetic. This participant would be willing to pay more to have these wires put underground.

My issue with Lakefront Utilities is in regards to underground locates. We've called for locates for some excavating work we've had to do. We've been told the site has been clear and we discovered that it wasn't. The other thing I've found is that they could be more responsive to inquiries regarding infrastructure and power supply. We had contemplated a major expansion at the marina and were looking for information. And I had a hard time getting that information and had to go through another contractor to get it.

My first comment is to keep rates low. If they wanted to, they could move the downtown building which is right at King and Division, the major spot. They could lower costs by changing locations. And I think that, at least along Division, all the overhead wiring is really awful. They could eventually move to hiding those or burying them.

System Reliability

In the section on system reliability, participants were shown graphs depicting the average number and length of outages per customer per year, in addition to a comparison of reliability indicators for other local distribution systems. Participants had a positive reaction to this data.

It looks like things have improved.

They show Lakefront Utilities compared to other companies. It certainly looks quite good here.

In terms of outages that participants had experienced personally at their organization, most participants experienced either one (3 participants) or two (2 participants) outages in the twelve months prior, while two participants were unable to say.

I know we had a couple overnight, but none during operating hours. When we came back in the morning it was back. I don't count those because they don't affect my business.

I don't remember the last time we had an outage, so it's not a significant problem for me.

Participants felt that in a perfect world there would be no outages, however they recognized that we do not live in a perfect world. Most participants felt that zero to two outages a year were acceptable, while one would accept up to four.

In an ideal world there would be none, but we don't live in an ideal world.

The goal is none, but we're spoiled. We're just not used to it, so it's an inconvenience.

Regarding what is deemed to be a reasonable duration for an outage participants are divided. Two indicated *less than 15 minutes*, two indicated *30 minutes to less than 1 hour*, and two indicated *1 hour to less than 2 hours*. The final participant did not answer this question in the workbook. Further, short and properly planned outages were not deemed to be a major disturbance.

If they're short that's fine. If they're planned, ideally they would plan them outside of business hours.

The short ones that are less than fifteen minutes are easier to manage.

It's the length that's important.

The breakdown of the causes of outages in 2015 sparked some discussion. Loss of supply being responsible for 46% of outages was noted and it was explained to participants that this was due to an incident stemming from an issue within the transmission system. It was also noted that this figure was uncharacteristically high for 2015, and that 2014 showed a much lower percentage. This was followed by a brief discussion that, excluding outages caused by loss of supply, defective equipment becomes the largest cause of unplanned outages.

In regards to the balancing act between reliability and the cost of running the system participants were polarized. Three refused to offer an opinion, while the remaining four indicated that they *would be willing to pay a bit more on their distribution rates to maintain the current level of reliability*, provided the increase would be reinvested in order to make the system better.

I said that I'd be willing to pay a bit more to keep the current level of reliability. The utilities' profits are set and they're going to remain at that level. I don't mind, assuming that that extra money is going to be reinvested back into the system – not going towards increasing their profits.

Assuming the surplus, the profit, the income they make goes to all these improvements they need to make on these parts of the system – I said I'd be willing to pay a bit more.

I said that I would be willing to pay a little bit more because I have hardly any issues.

Impact of Outages

The impact outages have on General Service participants varies depending on the length of the outage and their type of business. For most, shorter outages are simply a minor inconvenience.

It was a short one so it didn't really affect us. If it was a long one then that would be annoying. There's food spoiling, we're unable to run machines and equipment, air conditioning stops. Everything comes to a standstill.

It's just an inconvenience. I have residential and commercial tenants and they would call me. It's not one of those serious things – no food spoilage issues. It's not a serious thing in Cobourg. As a matter of fact, I can't recall if we had any outages last year so I put "Don't know".

It puts us in a difficult position because our computers are at risk; our guys out doing service are at risk; there's downtime; people are coming in and mad at us because things don't work. It's just a very difficult thing to manage sometimes.

One participant mentioned that not knowing when the power would return has an impact on daily operations, and this was echoed by several others. When outages are longer it becomes a question of whether or not to shut down operations for the day or wait for the power to return.

It was primarily a matter of inconvenience. There was no long term damage or harm done by it. I think the worst part of it is not knowing how long it's going to last. You don't know what to do, so you keep staff and wait for it to come back on.

This prompted a discussion on how participants search for outage information from Lakefront Utilities. It was found that none of the participants directly use Twitter or Facebook, but information posted there does trickle through social networks. One participant found phoning Lakefront Utilities to be sufficient.

I've never thought to look them up [on Twitter or Facebook].

I don't follow them on social media, but other people do. So you end up hearing about it rather quickly.

Actually, if you phone they will give you an estimate on the phone. They will have a recording.

Capital Investment

While reading through the section on capital investment drivers only one participant made an inquiry.

I have a question about support capacity and distribution. Does that mean new customers are responsible for setting up their own distribution system?

It was explained that LDCs are mandated by the OEB to connect new customers to the system. This led to a brief discussion where various opinions were offered about who – developers or Lakefront Utilities – should be responsible for building infrastructure to support new customers.

Participants were divided when it comes to how Lakefront Utilities should address its need for vehicles, tools and IT systems. Two felt that *Lakefront Utilities should finds ways to make do with the equipment and IT systems it already has*, while three felt that *while Lakefront Utilities should be wise with its spending, it is important that its staff have the equipment and tools they need to manage the system safely, efficiently and reliably*. One participant who supported the latter, shared an anecdote exemplifying Lakefront Utilities' existing practice of wise spending.

PUC comes into my shop in the fall to get tires for their trucks. They went to three different shops to get three different quotes and went with the best price. So right there, they're not just blowing money. They could've gone to their buddy's shop, but they bought at my shop because it was the cheapest price.

The remaining two participants were unable to answer, one of whom would have preferred a mixture of both responses.

The second response mentions safety, but that should be a priority always, in every option. I would rather have them find ways to make do, but make sure they're not impacting their safety by doing it.

With regards to projects focused on replacing aging equipment in poor condition, those who answered the question unanimously felt that *Lakefront Utilities should invest what it takes to replace the system's*

aging infrastructure to maintain reliability, even if that increases their organization's monthly electricity bill over the next few years.

I see from this list [of assets], that these things aren't going to last forever. And I'm guessing that some of them are pretty expensive.

They need to spend to maintain the reliability they have now.

Operating Budget and Cost Drivers

Following the section on OM&A expenses and finding efficiencies, all participants indicated that they well understood the cost drivers that Lakefront Utilities is responding too (4 *very well*; 3 *somewhat well*). Further, the majority of participants felt that Lakefront Utilities is doing a *good* or *very good* job managing these cost drivers, while the remaining participants indicated that they *didn't know*. No participant felt that any of the forecasted expenses sounded unreasonable.

The costs that they do talk about, I think are reasonable.

I think they are doing their best. Unless you have access to a full financial report you can't get to into that. But my gut feeling tonight is that they are doing their best.

I would need more detailed and in-depth information to form an opinion.

In response to those asking for more information, the moderator explained that there is more information available - that the full DSP is public domain - and that participants are able to follow the entire rate application from this point forward.

In terms of satisfaction with the efforts Lakefront Utilities has made to find efficiencies and cost savings in the distribution system, those who answered unanimously felt *somewhat satisfied*.

Proposed Plan and Rate Impact

Overall, given everything they had read and heard in the focus group consultation every participant indicated that they felt Lakefront Utilities' investment plan seems to be going in the *right direction*. Further, all participants felt that Lakefront Utilities is doing a *good* (6 participants) or *very good* (1 participant) job when it comes to planning for the future.

The majority of participants felt the proposed rate increase to be reasonable and support it outright. They felt that the increase is necessary and were supportive of the imminent change in rates even while the system is being upgraded.

I support the proposed rate increase subject to strong oversight to ensure optimum operating efficiencies.

The remaining two participants *didn't like it, but think the proposed rate increase is necessary*. They acknowledged that without consistent maintenance, service and reliability will fall into decline.

I don't like any increases in cost, but I'm talking about spending money to improve the infrastructure of the system and I think that's necessary.

I think it is necessary in order to cover the costs of replacing outdated or aging equipment. It seems obvious that by not replacing older equipment, service will eventually fall away.

How Could the Consultation Process be Improved?

Overall, participants felt that the workbook was informative and provided the right amount of information given the time constraints. The most common critique, was that more information

pertaining to the specific figures of certain costs and expenditures would have been appreciated, however no participant indicated that they had any outstanding questions. When asked for suggestions for future consultations, participants were in support of another similarly styled event.

Same as this evening works for me.

This was great. I like the way this was done.

Residential Rate Class

Prior to the consultation, familiarity with Ontario's electricity system was mixed. Half of the ten participants felt that they were *somewhat familiar*; three *had heard of some of the terms and organizations, but knew very little about Ontario's electricity system*; and, two indicated that *aside from receiving a bill from Lakefront Utilities, they knew nothing about Ontario's electricity system*.

Following the introductory discussion and initial exploration of the workbook however, all participants indicated that they felt the electricity system had been well explained to them (4 *very well*; 6 *somewhat well*).

There was some surprise that only 21% of their electricity bill goes to Lakefront Utilities; several expected this to be higher.

I would have thought it was closer to fifty percent.

I would have expected higher. That seems quite low.

General Satisfaction

Overall, residential participants are satisfied with the service they receive. One participant indicated that they were *neither satisfied nor dissatisfied*, while only one other was *somewhat dissatisfied*. The participant who was dissatisfied made a comparison of the Lakefront Utilities' system reliability to other municipalities in which they had lived.

Compared to other places I've live – comparably sized – the frequency of brownouts here and loss of power during storms is far more frequent. In other cities I've lived in, I've seen maybe one blackout a year, whereas here, I would say it's not uncommon to see two, three, four losses a year. The frequency of loss of power, and the amount of time it takes to come back seem longer and more frequent than other places.

Improving Service of the Local Distribution System

When asked how Lakefront Utilities could improve service the large majority of feedback was in regard to system reliability and will be discussed in the following section. Outside of reliability, several participants indicated that they felt their bill to be too high, while one participant was more concerned with the quality of the customer service. The suggestion revolved around providing follow-up when contacting Lakefront Utilities with questions or concerns.

Direct feedback when you question or call – we had one of the transformers at the corner go. The guys were there in about half an hour but there was no feedback there – that was it. You phone them, and it's a direct phone call, and they're just like, "Thank you for the information." There's no feedback. They never get back to you.

System Reliability

Participants' experience with system reliability varies greatly; in the workbook participants indicated that they had experienced between zero and four outages in the past year. In clarification of this question, it was explained that power interruptions lasting longer than one minute constitute an outage. Outages were not so much a concern for these participants, rather it is brief interruptions that cause the most irritation.

Power flickers are found to be too frequent by some, and the interruption to their daily routine is notable. One participant felt that they may be due to failing infrastructure.

I notice not so much actual major outages but I have the most annoying little brief flickers. Usually under a minute, and everything turns off. I have to reset every clock in my house, my computer's doing strange things. Unbelievably frustrating. And it happens two or three times a month. If they can smooth that out I get back fifteen minutes a week.

The only thing I've ever found is fairly frequent power outages that are very brief, but just enough to have to reset everything. If they happen during the night and you have an alarm clock set, you're in trouble. But they're very short. I live on Coverdale and it literally is often only a minute or two. Maybe two or three times it'll be five minutes.

I would like them to improve the reliability of the overhead switches. I know it's been mentioned they need to be replaced, but in my area – the corner of Henry Street and Chapel – we have quite a lot of power interruptions and it seems to be one switch that's going off.

When asked if these flickers had happened within in the last six months the majority of participants felt they had. They acknowledged that the frequency and duration of longer outages had definitely declined in the past few years, but felt that they had been replaced with more brief interruptions. However, this opinion was not held unanimously.

I would say it's less for me actually. In the last year, I definitely have noticed that it's less.

Regarding longer lasting outages, participants were divided in what they feel to be reasonable in terms of frequency and duration of outages. Half felt that one outage per year is reasonable, while the others indicated a range from zero to three. Four felt that 30 minutes to less than one hour is a reasonable duration for an outage, while the remaining indicated less time than that.

While brief power outages resulted in much discussion, this issue does not seem to demand action. Two participants indicated that they would be willing to accept more and longer outages if that meant a decrease in their bill, while only one would be willing to pay much more to improve the level of reliability they currently receive. The remaining majority indicated that they would be willing to pay a bit more to maintain the currently level of reliability.

Capital Investment

Residential participants are of like mind in terms of Lakefront Utilities' projected capital investments. While Lakefront Utilities should be wise with its spending, it is important that its staff have the equipment and tools they need to manage the system safely, efficiently and reliably was an opinion shared by nine of the ten participants. Further, they were unanimous in feeling that Lakefront Utilities should invest what it takes to replace the system's aging infrastructure to maintain reliability, even if that increases their monthly electricity bill by a few dollars over the next few months.

Operating Budget and Cost Drivers

The majority of participants felt they well understood the cost drivers that Lakefront Utilities is responding to (2 *very well*; 6 *somewhat well*). Further, almost every participant felt that Lakefront Utilities is doing a *good* (8 participants) or *very good* (1 participant) job at managing these cost drivers.

When asked if any of the forecasted expenses or expenditures seemed unreasonable, the feedback revolved around customer service and the IVR system. The general consensus was that human interaction is preferable, and that the money that would be allocated to installing an IVR system would be better spent hiring a customer service representative.

Everyone's question is unique. With an IVR you get part of an answer but then you end up talking to a human anyways to get a full answer. Why not just skip the middle step?

Surely you'd rather have a customer service person, who is knowledgeable and familiar with the operation than calling in and just getting a pat answer. It's a technical issue, they've got to be familiar with the system and able to tell you, "Yes, we have a failure with such-and-such part of whatever."

I think the IVR system is unnecessary. I would rather pay a bit more and have a staff member answering the phone. I've switched different services – not hydro, but different services – I've switched services just to speak to a human.

Overall, participants are satisfied with the efforts Lakefront Utilities has made to find efficiencies and cost savings in the distribution system. Three indicated that they felt *very satisfied*, while the rest felt *somewhat satisfied*. There was some discussion as to the value of having full-time versus part-time employees and conflicting opinions were offered. The final opinion was either option is viable as long as the cost-benefit analysis supports it.

With full-time workers, is it possible to replace them with contract or part-time workers; people that could just come in, get the job done and go.

I don't like contract workers. It's a technical field, employees have to know the system inside and out. It's worth it to have full-timers. When you have good employees, you have employees that are trouble shooters. They can identify problems and find more ways to be efficient. Whereas contract workers wouldn't go there.

Proposed Plan and Rate Impact

Participants unanimously felt that Lakefront Utilities' investment plan seems to be going in the *right direction*. Further, all of these participants felt that Lakefront Utilities is doing a *good* (8 participants) or *very good* (2 participants) job in planning for the future.

Regarding the proposed rate increase, almost all participants *don't like it, but think that it's necessary*. These participants realize that in order to maintain and improve reliability, costs must increase. They also acknowledged that increases in all areas are to be expected going into the future, and Lakefront Utilities must adjust accordingly to continue providing reliable service.

I don't like it because it's paying more money, which is natural, but I think it's reasonable and I support it.

I believe it's needed because things have a certain course of life and they are becoming outdated.

I do support the proposed increase as it appears to be primarily related to expenditures that are necessary to maintain and improve the system for the future, hopefully thereby increasing reliability and decreasing future unexpected costs. It's about prevention rather than "fire-fighting" maintenance.

It's a way of life - the cost of living increases in all areas. Wages increase from year to year, cost of supplies – screws, nails, wood, plastic, vehicle repairs etc. – increases constantly and consistently, therefore you cannot expect to get the same service and supply without an increase in rates. It has to come from someplace.

The remaining two participants support the increase outright, citing that consistent maintenance is important and the long-term savings accrued from pro-active maintenance are greater than spending as a result of being caught in an emergency.

Changes to the electrical system are needed, and have been needed for many years. So I support a reasonable increase to cover the cost of many of those changes. And I think everybody saying, "No we don't need to pay any more," ultimately results in a degradation of the system to a point where now they're saying they need to put more money into it. I think it's got to be done on an ongoing basis.

The good implementation of the plan likely saves us much more in terms of emergency costs for replacements. If you plan to buy your stuff over a long period of time you can gradually spend that money. Whereas if your transmission station blows up and you have to replace the whole thing at once, that's a whole different ballgame.

How Could the Consultation Process be Improved?

Overall, participants found the workbook to be informative and well organized. Opinions on the volume of information varied from too detailed to not quite detailed enough, but given the time constraints most found it to be just the right amount.

Participants were further asked if they had any suggestions as to how Lakefront Utilities could better engage its customers and improve its customer engagement initiatives. The resounding consensus was that participants found the structure of the focus group to be more than adequate.

Focus groups are great because you can get into all the different areas.

I thought this was a really good idea. It involves a wide variety of people from different income classes etc. You get an idea of the community as a whole.

I like this better than the idea of a town hall or whatever online stuff. The problem with that is that it's usually the very angry people who write those reviews.

Questionnaire Results (Workbook)

The following tables are the tabulations of participant feedback to questions in the workbooks, which were returned at the end of each consultation session.

Note: "GS" = general service less than 50 kW customers, while "RS" = residential customers.

1. Before this consultation, how familiar were you with the various parts of the electricity system, how they work together, and which services Lakefront Utilities is responsible for?

	GS	RS	TOTAL
Very familiar and could explain the detail of Ontario's electricity system to others	-	-	-
Somewhat familiar, but could not explain all the details of Ontario's electricity system to others	4	5	9
Have heard of some of the terms and organizations mentioned in this workbook, but knew very little about Ontario's electricity system	2	3	5
Aside from receiving a bill from Lakefront Utilities, I knew nothing about Ontario's electricity system	1	2	3
TOTAL	7	10	17

2. Given what have read so far, how well do you feel Ontario's electricity system has been explained to you?

	GS	RS	TOTAL
Very well	1	4	5
Somewhat well	6	6	12
Not very well	-	-	-
Not well at all	-	-	-
Don't know	-	-	-
Missing Value	-	-	-
TOTAL	7	10	17

3. Generally, how satisfied are you with the service you receive from Lakefront Utilities?

	GS	RS	TOTAL
Very satisfied	2	5	7
Somewhat satisfied	3	3	6
Neither satisfied nor dissatisfied	1	1	2
Somewhat dissatisfied	1	1	2
Very dissatisfied	-	-	-
Don't know	-	-	-
TOTAL	7	10	17

1

5. In 2015, the average Lakefront Utilities customer experienced one power outage per year. Do you recall how many outages you experienced in the past year?

	GS	RS	TOTAL
None	-	1	1
One	3	1	4
Two	2	3	5
Three	-	2	2
Four	-	2	2
More than four	-	-	-
Don't know	2	1	3
TOTAL	7	10	17

6. How many power outages do you feel are reasonable in a year?

	GS	RS	TOTAL
No outage is acceptable	2	1	3
One	1	5	6
Two	2	3	5
Three	-	1	1
Four	1	-	1
Five or more	-	-	-
Don't know	1	-	1
TOTAL	7	10	17

7. What do you feel is a reasonable duration for a power outage?

	GS	RS	TOTAL
No outage is acceptable	-	1	1
Less than 15 minutes	2	1	3
15 to less than 30 minutes	-	2	2
30 minutes to less than 1 hour	2	4	6
1 hour to less than 2 hours	2	-	2
2 hours or more	-	-	-
Don't know	-	2	2
Missing value	1	-	1
TOTAL	7	10	17

2

8. No distribution system can deliver perfectly reliable electricity service. There is a balancing act between reliability and the cost of running the system. Please select what statement comes closest to your point of view.

	GS	RS	TOTAL
I would be willing to accept more and longer power outages if that meant there would be a decrease to my distribution rates on my electricity bill	-	2	2
I would be willing to pay a bit more on my distribution rates to maintain the current level of reliability	4	7	11
I would be willing to pay much more on my distribution rates to improve the level of reliability I currently receive from Lakefront Utilities	-	1	1
Don't know	-	-	-
Missing Value	3	-	3
TOTAL	7	10	17

9. As a company, Lakefront Utilities needs vehicles and tools to service the power lines and IT systems to manage the system and customer information. Which of the following statements best represents you point of view?

	GS	RS	TOTAL
Lakefront Utilities should find ways to make do with the equipment and IT systems it already has.	2	1	3
While Lakefront Utilities should be wise with its spending, it is important that its staff have the equipment and tools they need to manage the system efficiently and reliably.	3	9	12
Don't know	-	-	-
Missing value	2	-	2
TOTAL	7	10	17

10. With regards to projects focused on replacing aging equipment in poor condition, which of the following statements best represents your point of view?

	GS	RS	TOTAL
Lakefront Utilities should invest what it takes to replace the system's aging infrastructure to maintain system reliability, even if that increases my monthly electricity bill by a few dollars over the next few years.	4	10	14
Lakefront Utilities should lower its investment in renewing the system's aging infrastructure to lessen the impact of any bill increase, even if that means more or longer power outages.	-	-	-
Don't know	-	-	-
Missing value	3	-	3
TOTAL	7	10	17

11. How well do you feel you understand the cost drivers that Lakefront Utilities is responding to?

	GS	RS	TOTAL
Very well	4	2	6
Somewhat well	3	6	9
Not very well	-	1	1
Not well at all	-	-	-
Don't know	-	1	1
TOTAL	7	10	17

12. How would you rate the job Lakefront Utilities is doing to manage these cost drivers?

	GS	RS	TOTAL
Very good	1	1	2
Good	3	8	11
Poor	-	-	-
Very poor	-	-	-
Don't know	3	1	4
TOTAL	7	10	17

14. How satisfied are you with the efforts Lakefront Utilities has made to find efficiencies and cost savings in the distribution system?

	GS	RS	TOTAL
Very satisfied	-	3	3
Somewhat satisfied	5	7	12
Not very satisfied	-	-	-
Not at all satisfied	-	-	-
Don't know	-	-	-
Missing value	2	-	2
TOTAL	7	10	17

16. From what you have read here and what you may have heard elsewhere, does Lakefront Utilities' investment plan seem like it is going in the right direction or the wrong direction?

	GS	RS	TOTAL
Right direction	7	10	17
Wrong direction	-	-	-
Don't know	-	-	-
Missing Value	-	-	-
TOTAL	7	10	17

17. How would you rate the job Lakefront Utilities is doing when it comes to planning for the future?

	GS	RS	TOTAL
Very good	1	2	3
Good	6	8	14
Poor	-	-	-
Very poor	-	-	-
Don't know	-	-	-
TOTAL	7	10	17

18. Considering what you know about the local distribution system, which of the following best represents your point of view?

	GS	RS	TOTAL
The rate increase is reasonable and I support it	5	2	7
I don't like it but I think the rate increase is necessary	2	8	10
The rate increase is unreasonable and I oppose it	-	-	-
Don't know	-	-	-
Missing Value	-	-	-
TOTAL	7	10	17

Online Workbook Survey

Over a three-week period, INNOVATIVE gathered feedback from Lakefront Utilities customers, both residential and small business, through a secure and confidential online web portal. In the workbook, customers were informed through a variety of text and graphics of the key aspects of the distribution system, billing, regulation and challenges to the local electricity system as well as the elements of Lakefront Utilities' five-year investment plan. The customers were asked a series of 24 questions on a range of electricity topics, from infrastructure investment to whether or not customers are prepared to accept the rate implication of the utility's investment plans.

The following report provides the detailed findings of the Lakefront Utilities online workbook.

This is not a statistically significant poll. Results contained within this report are based on a non-representative, volunteer sample and are intended for exploratory research only.

Graphs and tables may not always total 100% due to rounding values rather than any error in data. In addition, sums are added before rounding numbers.

Summary

A strong majority of Lakefront Utilities' residential customers feel positively about its brand, the plans for infrastructure and proposed rates for 2017.

Residential customers understand the system, appear very satisfied with service.

- After reading through the introductory materials, nearly all (94%) of the residential customers surveyed say they understand the system well.
- Nearly half (49%) say they were familiar with the system before the consultation.
- Almost 3-in-4 (73%) say they are satisfied with their current service from Lakefront Utilities.
- Lowering costs (36%), improving billing systems (11%) and better communication and transparency (10%) are three ways residential customers think Lakefront Utilities could improve its service.

Plurality of respondents prefer longer and more frequent outages to increased rates

- Nearly half (45%) say they would accept longer and more frequent power outages if it reduced their distribution rates, compared to 29% who would pay a bit more to maintain the current level and 26% who would pay much more to reduce the level of outages.
- Roughly 4-in-10 (39%) experienced none or one outage in the past year and 44% feel no outages or 1 outage a year is a reasonable amount.
- Two-thirds (67%) of residential customers think outages should be an hour or less in duration.

"Spend what is needed" on aging infrastructure, systems

- When asked to choose between making do with the buildings, equipment and IT systems it has and investing in it to manage system reliability, 3-in-4 (74%) would choose the latter.
- Similarly, almost half (48%) of respondents think Lakefront Utilities should invest what it takes to replace aging infrastructure compared to 3-in-10 (30%) who feel it should lower its investment to lessen the impact of a bill increase.

Customers self-report an understanding of cost drivers, think Lakefront Utilities is managing them well

- 2-in-3 (65%) think they understand the capital and operating budget cost drivers facing Lakefront Utilities, while a third (32%) don't feel they understand these cost drivers.
- A majority (59%) think Lakefront Utilities is doing a good job to manage these drivers and are satisfied (65%) with Lakefront Utilities' efforts to find cost efficiencies.

Rate increase accepted, investment plan "headed in right direction".

- A majority of residential customers (54%) think Lakefront Utilities is headed in the right direction and 7-in-10 (70%) think Lakefront Utilities is doing a good job when it comes to planning for the future.
- About 6-in-10 (59%) customers would accept the rate increase, knowing what they know now. Those that oppose it appear primarily driven by cost: they're "paying too much already."

Methodology

A Background on the Online Workbook

INNOVATIVE, in consultation with Lakefront Utilities, collected customer feedback through an online workbook. After introducing each section with a combination of text and graphics, customers completed 24 questions (19 core and five questions about the survey process); of those 19 core questions, 4 allowed for additional written feedback in open-ended responses.

The Lakefront Utilities Workbook was divided into five parts:

- "What is this Consultation About?"
- "Electricity 101"
- "Lakefront Utilities' Distribution System Today"
- "Key Pressures on the Distribution System"
- "What will Lakefront Utilities' Plan Cost Customers?"

The first section "What is this Consultation About?" was descriptive background only, including no questions. In this section, customers were provided with detailed information on the consultation process, Lakefront Utilities' investment and spending plan for 2017-2021, and a breakdown of electricity billing and distribution charges. This section emphasizes the importance of customer feedback to the consultation process.

The next section "Electricity 101" outlines the Ontario electricity system including who is responsible for rates, explaining key industry terms and how consumers are protected. Again, this section is purely descriptive with no follow-up questions.

The third section "Lakefront Utilities' Distribution System Today", outlines how electricity is distributed by Lakefront Utilities and briefly outlines the asset management plan. Customers are asked baseline questions on familiarity, satisfaction, an open-ended follow up question on suggested improvements, as well as questions on system reliability such as length and frequency of outages.

The fourth section, "Key Pressures on the Distribution System" explains the day-to-day wear-and-tear on distribution systems and how Lakefront Utilities determines its capital spending on existing infrastructure. Investment drivers are outlined including reliability, service requests, support capacity delivery, system efficiency, mandated compliance, obsolescence, aging or poorly performing equipment

and business support costs. Customers provide feedback on their attitudes about infrastructure investment as well as their perceptions on Lakefront Utilities' cost driver management.

The final section "What will Lakefront Utilities' Plan Cost Customers?" explains the distribution rate process and potential impact on customer bills. Customers are asked four questions on their perception of the Lakefront Utilities investment plan, acceptance of the rate increase and an additional open-ended question on why they support or oppose the proposed rate change, or don't know enough to say.

An optional appendix asks five questions on the survey itself relating to overall impression, breadth and depth of information covered in the workbook and suggestions for future consultations.

Field Dates:

Customers could access the online workbook at www.LUIworkbook.com from March 21st to April 10th.

Promoting the Online Workbook:

The workbook was accessible online for Lakefront Utilities customers from March 21st to April 10th, 2016. Incentives were provided: customers were given a chance to win one of 4 \$250 prepaid gift cards.

Lakefront Utilities promoted the workbook through a number of methods:

- Press releases to local media outlets
- Ads on local radio stations, Classic Rock 107.9 and 93.3 myfm
- Online news sources including Northumberlandtoday.com, Cobourginternet.com
- Social media shares through Twitter and Facebook
- Alert on Lakefront Utilities' website with a direct link to the workbook, as well as an article in the "What's New" section
- Email blasts to Chamber of Commerce members
- Take-away sheets and signage available in Lakefront Utilities' front office

Total estimated impressions, according to the data and communication product estimations provided by Lakefront Utilities, is approximately 335,700.

Below are three examples of the online communications provided by Lakefront Utilities:

LAKEFRONT UTILITIES WANTS YOUR INPUT!
WHAT ELECTRICITY ISSUES MATTER MOST TO YOU?
DO YOU AGREE WITH LAKEFRONT'S SPENDING PRIORITIES FOR THE NEXT 5 YEARS?
WHAT ARE YOUR THOUGHTS ON THE IMPACT TO YOUR BILL?

You don't need to be an expert to participate.
 Lakefront's interactive online workbook explains it all.

Complete the Customer Consultation Workbook between
 March 21 & April 10 and you'll be entered to
WIN 1 of 4 \$250 pre-paid credit cards!

To have your say, visit WWW.LUWorkbook.com

LOOKING TO RENT?

northumberlandnews.com

Hyundai SONATA EL

\$69*/month

\$1.49*/km

Most Read

Hwy. 401 collision results in rollover near Port Hope

SURVEY – LAKEFRONT UTILITIES' 2017-2021 PROPOSED RATE APPLICATION

Survey available March 21 - April 10

**COMPLETE THIS CUSTOMER CONSULTATION WORKBOOK FOR YOUR CHANCE TO WIN 1
 OF 4 \$250 PREPAID CREDIT CARDS**

Lakefront Utilities wants your input! Their online Customer Consultation Workbook is designed to collect your feedback on the reliability of the local electricity distribution system and the spending decisions Lakefront will need to make over the next five years. As a Lakefront customer, this is an opportunity for you to tell Lakefront what you think about their plan and the cost implications it will have on your business. Participating in this workbook will help Lakefront ensure alignment between its operational and capital investment plans and customer needs and preferences.

BUSINESS OWNERS & OPERATORS - CLICK [HERE](#) TO HAVE YOUR SAY.

In total, the workbook had 717 page visits, 348 partial completes (at least reached the “about” page) and 177 total completes (answered the final rate acceptance question). Of those 177, 169 were residential and 8 were business customers.

Publishing the Workbook Online

INNOVATIVE hosted the workbook at the following url: www.LULworkbook.com. This website prevented Lakefront Utilities customers from filling out questions more than once and saved progress as they went, allowing them to return to the workbook to finish at a time of their choosing.

In order to boost completion for the question on rate acceptance, if users navigated away from the page they were redirected once to an “exit ramp” which asked them to stay and continue and, if not, to at least fill out one additional question on acceptance. After removing duplicate responses, this resulted in 4 additional completes to the acceptance question for a total of n=181.

The personal information of Lakefront Utilities customers was kept anonymous and confidential on INNOVATIVE’s secure business server. INNOVATIVE does not ever provide links to personal information submitted on Lakefront Utilities’ workbook website.

Validating Customer Responses:

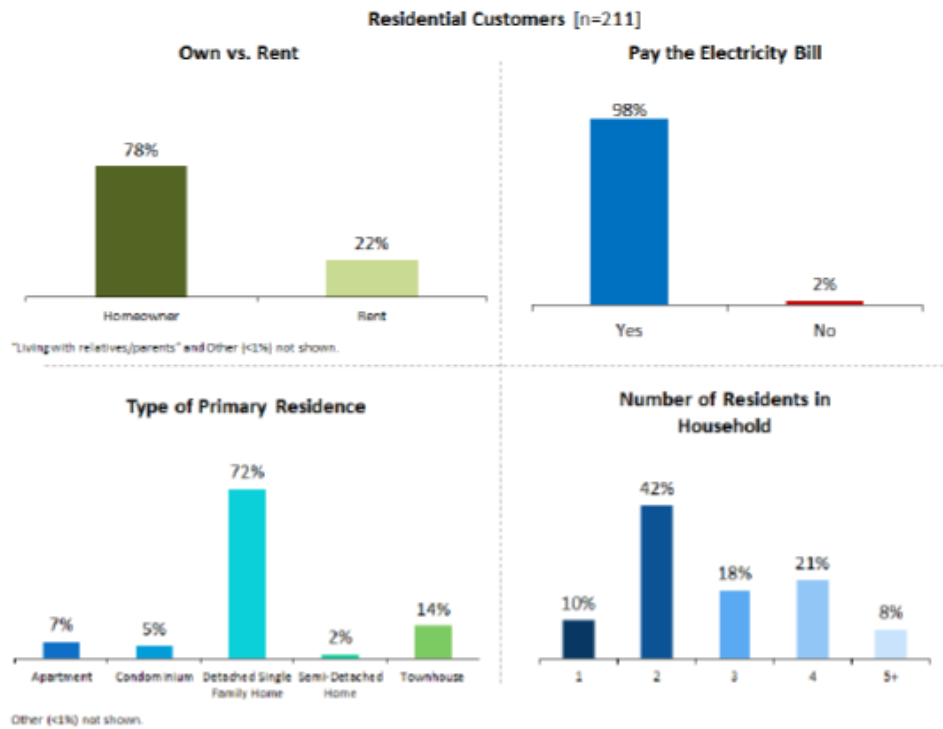
Anyone who answered a question in the workbook was tagged with an identification number based on both their postal code and their response as either a Lakefront Utilities residential or business customer. This was then validated against a file provided by Lakefront Utilities of all customer postal codes; those deemed invalid were removed from the final sample. In addition, IP addresses were tracked to ensure respondents were unique and human.

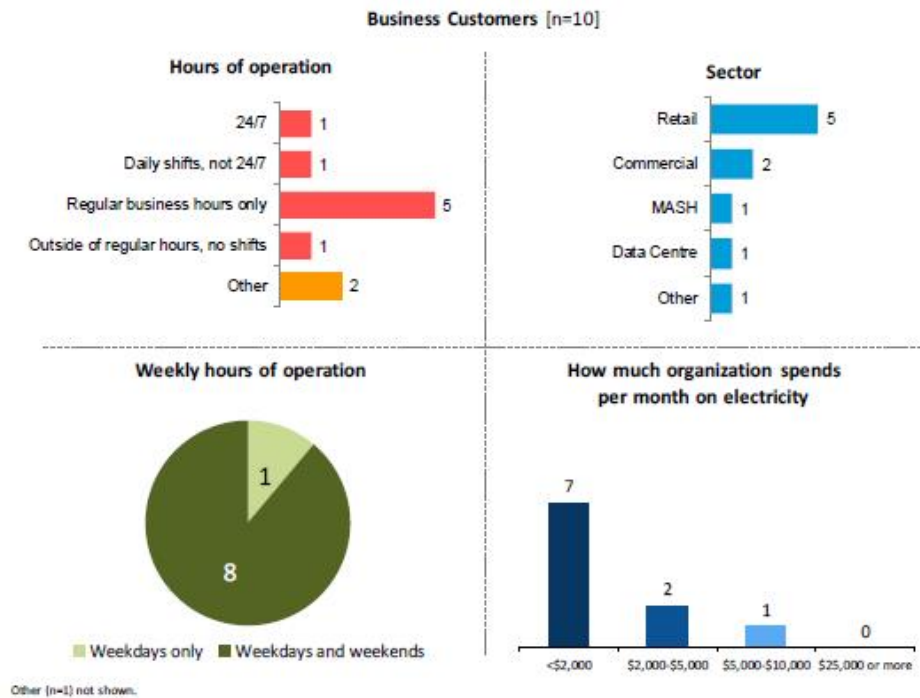
Respondent Profile

Overall, 169 residential and 8 business customers completed the workbook for a total of n=177 completes. (Note that response n-sizes vary throughout the document based on the number of respondents for each question as some participants dropped out before completing the entire survey)

Due to the small sample size of business customers, the bulk of the analysis will focus on residential customers. Business customers will be reported in n-size only due to small sample.

Figure 1: Demographics and Firmographics





1

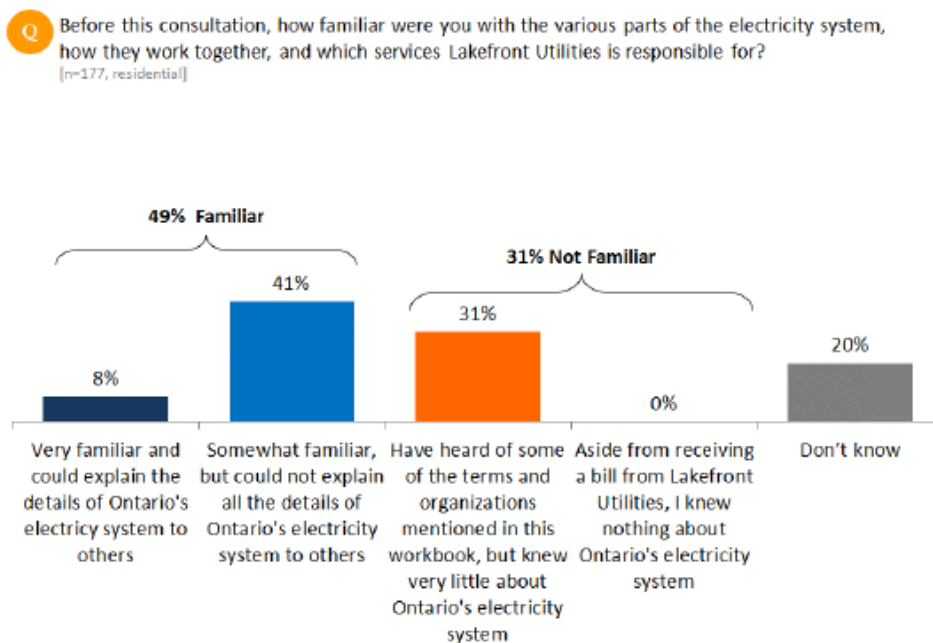
Respondent Feedback

The following sections on respondent feedback will show results from the 169 residential and 8 business customers who finished the online workbook. Due to the small sample of business customers, reports will be reported as n-size only.

Familiarity and Satisfaction

In the first section of respondent feedback, we examine customer familiarity with the electricity system as a whole, ease of understanding, satisfaction with service and an open-ended question to suggest improvements for Lakefront Utilities.

Figure 2: Familiarity with Electricity System



GS respondents not shown [n=8]

"Very familiar" [n=0], "Somewhat familiar" [n=5], "Have heard of" [n=2], "Knew nothing" [n=0], "Don't know" [n=3]

Nearly half (49%) of residential customers say they are familiar with the Ontario electricity system with 31% who say they've heard of some of the terms and organizations, but knew little before the workbook. One in five (20%) don't know how familiar they are with the system.

- Among the 8 business customers, five report as "somewhat familiar", two say they have heard of it, but knew little before the workbook and one respondent couldn't say.

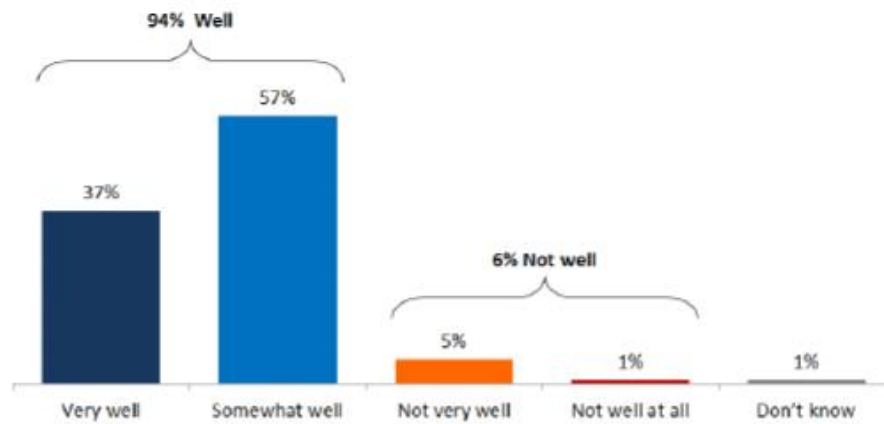
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Figure 3: Explanation of Electricity System

Given what you have read so far, how well do you feel Ontario's electricity system has been explained to you?

[n=177, residential]



65 respondents not shown [n=6]

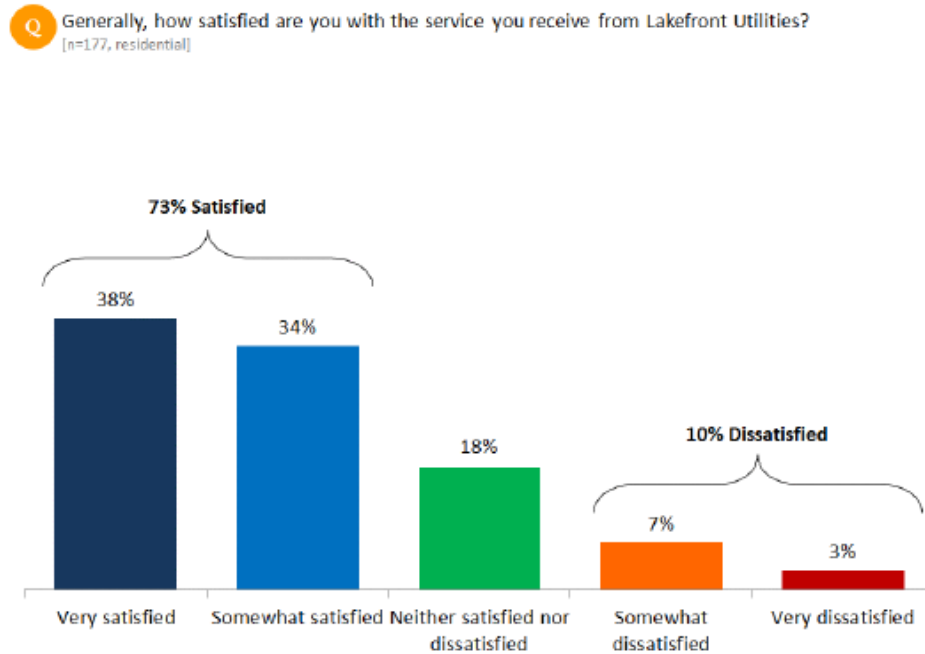
"Very well" [n=2], "Somewhat well" [n=5], "Not very well" [n=0], "Not well at all" [n=0], "Don't know" [n=1]

Almost all of the residential respondents (94%) feel that the electricity system was explained "well" to them. Only 6% say the system was not explained well to them and 1% don't know either way.

- Seven of the eight business customers surveyed thought the system was explained "well" to them and one customer did not know.

2

Figure 4: Satisfaction with Lakefront Utilities Service



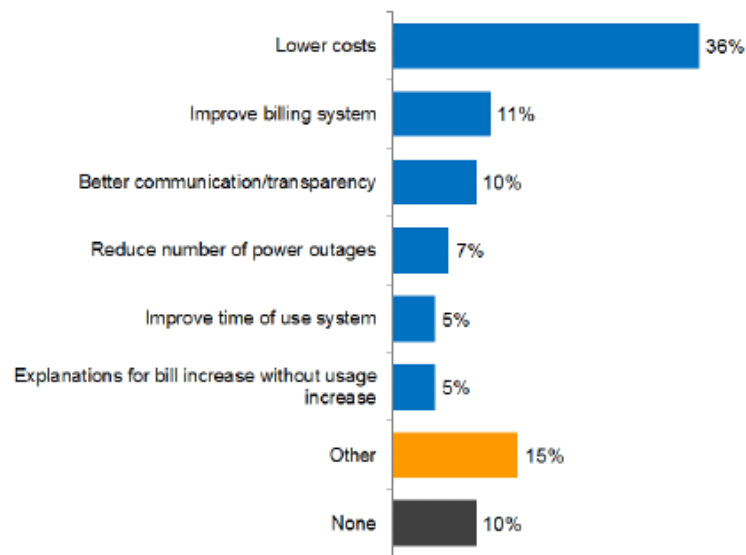
GS respondents not shown (n=8)
 "Very satisfied" (n=2), "Somewhat satisfied" (n=2), "Neither satisfied nor dissatisfied" (n=1), "Somewhat dissatisfied" (n=1), "Very dissatisfied" (n=1)

Nearly 3-in-4 (73%) residential customers say they are satisfied with their service from Lakefront Utilities with just 10% who feel dissatisfied with their current level of service. Nearly 2-in-10 (18%) residential customers don't feel strongly either way.

- Of the eight business respondents, six of them feel satisfied with their current service and only two feel dissatisfied.

Figure 5: Suggested Improvements to Service

Q Is there anything in particular that Lakefront Utilities can do to improve its service to you?
 [n=61, residential]



Note: "Refused" (2%) not shown.
 GS respondents not shown (n=3).
 Top mentions: "Lower costs" (n=2), "Reduce number of power outages" (n=1).

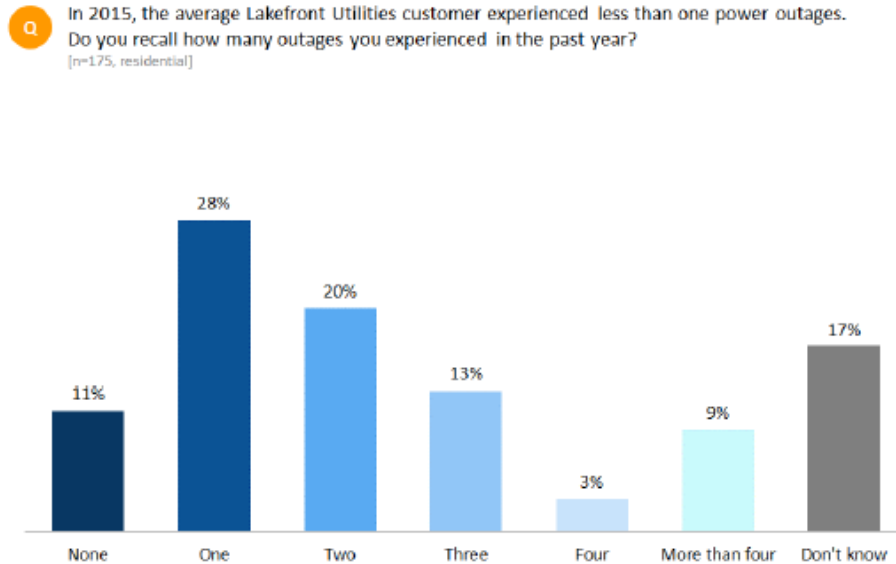
In an open-ended follow up question asking what Lakefront Utilities could do to improve its customer service, a plurality (36%) of customers cited "lower costs". Other suggestions include "improved billing system" (11%), "better communication and transparency" (10%), "reduced number of outages" (7%), "Improved Time-of-Use system" (5%) and "better explanations for bill increases without usage increases" (5%).

- Of the three business customers who responded to this open-ended question, two mentioned "lower costs" as a key improvement and the remaining respondent cited "reduced number of power outages".

System Reliability

The second section of respondent feedback examines customer expectations of power outages, both in duration and frequency as well as their preferences when choosing between reliability and cost.

Figure 6: Frequency of Outages in Past Year

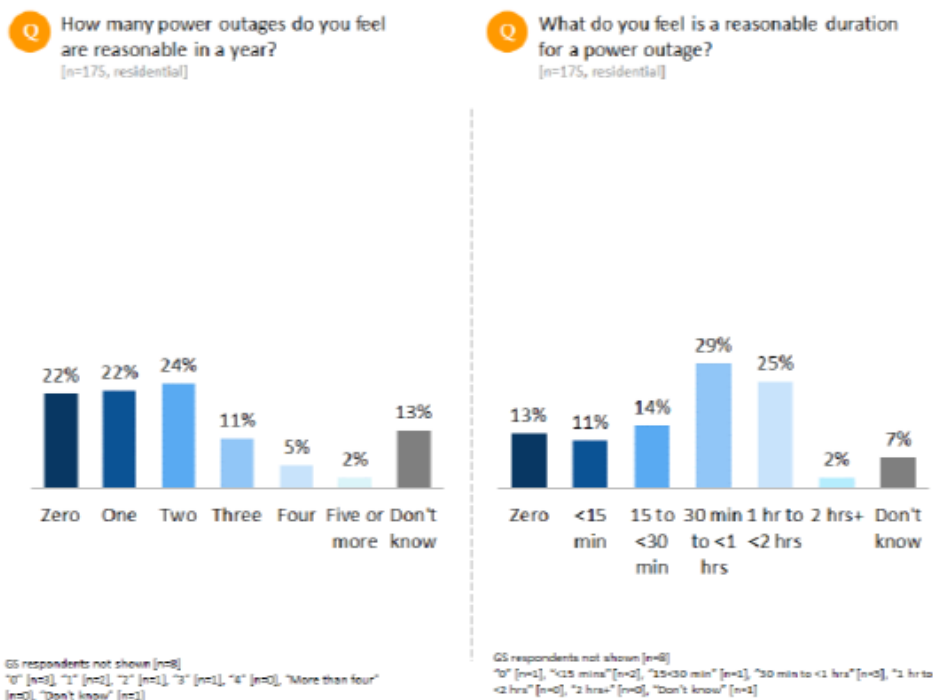


65 respondents not shown [n=6]
 "None" [n=1], "One" [n=2], "Two" [n=2], "Three" [n=1], "More than four" [n=1], "Don't know" [n=1]

About 4-in-10 (39%) residential respondents experienced one or zero outages in the past year. A third (33%) of respondents experienced two or three outages and 12% of residential customers experienced four or more. Less than 2-in-10 (17%) don't know how many outages they experienced.

- Among the 8 business customers, three experienced 0-1 outages, 3 experienced two or three outages, one experienced more than four and one can't recall how many outages.

Figure 7: Frequency and Duration of Outages, Acceptability



When asked what a reasonable number of outages would be, more than 4-in-10 think zero (22%) outages or one (22%) outage would be acceptable, more than a third think two (24%) or three (11%) outages would be acceptable, and 7% think four or more outages would be reasonable with 13% who say they don't know.

- Five of the eight business respondents think "zero" (n=3) outages or "one" (n=2) outage would be acceptable, 2 respondents thought two or more outages would be acceptable and one business customer couldn't decide.

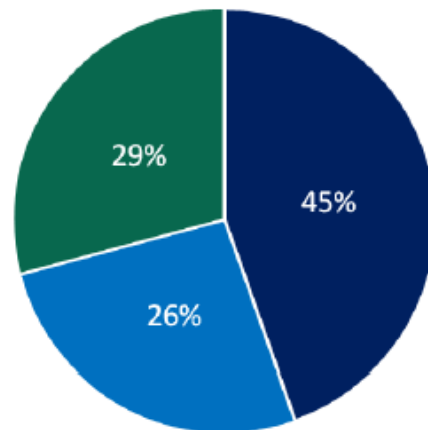
Two-thirds (67%) of residential respondents think an hour or less is a reasonable duration for a power outage. A quarter (25%) think between one and two hours is a reasonable time, with only 2% who think two hours or longer is reasonable. Less than 1-in-10 (7%) say they can't decide what a reasonable time would be for a power outage.

- Seven of the eight business customers think an hour or less is a reasonable duration. The remaining respondent didn't know.

Figure 8: Cost vs. Reliability

Q No distribution system can deliver perfectly reliable electricity service. There is a balancing act between reliability and the cost of running the system. Please select what statement comes closest to your point of view.
 [n=175, residential]

- I would be willing to accept more and longer power outages if that meant there would be a decrease to my distribution rates
- I would be willing to pay a bit more on my distribution rates to maintain the current level of reliability
- I would be willing to pay much more on my distribution rates to improve the level of reliability I currently receive from Lakefront



GS respondents not shown [n=8]
 "Accept more outages" [n=3], "Pay a bit more" [n=1], "Pay much more" [n=4]

After reading materials about the trade-offs between reliability and higher rates, a plurality of respondents choose reduced cost over greater reliability. Nearly half (45%) of respondents would be willing to accept longer and more frequent outages if it meant lower electricity rates. A quarter (26%) of residential customers would be willing to pay "a bit more" to maintain their rates and less than 3-in-10 (29%) say they would pay "much more" to improve their level of reliability.

- Among the eight business customers, three would "accept more outages" in exchange for better service, one respondent would "pay a bit more" to maintain current service and four would "pay much more" for better reliability.

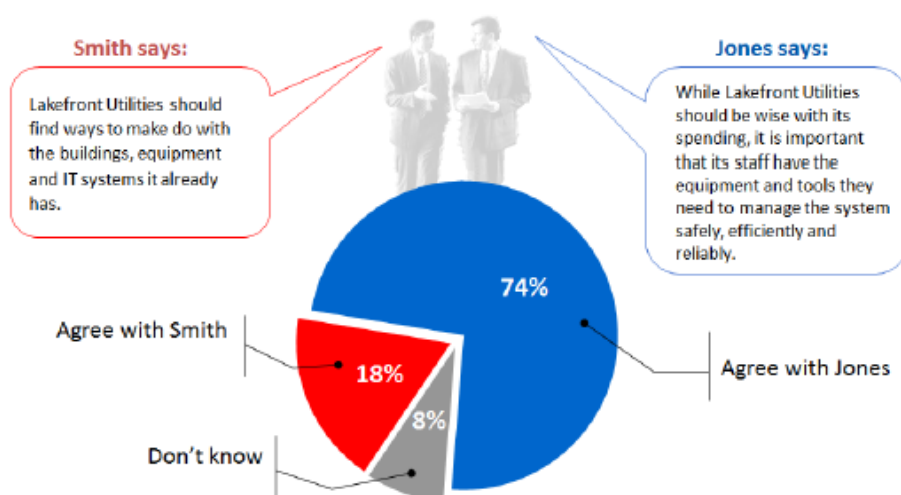
1

Investment in Infrastructure, Buildings, Equipment and IT Systems

The third section reviews customer feedback on how Lakefront Utilities should meet the challenges of aging buildings, equipment and IT systems.

Figure 9: Investment in Buildings, Equipment and IT Systems

Q As a company, Lakefront Utilities needs vehicles and tools to service the power lines and IT systems to manage the system and customer information. Which of the following statements best represents your point of view?
 [n=171, residential]



65 respondents not shown [n=8]
 "Make do with what it has" [n=1], "Important that staff has equipment they need" [n=7], "Don't know" [n=0]

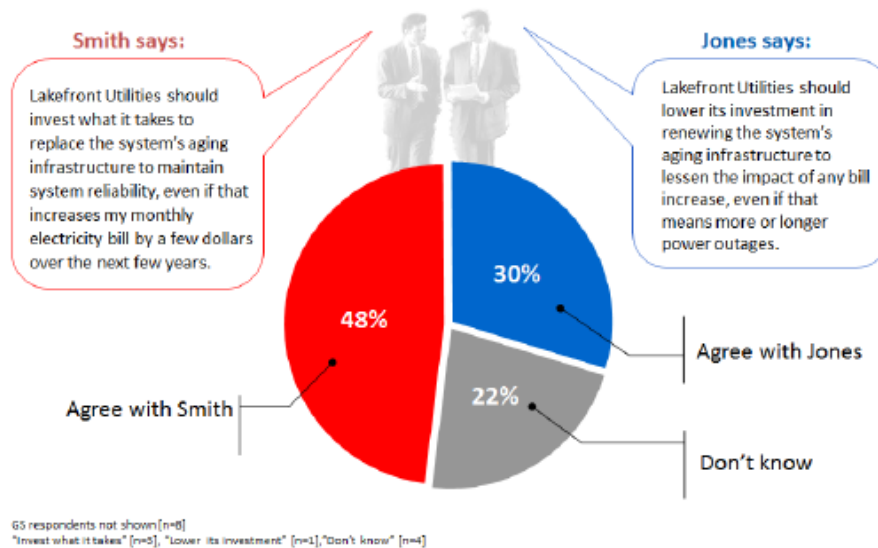
After reviewing materials on operating budget cost drivers, respondents were asked to choose between two conflicting viewpoints on investment in buildings, equipment and IT systems. Three quarters (74%) of residential customers agreed with the pro-investment statement, "while Lakefront Utilities should be wise with its spending, it is important that its staff have the equipment and tools they need to manage the system safely, efficiently and reliability". Less than 2-in-10 (18%) think that Lakefront Utilities should "make do with the buildings, equipment and IT systems it already has" and 8% of residential customers don't know how to respond.

- Nearly all the business customers surveyed think Lakefront Utilities should spend what it needs to manage the system (n=7); just one respondent felt that Lakefront Utilities should make do with its current buildings, equipment and IT systems.

2

Figure 10: Investment in Aging Infrastructure

Q With regards to projects focused on replacing aging equipment in poor condition, which of the following statements best represents your point of view?
 [n=171, residential]



When asked to choose between "investing what it takes" in aging infrastructure and "lowering its investment", a strong plurality (48%) agree that Lakefront Utilities should "invest what it takes to replace the system's aging infrastructure" even if that increases their own monthly costs. Three in ten (30%) feel that Lakefront Utilities should "lower its investment in renewing the system's aging infrastructure to lessen bill increases" even if that means additional outages. More than 2-in-10 (22%) residential customers don't know how to respond.

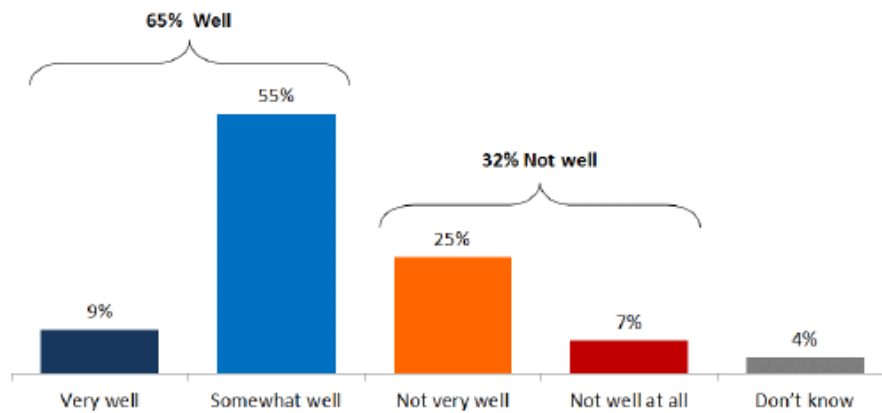
- Half of the eight business respondents "don't know" how to respond; three of the remaining four think Lakefront Utilities should "invest what it takes" to replace its infrastructure.

Cost Drivers and Cost Savings

In the fourth section of 'Customer Feedback', we examine customer perceptions of the cost drivers facing Lakefront Utilities and the distributor's perceived success at managing its costs.

Figure 11: Understanding of Cost Drivers

Q How well do you feel you understand the capital and operating budget cost drivers that Lakefront Utilities is responding to?
 [n=170, residential]

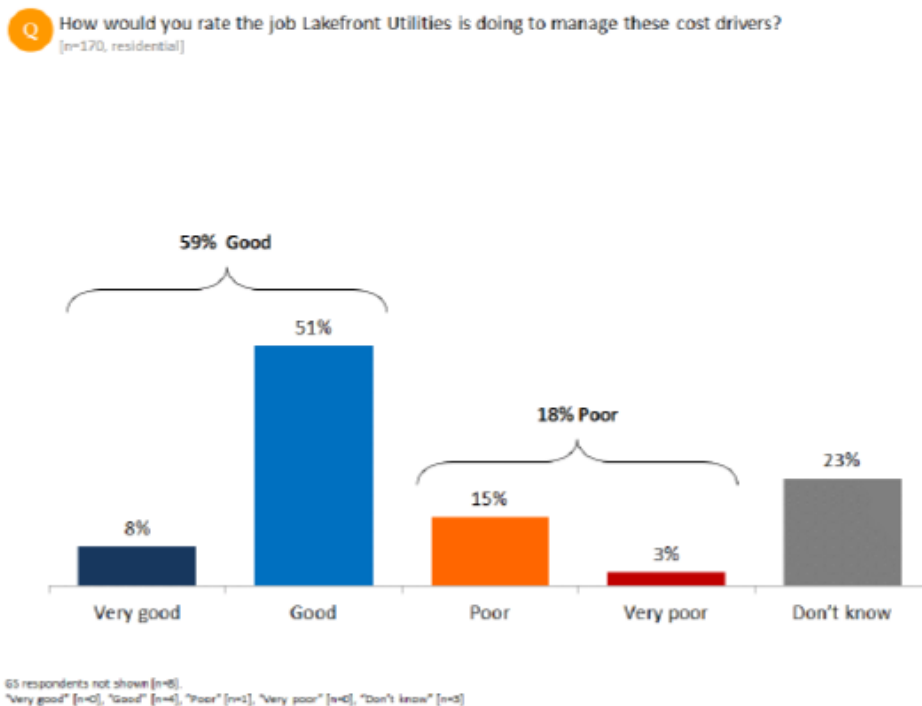


65 respondents not shown [n=6].
 "Very well" [n=0], "Somewhat well" [n=9], "Not very well" [n=1], "Not well at all" [n=1], "Don't know" [n=1]

After reviewing the online workbook materials on cost drivers, two-thirds (65%) of residential customers feel they understand the capital and operating budget cost drivers "well". Less than 1-in-3 (32%) don't understand the cost drivers well and 4% of residential customers don't know how to respond.

- Most of the business customers feel they understand the cost drivers "somewhat well" (n=5), while the remaining three don't understand it well (n=2) or don't know (n=1).

Figure 12: Management of Cost Drivers

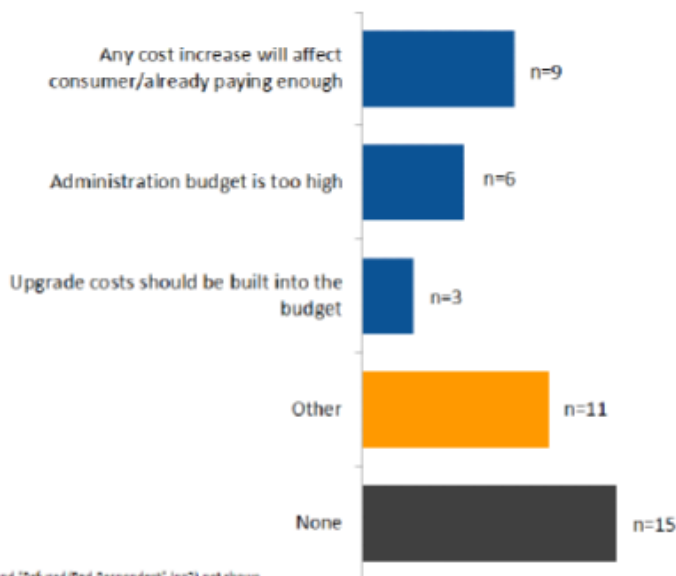


A majority (59%) of residential customers think Lakefront Utilities is doing a good job managing its cost drivers. Roughly 2-in-10 either think they are doing a poor job (18%) or don't know (23%).

- Of the eight business customers surveyed, four think Lakefront Utilities is doing a good job managing its cost drivers, one person thinks they are doing a poor job and the remaining three respondents don't know how to answer.

Figure 13: Lakefront Utilities' Spending Plan

Q Do any of Lakefront Utilities' forecasted expenses or expenditures appear unreasonable to you? If so which areas appear unreasonable and why?
 (n=48 residential)



Note: "Don't know" (n=2) and "Refused/Bad Respondent" (n=2) not shown.

GS respondents not shown (n=4).

Top mentions: "Any cost increase will affect consumer/already paying enough" (n=9), "Other" (n=11), "None" (n=15).

Customers were asked an open-ended follow up question asking if any of Lakefront Utilities' expenses appeared unreasonable and, if so, why.

The top mentions (n=9) relate to cost: that any rate changes will negatively affect the consumer, and that they're already paying enough:

- "Any expenses/expenditure that Lakefront Utilities choose are going to have a serious impact on the consumer's bill with the cost going up rather than down."
- "Any increase to my electrical bill is unreasonable. The bills are outrageous especially when so much is used for delivery..."

The second expense-related mention is that the administration budget is too high (n=6), that Lakefront Utilities could find greater cost-saving in its own administration budget:

- "It would be nice to see why the Operations and Administration budget is increasing even with the decreases mentioned."
- "Administration budget is way too high."

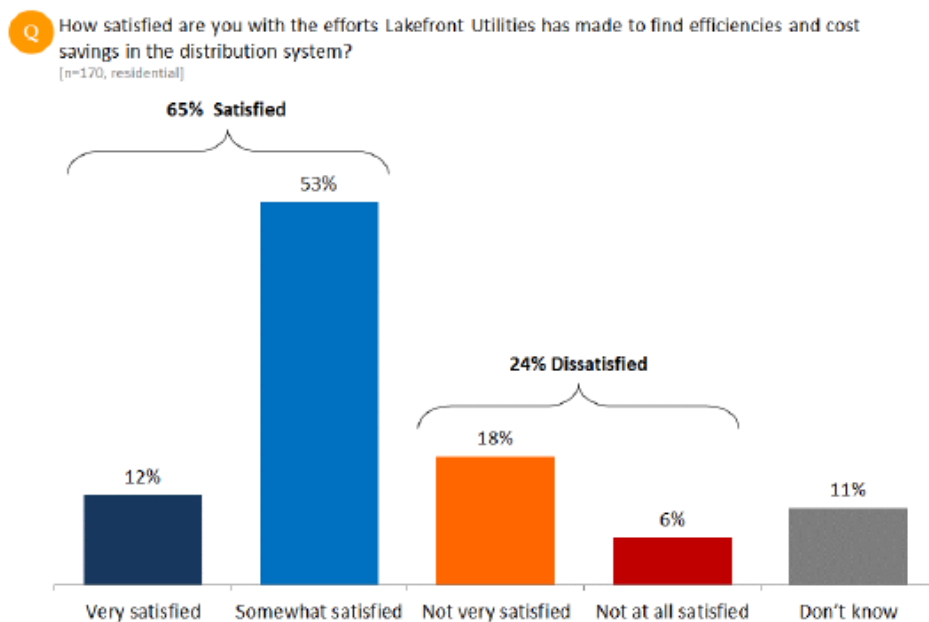
The third key expense mention is regarding upgrade costs (n=3), that they should already be built into the budget and not added on after the fact:

- "Depreciation costs to equipment should have been built into the costs."

Other mentions focused on a range of issues (n=11), including complaints about management salaries and issues with the survey itself:

- *"The statements in the survey only tell me so much. There is a certain act of faith required to accept that any company, Lakefront Utilities included, is doing all things properly, balancing their needs against the needs and economic capacity of their customers. I very much agree with the principle of paying now to prevent higher future costs, so have to trust Lakefront Utilities is making the correct decisions."*
- *"Salaries for management too high."*

Figure 14: Satisfaction with Cost Savings by Lakefront Utilities



GS respondents not shown (n=8).

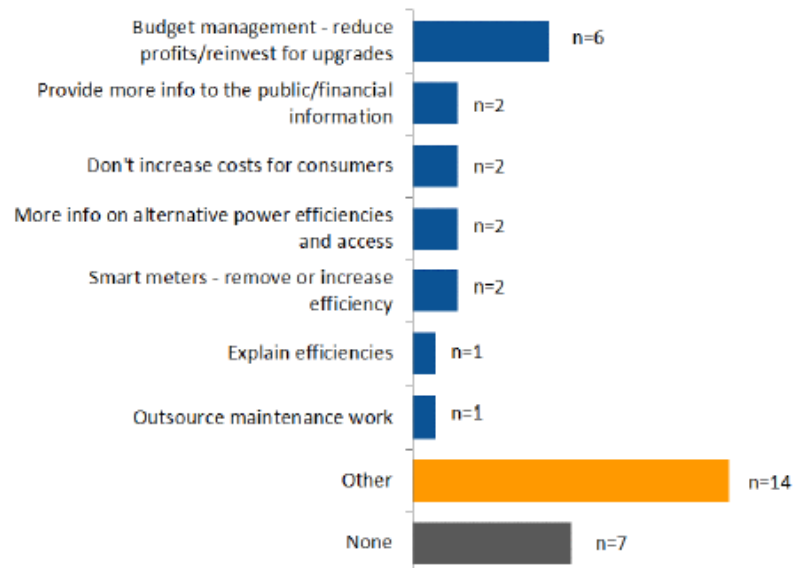
"Very satisfied" (n=1), "Somewhat satisfied" (n=9), "Not very satisfied" (n=1), "Not at all satisfied" (n=0), "Don't know" (n=3)

Two thirds (65%) of respondents say they are satisfied with the efforts Lakefront Utilities has made to find efficiencies in the distribution system. One quarter (24%) say they are dissatisfied with cost savings efforts and 11% don't know how to respond.

- Four of the eight business customers say they are satisfied with Lakefront Utilities' efforts to find cost savings, one feels dissatisfied and three don't know the answer to the question.

Figure 15: Satisfaction with Cost Savings by Lakefront Utilities

Q Is there anything else you think Lakefront Utilities should be doing to find efficiencies and cost savings in the distribution system?
[n=44 residential]



Note: "Don't know" (n=6) and "Refused" (n=1) not shown.

GS respondents not shown (n=3).

Top mentions: "Explain efficiencies" (n=1), "Outsource maintenance work" (n=1), "Other" (n=1)

When asked an open-ended follow-up on how Lakefront Utility could do more to find cost efficiencies, responses varied widely. The leading mention was that Lakefront Utilities should manage its budget better, reinvesting its profits for upgrades:

- "Examine your budget management and spending for ways to pay for your equipment update. You should not come to me asking for more money to pay for the same service. Ask levels of governments for budget increases, grants, loans. Your first option SHOULD NOT be raising the cost of existing service."
- "People don't care about who takes what slice of the pie. Local utilities, generators, etc. must work together to keep prices in check, provide new, cleaner sources. I haven't had a cost of living increase (let alone a raise) since 2011, but my utilities continue to go up."

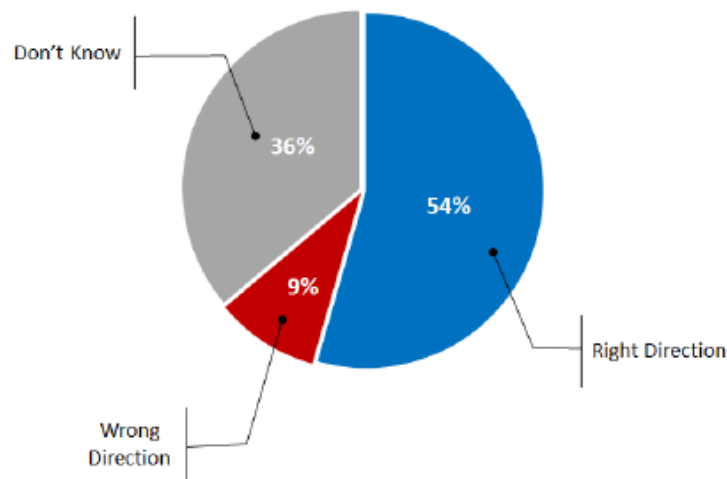
Additional mentions include "provide more info to the public" (n=2), "don't increase costs for consumers" (n=2), "more info on alternate power efficiencies and access" (n=2), "smart meters- remove or increase efficiency" (n=2), "explain efficiencies" (n=1) and "outsource maintenance work" (n=1).

Plan for the Future and Acceptance of Rate Change

At the end of the online workbook, customers were presented with details on how Lakefront Utilities' proposed investment plan will impact their bill. They were then asked a short series of questions in response to all of the information that had been shared with them.

Figure 16: Satisfaction with Cost Savings by Lakefront Utilities

Q From what you have read here and what you may have heard elsewhere, does Lakefront Utilities' investment plan seem like it is going in the right direction or the wrong direction?
 [n=169, residential]

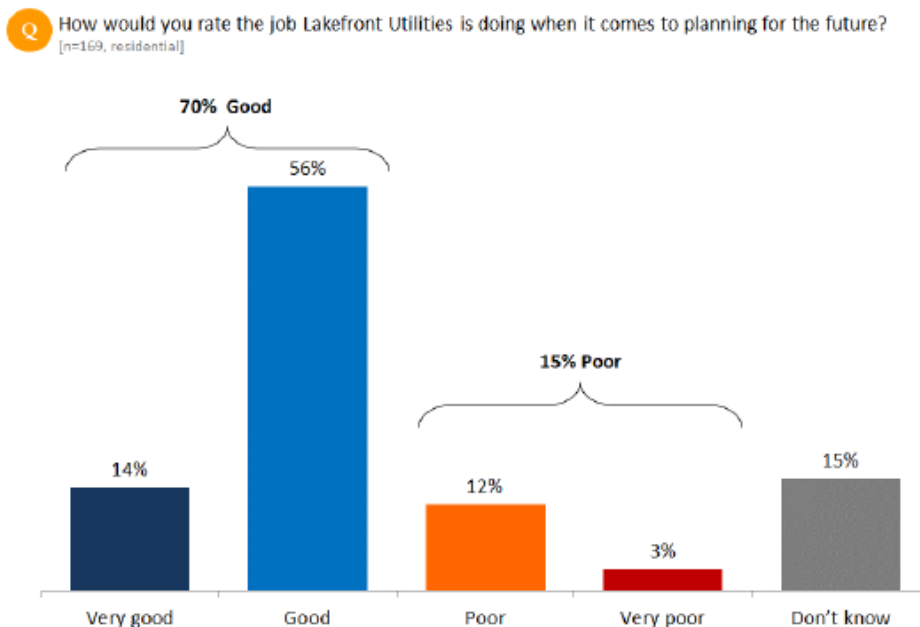


GS respondents not shown [n=8]:
 "Right direction" [n=2]; "Wrong direction" [n=0]; "Don't know" [n=6]

Asked whether Lakefront Utilities' investment plan is going in the right or wrong direction, a majority (54%) say they feel the plan is heading in the right direction. Only 9% feel the plan is heading in the wrong direction, but more than a third (36%) were unable to give an opinion.

- Six of the eight business respondents were unable to give an opinion, while the remaining two said the plan is going in the right direction.

Figure 17: Satisfaction with Cost Savings by Lakefront Utilities



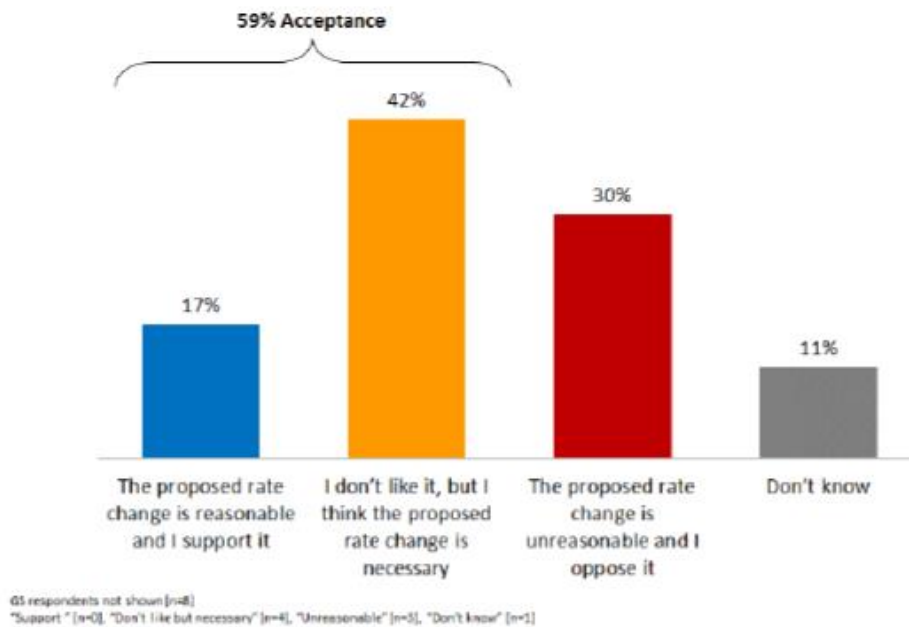
GS respondents not shown [n=8]
 "Very good" [n=0], "Good" [n=5], "Poor" [n=0], "Very poor" [n=0], "Don't know" [n=3]

Seven in ten (70%) feel Lakefront Utilities is doing either a good (56%) or very good (14%) job of planning for the future. About one in six (15%) feel they are doing a poor job (12% poor, 3% very poor), while the same proportion don't know.

- Among the business respondents, five say Lakefront Utilities is doing a good job, and the remaining three don't know.

Figure 18a: Acceptance of Rate Increase

Q Considering what you know about the local distribution system, which of the following best represents your point of view?
 [n=169, residential]

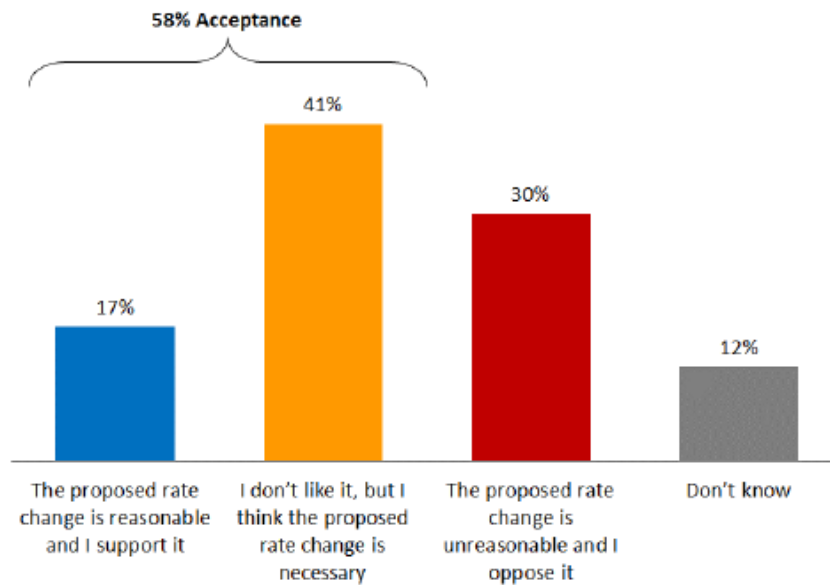


At the end of the survey, a majority (59%) of respondents indicate that they are prepared to accept the proposed rate change. One in six (17%) accept it outright, while four in ten (42%) don't like it but think it is necessary. Conversely, three in ten (30%) feel the proposed rate change is unreasonable and they oppose it. The remaining 11% don't know how they feel about it.

- Four business respondents reluctantly accept the rate change, three oppose it, and the remaining business customer doesn't know one way or the other.

Figure 18b: Acceptance of Rate Increase, Includes Exit Ramp

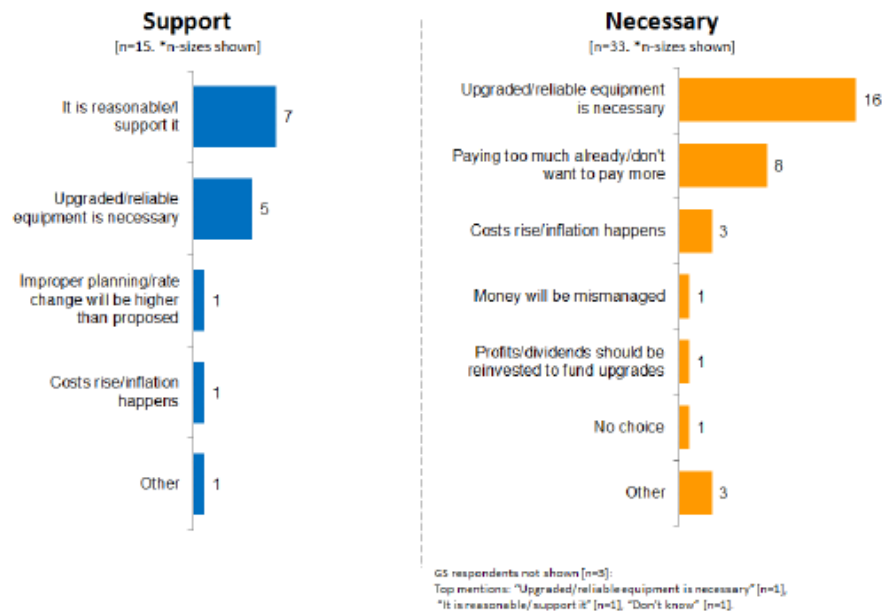
Q Considering what you know about the local distribution system, which of the following best represents your point of view? [ALL COMPLETES: BUSINESS, RESIDENTIAL, AND EXIT RAMP]
 [n=181, Includes business, residential, and exit ramp completes]



If we add business customers and those who responded to the "exit ramp" question into the mix, the results are largely unchanged: a majority (58%) accept the rate change either outright (17%) or reluctantly (41%), three in ten (30%) oppose it, and the remaining 12% don't know how they feel about it.

Figure 19a: Reasons for Accepting the Rate Change

Q Thinking about your answer to the previous question, why do you either support the proposed rate increase, think the proposed rate increase is necessary, oppose the proposed rate increase, or don't know?

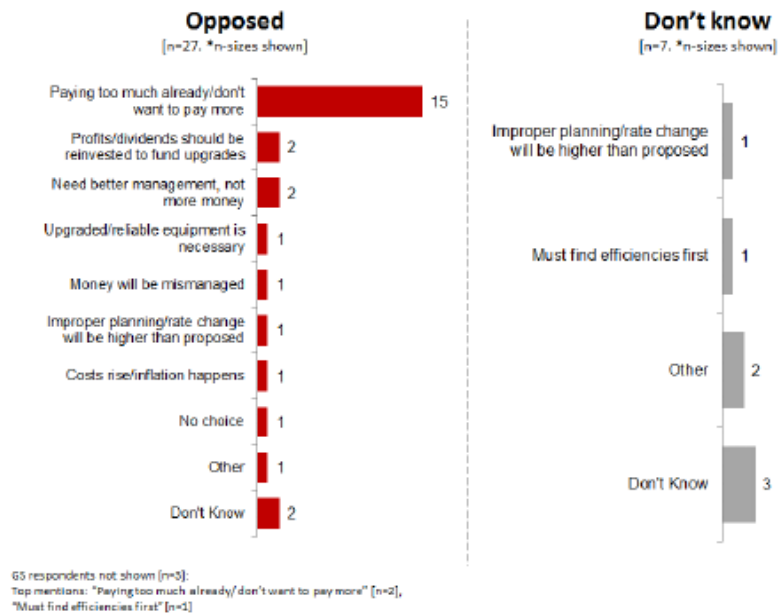


Among those who support the rate change outright (and who answered the follow-up question to expand on their response), most (n=7) simply say "it is reasonable", while some (n=5) say it is necessary to upgrade the equipment.

The primary reason for reluctantly supporting the rate change is that upgraded equipment is necessary (n=16). However, there are those (n=8) who feel they are paying too much already. On the other hand, three respondents simply say that "costs rise".

Figure 19b: Reasons for Opposing the Rate Change

Thinking about your answer to the previous question, why do you either support the proposed rate increase, think the proposed rate increase is necessary, oppose the proposed rate increase, or don't know?

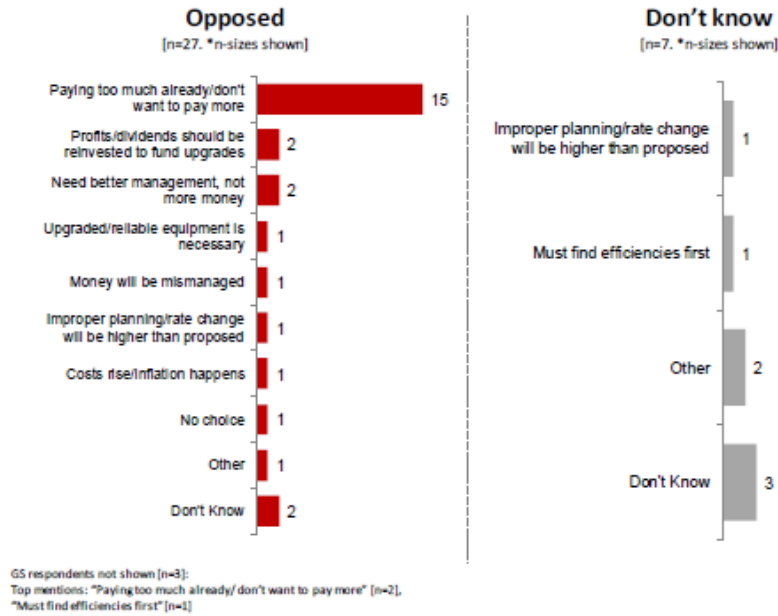


Half of those who offered insight as to why they oppose the rate change (n=15) feel that they are "paying too much already". Other responses range from "profits/dividends should be reinvested to fund upgrades" (n=2) to "costs rise" (n=1). None of these other responses are mentioned by more than two individuals.

Among the seven who provided feedback on why they don't know if they accept the rate change or not, three say they "don't know".

- Business customers who oppose the rate change say they are "paying too much already" (n=2), or that Lakefront Utilities "must find efficiencies first" (n=1).

Q Thinking about your answer to the previous question, why do you either support the proposed rate increase, think the proposed rate increase is necessary, oppose the proposed rate increase, or don't know?
 (n=82, residential only, n=158 non-respondents)

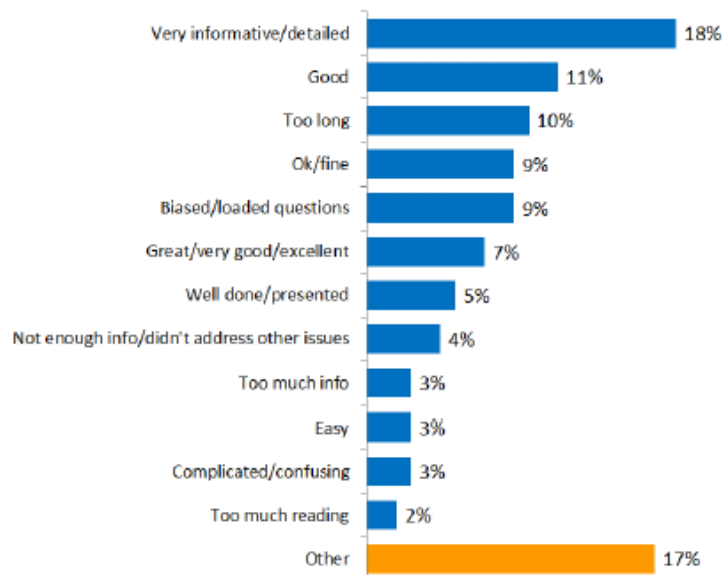


Appendix: Feedback on the Workbook Design

In the last section of the workbook, entitled “Final Thoughts”, respondents were encouraged to provide feedback regarding the online workbook itself.

Appendix A: Overall Impression

Q Overall Impression: What did you think about the workbook?
 [n=115 residential]



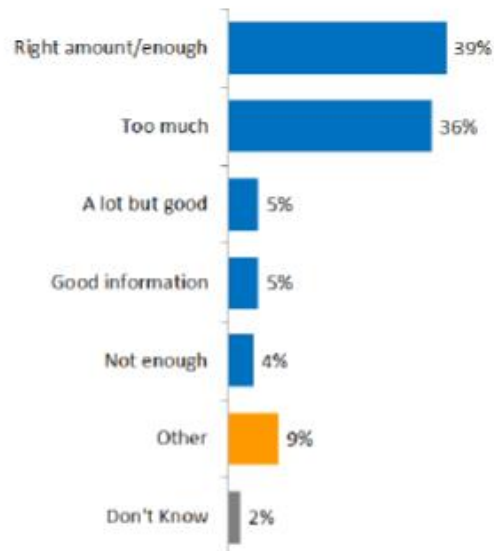
CS respondents not shown [n=5].
 Top mentions: “Informative” [n=1], “Good” [n=1], “Too long” [n=1], “Too much info” [n=1], “Not enough info” [n=1]

About one in five (18%) described the workbook at “very informative/detailed”. About one third described it as “good” (11%), “great/very good/excellent” (7%), “well done/presented” (5%) or simply “ok/fine” (9%).

However, there were some who expressed concerns: 10% said the workbook was “too long”, and almost as many (9%) felt there were “biased/loaded questions”. Some (3%) found it “complicated/confusing”, or that there was “too much info” (3%).

Appendix B: Volume of Information

Q Volume of Information: Did Lakefront Utilities provide too much information, not enough, or just the right amount?
 (n=114 residential)

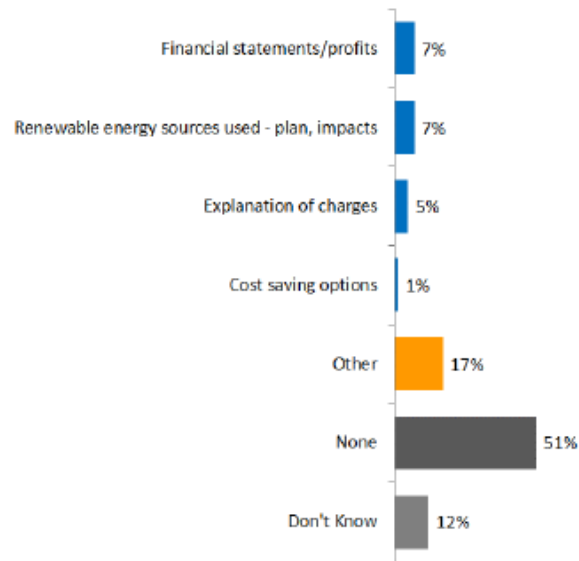


05 respondents not shown (n=5).
 Top mentions: "Right amount/enough" (n=2), "Too much" (n=1), "Not enough" (n=1), "Don't know" (n=1).

Asked about the volume of information, response was almost evenly divided between those who said it was the "right amount/enough" (39%) and "too much" (36%). Five percent conceded that there was "a lot but good", while 4% felt there was "not enough".

Appendix C: Content Covered

Q Content Covered: Was there any content missing that you would have liked to have seen included?
 [n=86, residential]

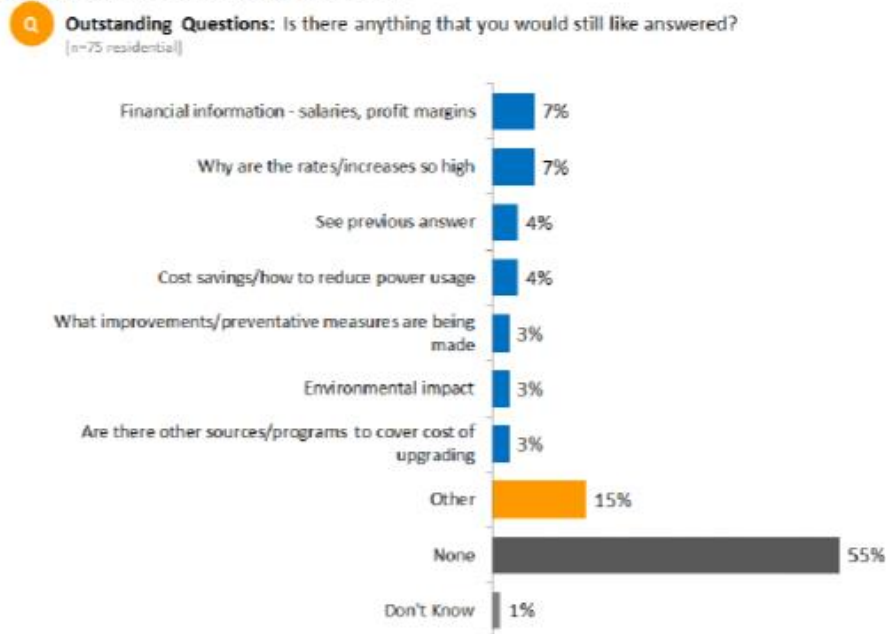


GS respondents not shown [n=5]
 Top mentions: "Cost saving options" [n=3], "Other" [n=1], "Don't know" [n=1]

Respondents were asked if they felt there was any content missing that they would have liked to have seen included in the workbook. Half (51%) said there was nothing, but there were some who wanted information on "financial statements/profits" (7%), "renewable energy sources used – plan, impacts" (7%), or an "explanation of charges" (5%).

A number of items raised by only one or two respondents are covered in the "other" category (17%).

Appendix D: Outstanding Questions



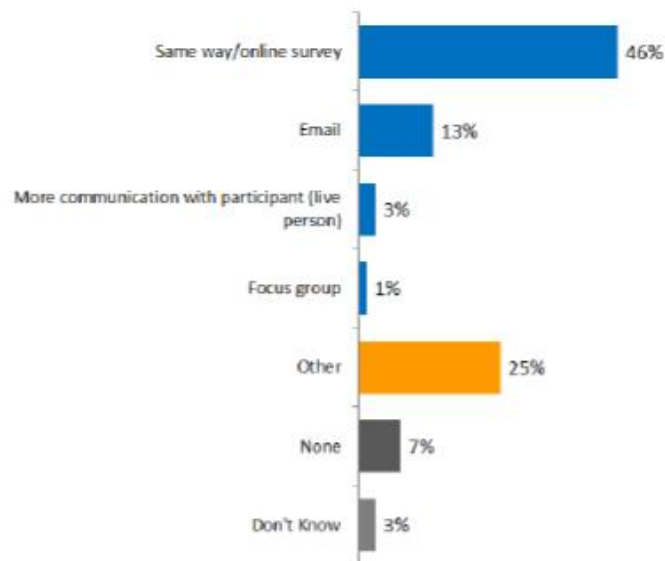
05 respondents not shown (n=4)

Top mentions: "Cost savings/reduce usage" (n=1), "Are there other sources/programs to cover cost of upgrading" (n=1) and "Other/None" (n=1)

A majority (55%) did not have any outstanding questions at the end of the workbook, but some wanted to know about "financial information – salaries, profit margins" (7%) or "why are the rates/increases so high?" (7%). Still others were left with questions regarding "cost savings/how to reduce power usage" (4%), "what improvements/preventative measures are being made" (3%), "environmental impact" (3%), and "are there other sources/programs to cover cost of upgrading" (3%).

Appendix E: Suggestions for Future Consultations

Q Suggestions for Future Consultations: How would you prefer to participate in these consultations?
 [n=67 residential]



93 respondents not shown [n=2]
 Top mentions: "Same way/online" [n=1], "Focus group" [n=1]

The "same way/online survey" (46%) topped the list of suggestions for future consultations, followed by "email" (13%). Some wanted "more communication with participants" (3%). A number of other suggestions were raised by one or two individuals, comprising the "other" (25%) category.

Key Account Validation Interviews

Methodology

Between April 8th and 14th, 2016, Innovative Research Group (INNOVATIVE) conducted six validation interviews with Lakefront Utilities' key account customers. Lakefront Utilities staff briefed a sample of their approximately 130 key account customers on the details of their proposed Distribution System Plan between April 6th and 11th and INNOVATIVE followed-up by telephone in order to validate the process and to verify that customers received the information needed to provide informed feedback on Lakefront Utilities' proposed plan.

All of the validation interviews were conducted over the telephone and lasted approximately three to five minutes. Key account participants were encouraged to provide open and confidential feedback regarding the consultation process and their thoughts on the proposed plan.

NOTE: Results contained within this report are based on a very limited sample and should be interpreted as directional only.

Recruiting Key Account Participants

As Lakefront Utilities conducted their key account consultations, contact information for the six organizations was shared with INNOVATIVE. Key account status was based on Lakefront Utilities' criteria of GS 50-2999 kWh, GS 3000-4999 kWh and Street Lights. This consultation was in conjunction with regular engagement practices between Lakefront Utilities and their key accounts.

The following key account customers participated in validation follow-up interviews.

	Key Account Group	Interview Date
1	Linmac	April 8, 2016
2	Arclin	April 8, 2016
3	Jebco Manufacturing Inc.	April 11, 2016
4	Weston Bakeries	April 11, 2016
5	Northumberland Shopping Centre Inc.	April 14, 2016
6	Town of Cobourg – Streetlights	April 15, 2016

Lakefront Utilities' only GS 3000-4999 kWh customer was not available to participate in the consultation process, despite best efforts.

Key Account Consultation Process

Lakefront Utilities, alongside INNOVATIVE staff developed a comprehensive framework to consult with key accounts, as well as gather feedback on the proposed Distribution System Plan. Key account customers will be uniquely affected by the proposed plan, and understanding and responding to their preferences is a key component of the broader consultation.

The basic framework of the key account consultation was based on the broader consultation workbook used with both residential and general service customers. Because key account customers are generally more informed about the electricity system, these consultations were more specifically related to individual organizations' unique relationship with Lakefront Utilities. Organizations of this size and consumption class want to understand how their organization will be directly affected by the proposed investment plan, and this consultation framework allowed for customization to provide this kind of detailed information.

Key Account Interview Structure

Task	Objective
Introduction	Ensure the customer understands the scope and purpose of this consultation.
Knowledge	Ensure the customer has the core background information to participate in the rest of the discussion.
Customer Needs	How well is the customer being served? Can the customer give us unprompted suggestions as to how to improve Lakefront Utilities' service?
Challenges	Provide the customer with background as to the challenges that Lakefront Utilities must manage in providing service to that customer.
Outage Impacts	Ask the customer to describe the impact of outages on their organizations.
DS Plan	Inform the customer about the proposed investment plans and secure their feedback.
Rate Impacts	Inform the customer about the impact of the proposed plan on their rates and secure their feedback.

Participant Feedback

The following section highlights the general feedback from the key account rate class group. Key account customers were encouraged to provide additional comments or feedback throughout the validation interviews with INNOVATIVE consultants.

Overall Take-Away

Overall, the key account customers engaged by INNOVATIVE are satisfied with the consultation process, and the job Lakefront Utilities has been doing communicating the proposed Distribution System Investment Plan. These customers feel that they received the information needed to understand how their organizations will be affected by the proposed plan, and also feel that the process of system renewal is on track and progressing at the right speed.

With regard to the proposed rate changes, key account customers are generally pleased. Most customers expressed that their rates would be going down, and therefore, understandably find the changes reasonable.

Customer Experience and Expectations

Overall, Lakefront Utilities' engagement with key account customers was well received. All six respondents, to varying degrees, felt that the utility provided helpful, insightful and comprehensive information on the proposed investment plan.

Those who entered the consultation with a self-assessed lower understanding of the system felt that Lakefront Utilities staff did a good job of explaining the utility and where challenges exist. A number of customers stressed that this particular engagement was only a part of ongoing communications with the utility.

"It was helpful to learn about the ins and outs of the business. The more they make people familiar with the system, the less complaints they'll get"

"Yes, and I have no problems. Everything they explained was helpful"

"We have a unique relationship with them. There's always open door communication"

Coverage of Distribution System Topics

All six engaged key account customers felt that the Lakefront Utilities consultation covered the areas that they expected. Many customers noted that they were primarily interested in how the proposed plan would affect their organization, and Lakefront Utilities did a good job tailoring the consultation to each customer. Some customers expressed their pleasure in being able to discuss specific aspects of their organization, including certain types of electricity service and the associated maintenance.

"They explained what will affect us directly, that's all we care about"

"We talked about commercial buildings, service and maintenance. They are going to do their best to keep it reliable. Rates will stay where we can handle them"

Rate of System Renewal

There was unanimous agreement that Lakefront Utilities' proposed rate of system renewal was just right. There were no concerns about speed, and overall, customers are satisfied with the job Lakefront Utilities is doing in managing the system.

Rate Impacts

Five out of six key account customers interviewed felt that the proposed rate change is reasonable, and support it, while the final customer doesn't like it, but also supports it.

For most customers interviewed, as they understand their organization's rates will either be going down or staying the same under the proposed investment plan. Some customers commented that they are quite pleased with the work Lakefront Utilities is doing, and going forward, feel that they are in a good position.

"Rates will be staying the same or going down for commercial folks. I feel like I understand it, and it's fine"

"Our rates are going down a bit, so we're fine with it"

"They're doing a good job. Going forward [we] just want to make sure everything is running good. Proactive is better than reactive"

"I think they're on track and doing the right things"

Validation Interview Questionnaire Results

The following tables are the tabulations of key account customer feedback to validation questions INNOVATIVE asked when following up on Lakefront Utilities' consultation sessions.

Respondents have been assigned a code to ensure their *anonymity*. Additional comments and feedback from key account participants are included in the body of this report. Participants were encouraged to expand on their responses wherever they found necessary.

1. Can you please confirm that you recently spoke with a representative of Lakefront Utilities to discuss their Distribution System Plan?

Response	KA1	KA2	KA3	KA4	KA5	KA6	Count
Yes	1	1	1	1	1	1	6
No	-	-	-	-	-	-	0
Total	1	1	1	1	1	1	6

2. Did you have an opportunity to express any concerns about how well Lakefront Utilities is meeting your needs?

Response	KA1	KA2	KA3	KA4	KA5	KA6	Count
Yes	1	1	1	1	1	1	6
No	-	-	-	-	-	-	0
Total	1	1	1	1	1	1	6

3. Did Lakefront Utilities do a good job explaining the challenges they are facing in maintaining the system?

Response	KA1	KA2	KA3	KA4	KA5	KA6	Count
Yes	1	1	1	1	1	1	6
No	-	-	-	-	-	-	0
Total	1	1	1	1	1	1	6

4. Did the Distribution System Plan cover the key areas you expected?

Response	KA1	KA2	KA3	KA4	KA5	KA6	Count
Yes	1	1	1	1	1	1	6
No	-	-	-	-	-	-	0
Total	1	1	1	1	1	1	6

5. Do you feel Lakefront Utilities' proposed rate of system renewal is too fast, too slow or about right?

Response	KA1	KA2	KA3	KA4	KA5	KA6	Count
Too fast	-	-	-	-	-	-	0
Too slow	-	-	-	-	-	-	0
About right	1	1	1	1	1	1	6
Total	1	1	1	1	1	1	6

6. Considering what you know about the local distribution system, which of the following best represents your point of view:

Response	KA1	KA2	KA3	KA4	KA5	KA6	Count
The rate change is reasonable and I support it	1	1	1	-	1	1	5
I don't like it, but the rate change is necessary	-	-	-	1	-	-	1
The rate change is unreasonable and I oppose it	-	-	-	-	-	-	0
Total	1	1	1	1	1	1	6



2017 Rate Application Review

Residential Customer Consultation Workbook



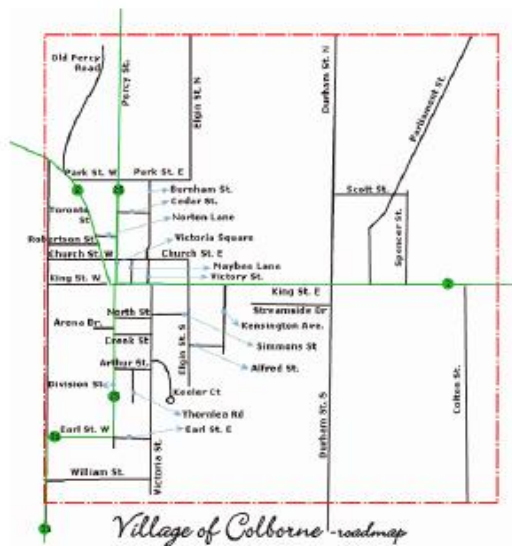
**Lakefront
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LUI's Service Territories

Cobourg



Colborne



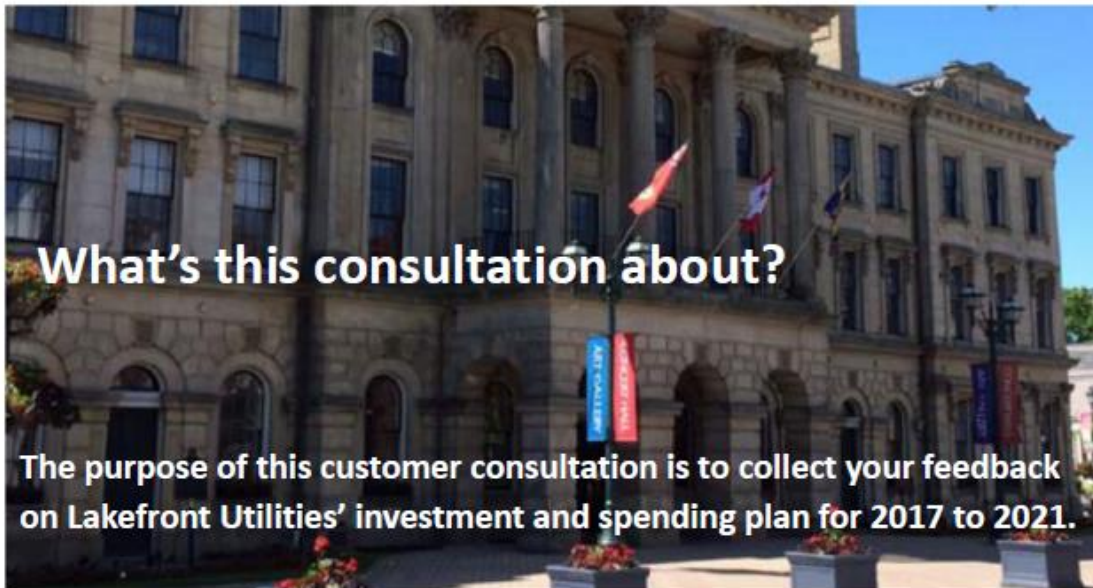
Lakefront Utilities Inc. (LUI) is an electricity distributor which serves the Town of Cobourg and the Village of Colborne. LUI is responsible for maintaining distribution and infrastructure assets over 30 square kilometers within the Cobourg and Colborne service areas. LUI currently serves approximately 10,000 residential and commercial customers across its two service areas.

LUI is incorporated under the Ontario Business Corporations Act and is a subsidiary of the Town of Cobourg Holdings Inc., which is owned jointly by the Town of Cobourg and the Township of Cramahe. The Town of Cobourg is the majority shareholder at 99.9% and the Township of Cramahe is the minority shareholder at 0.1%.



Table of Contents

What is this Consultation About?	page 4
Electricity 101	page 8
Lakefront Utilities' Distribution System Today	page 10
Pressures on the Distribution System	page 16
What the Plan Means for You	page 23



LUI's goal is to deliver safe and reliable electricity to homes and local businesses as efficiently as possible and at an affordable price. However, there is a balancing act that all utilities must consider when planning for the future: system reliability vs. the cost to consumers. No distribution system delivers perfectly reliable electricity. Generally, the more reliable the system, the more expensive the system is to build and maintain.

This customer consultation is designed to collect your feedback on the reliability of the electricity distribution system and the spending decisions LUI will need to make over the next five years. Ultimately, this consultation will help LUI ensure alignment between its operational and capital investment plans and customers needs and preferences.

As an LUI customer, this is an opportunity for you to tell your local distribution company what you think about their plan and the cost implications this plan will have on you. This is also an opportunity for LUI to explain to its customers the challenges in operating and maintaining the local electricity distribution system, and more importantly how LUI intends to meet those challenges.

To participate in this review, you do not need to be an expert on electrical distribution systems. This workbook explains key parts of the electrical distribution system, the challenges facing the system, LUI's recent work to maintain the system, and the company's budgetary plan for 2017 to 2021.

LUI does not expect you to make electrical engineering decisions. LUI wants to hear about the electricity issues that matter most to you and whether or not you feel the utility's spending and investing priorities seem reasonable.

This workbook is designed to give you enough background about these issues for you to develop an informed opinion.



**Lakefront
Utilities
Inc.**



How are electricity rates determined in Ontario?

The electricity industry in Ontario is regulated by the Ontario Energy Board (OEB), which recently developed a new regulatory framework that requires electricity distributors, such as LUI, to identify customer needs and preferences related to its distribution system plan.

LUI is funded by the distribution rates paid by its customers. Periodically, LUI is required to file an application with the OEB to determine the funding available to operate and maintain the distribution system. LUI must submit evidence to justify the amount of funding it needs to safely and reliably distribute electricity to its customers.

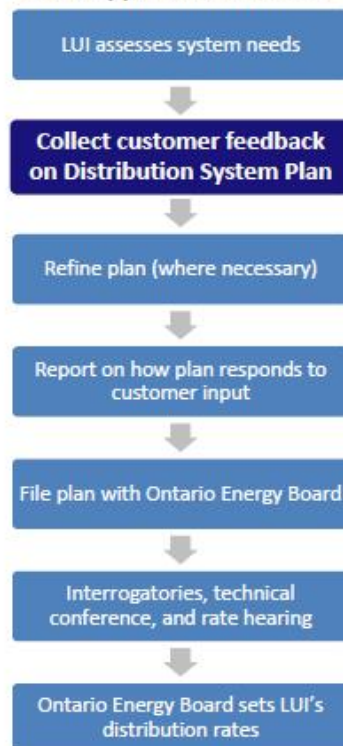
As a customer, how are my interests protected?

LUI's rationale for a customer rate adjustment is assessed in an open and transparent public process known as a rate hearing. Any individual or group may intervene on LUI's application to ask questions or challenge LUI's plans and assumptions. At the end of the process, the OEB weighs the evidence and decides on the rates LUI can charge for distribution.

Why is my feedback important?

Your feedback will inform LUI's rate design for 2017 which in turn will form the new base rates on which annual inflation adjustments will be applied in 2018 to 2021. Customer feedback will be presented to the OEB and public intervenors (who represent various ratepayer groups) when LUI files its rate application for 2017. As part of the rate hearing process, the OEB will be reviewing how LUI acquired and responded to customer feedback in its planning process.

Rate Application Process



Innovative Research Group Inc. has been engaged by LUI to collect participant feedback as an impartial third-party. Innovative Research Group will deliver the collected customer feedback to LUI to assist them in shaping their rate application and distribution system plan.





There are a number of ways for consumers to voice their opinions on provincial, regional and local electricity issues. However, this consultation is about your local distribution system and your preferences on how LUI should use your money.

If you're interested in broader medium- and long-term electricity issues such as Ontario's Long-Term Energy Plan, regional planning, conservation planning and general energy policy in the province, there are other opportunities to provide your feedback.

Ontario's Long Term Energy Plan: The Ontario Government's plan details how electricity will be generated and the longer-term conservation strategy for the province.

Regional Planning: The Independent Electricity System Operator (IESO) looks ahead to the future electricity needs of your region, and how those needs can be addressed through energy conservation programs, local generation, and sourcing electricity from outside the region.

Distribution Planning: This consultation concentrates on the short-term plan for LUI's distribution system. The graphic below shows the various planning initiatives ongoing across Ontario's electricity system. In addition to the short-term distribution plan being discussed in this workbook, there are other planning initiatives undertaken to ensure that Ontario's system maintains reliability and works efficiently for the benefit of customers.

Electricity System Planning in Ontario



Provincial System Planning

This involves more long-term planning on how Ontario's electricity system is designed and operated.

This includes planning on:

- Provincial electricity supply mix (e.g. greening the grid and phasing out coal power generation)
- System supply and demand forecasting
- Interconnections and grid design

Regional Planning

Regional planning involves near- and medium-term plans to meet the needs of a region of the province, and ensure all key players (i.e. transmission and distribution operators) are coordinated moving forward.

This planning process is focused on considering whether conservation and local generation options have been considered, in addition to core infrastructure ("wires") solutions.

Distribution Network Planning

Distribution planning involves plans, both near- and longer-term, to ensure the local distribution systems have adequate infrastructure to meet required reliability and safety standards, and to otherwise meet the needs of customers.



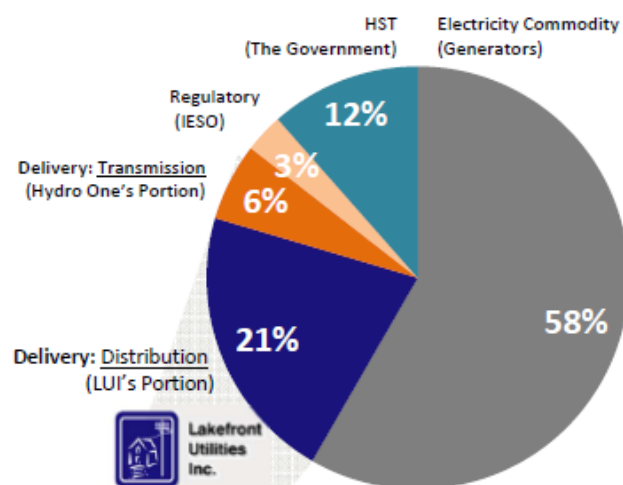
**Lakefront
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Inc.**



Your Electricity Bill: Every item and charge on your bill is mandated by the provincial government or regulated by the OEB. There are two distinct cost areas that make up the "Delivery" charge on your bill: *distribution* and *transmission*. While LUI collects both, the transmission charge is remitted to Hydro One. The distribution charges include the portion of your bill that LUI keeps, as well as some other "pass through" charges, most of which are remitted to the IESO. The distribution charges which LUI keeps make up about 21% of the typical residential customer's (800 kWh per month) total electricity bill.

LUI's distribution rates are subject to the review and approval of the OEB. The distribution fees collected from customers cover LUI's capital investments and operating expenses.

About 21% of the average residential electricity bill goes to Lakefront Utilities. The rest of the bill goes to power generation companies, transmission companies, the government, and regulatory agencies.



SAMPLE RESIDENTIAL MONTHLY BILL Lakefront Utilities Inc.	
Account Number: 000 000 000 000 0000	
Meter Number: 00000000	
Your Electricity Charges	
Electricity	
Off-Peak @ 6.300 c/kWh	42.50
Mid-Peak @ 12.800 c/kWh	18.43
On-Peak @ 17.500 c/kWh	25.20
Delivery (LUI \$31.37)	41.08
Regulatory Charges	4.39
Debt Retirement Charge	0.00
Total Electricity Charges	\$131.60
HST	\$17.11
Total Amount	\$148.71

Current monthly distribution charges are about \$31.37 per month or 21% of the total monthly bill for the average LUI residential customer who consumes 800 kWh of electricity per month.

In 2017, it is estimated that an additional \$5.93 per month will be required of the average residential customer to operate, maintain, and modernize LUI's electricity distribution system.

For 2018 through 2021, it is estimated distribution rates will increase marginally to account for inflation and the elimination of mandatory program fees associated with smart meter implementation (with the exception of a decrease in 2019).

By 2021, the average residential household will be paying an estimated \$7.23 more per month on the distribution portion of their electricity bill.



The electricity system in Ontario is regulated by the following bodies:



Ontario Ministry of Energy: The Ontario Ministry of Energy defines energy policy and sets the rules and establishes key planning priorities and mandates the role of regulatory agencies through legislation.



Ontario Energy Board

Ontario Energy Board: The mission of the Ontario Energy Board (OEB) is to promote a viable, sustainable and efficient energy sector that serves the public interest and assists consumers to obtain reliable energy services at a reasonable cost.

The OEB is an independent body established by legislation that sets the rules and regulations for the provincial electricity sector. One of the OEB's roles is to review the distribution plans of all electricity distributors and set the rates that they can charge customers.



Independent Electricity System Operator

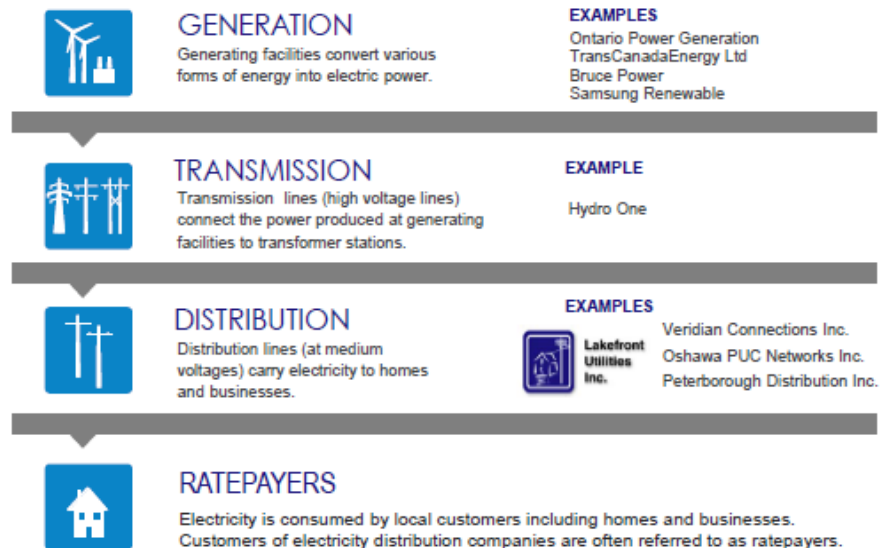
Independent Electricity System Operator: The Independent Electricity System Operator (IESO) is responsible for short, medium and long-term electricity planning to ensure an adequate supply of electricity is available for Ontario residents and businesses. It operates the grid in real-time to ensure that Ontario has the electricity it needs, when and where it's needed. The IESO receives directives from the Ministry of Energy (e.g. energy supply mix, Green Energy Act), but otherwise works at arm's-length from the government.



Electricity 101

Understanding Lakefront Utilities' Role in Ontario's Electricity System

Ontario's electricity system is owned and operated by public, private and municipal corporations across the province. It is made up of three components: **generation**, **transmission** and **distribution**.



Where does electricity come from?

In Ontario, approximately 70% of electricity is generated by Ontario Power Generation (OPG). This provincially-owned crown corporation has **generation** stations across the province that produce electricity from hydroelectric dams, nuclear reactors, and natural gas burning power plants.

Once electricity is generated, it must be delivered to the communities across Ontario in need of power. This happens by way of high voltage **transmission** stations and interconnected lines that serve as highways for electricity. The province has more than 30,000 kilometres of transmission lines*, owned mostly by Hydro One.

Lakefront Utilities' Role in Ontario's Electricity System

LUI is responsible for the last step of the journey: distributing electricity to customers in the region through its **distribution** system.

Every distribution system is unique with its own history and challenges. In order to better understand LUI's current system, we first have to understand all of the different components and how they impact the way in which you receive electricity when you need it.

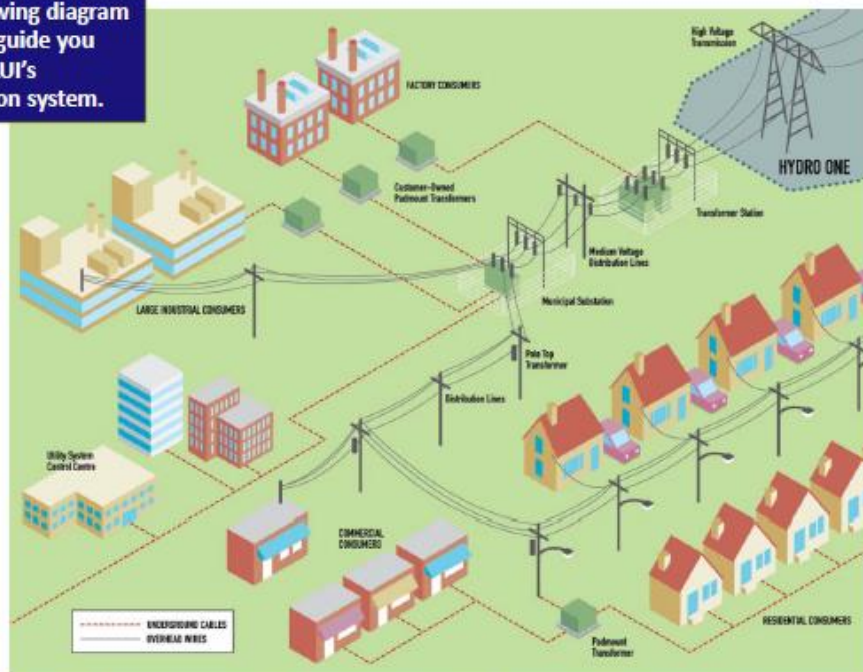
*Source: IESO. The Power System, www.ieso.ca

Lakefront Utilities' Distribution System Today

Every distribution system is unique with its own history and challenges. In order to better understand LUI's distribution system, we first have to understand all of the different components and how they impact the way in which you receive electricity when you need it.

Lakefront Utilities is supplied power from one Transformer Station and three 44kV breakers, all owned and operated by Hydro One Networks Inc. LUI distributes electricity to the Town of Cobourg and Village of Colborne at primary distribution voltages of 27.6kV and 4kV (through five 4kV and two 27.6kV substations). LUI's licensed service area is 30 square kilometers of urban service area. The entire LUI distribution system is made up of approximately 142 kilometers of overhead lines, 50 kilometers of underground lines, 3120 poles, 1200 distribution transformers, and 10,198 meters (of which 10,019 are Smart Meters installed on Residential and General Service <50 kW customers).

The following diagram will help guide you through LUI's distribution system.



High Voltage Transmission: Hydro One's high voltage transmission lines connect LUI's distribution system to electricity generating stations across the province.

Transmission Stations: Reduces high voltage electricity from transmission lines to medium voltage which is fed into LUI's distribution feeder system.

Overhead System: The overhead system includes the wires, poles, pole top transformers that are commonly seen across LUI's service territory.

Underground System: The underground system is directly buried and or installed in ducts. At certain intervals, underground service chambers (with manholes) are required to permit cables to be spliced together and to allow underground equipment such as switches to be housed.

An advantage of underground systems is that they are affected to a lesser extent by extreme weather. The disadvantage is that they are more expensive to install and maintain, and when there is a power outage, it often takes longer to locate and repair a problem compared to overhead wires.

Lakefront Utilities' Distribution System Today

Asset Management

Managing the Distribution System

LUI adheres to the Ontario Energy Board's Distribution System Code that sets out good utility practices, minimum performance standards, and minimum inspection requirements for distribution equipment.

LUI maintains and regularly updates an **asset management plan**, which is an evolving blueprint for maintaining the utility's infrastructure and other assets to deliver an agreed standard of service. The asset management plan documents the health of thousands of individual pieces of infrastructure, equipment and assets that must work seamlessly together to deliver reliable electricity to customers.

Historically, maintaining and upgrading infrastructure and equipment has been achieved with only a moderate increase in customers' bills. The asset management plan takes into consideration both current and future system reliability needs as well as the cost implications of these upgrades. Despite best practices, there are several assets within LUI's distribution system that are nearing the end of their useful life and, as such, have been identified as candidates for replacement.

Assets*	# in System	Length of Useful Life (years)	# with <10% Useful Life Remaining
Distribution Stations	7	45	4
Pole Mounted Transformers	718	40	236
Padmount Transformers	521	40	13
Overhead Switches	35	45	10
Padmount/Underground Switches	17	30	0
Overhead Primary Conductor (km)	142	45	29.2
Underground Primary Cable (km)	50	30	6.7
Poles - Wood	2911	45	667
Poles - Concrete	3	60	0
Poles - Composite	207	60	0

Padmount Transformer



Pole Mounted Transformer



* Asset inventory and health assessments based on estimates as of December 31, 2015.

Customer Feedback

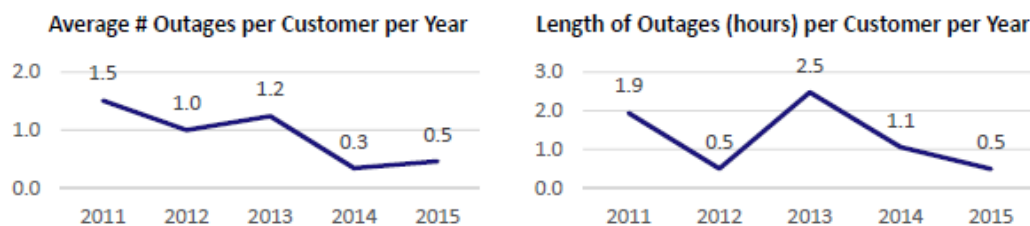
1. Before this consultation, how familiar were you with the various parts of the electricity system, how they work together, and which services Lakefront Utilities is responsible for?
 - ☐ Very familiar and could explain the detail of Ontario's electricity system to others
 - ☐ Somewhat familiar, but could not explain all the details of Ontario's electricity system to others
 - ☐ Have heard of some of the terms and organizations mentioned in this workbook, but knew very little about Ontario's electricity system
 - ☐ Aside from receiving a bill from Lakefront Utilities, I knew nothing about Ontario's electricity system
2. Given what you have read so far, how well do you feel Ontario's electricity system has been explained to you?
 - ☐ Very well
 - ☐ Somewhat well
 - ☐ Not very well
 - ☐ Not well at all
 - ☐ Don't know
3. Generally, how satisfied are you with the service you receive from Lakefront Utilities?
 - ☐ Very satisfied
 - ☐ Somewhat satisfied
 - ☐ Neither satisfied nor dissatisfied
 - ☐ Somewhat dissatisfied
 - ☐ Very dissatisfied
 - ☐ Don't know
4. Is there anything in particular that Lakefront Utilities can do to improve its service to you?

Lakefront Utilities' Distribution System Today System Reliability

No distribution system can deliver 100% reliable electrical service. From time-to-time, customers will experience a power service interruption. Generally, the more reliable the system, the more expensive the system is to build, operate, and maintain. As such, LUI faces a "balancing act" between system reliability and the cost of maintaining and operating the distribution system.

For most customers, the key test of system reliability is "do the lights stay on?" LUI tracks both the number of power service interruptions per customer and how long those outages last. The reliability indices indicate that (aside from loss of supply from Hydro One) *equipment failure*, *tree contact*, and *foreign interference* are three of the key contributors to customer outages.

The large proportion of outages caused by *equipment failure* is one of the reasons LUI is undertaking a voltage conversion program over the next several years. This conversion is expected to increase efficiency of the system through the elimination of substations. In addition to the voltage conversion work, LUI will continue with its pole and transformer replacement programs throughout the service area.



NOTE: These figures exclude outages due to loss of supply from Hydro One's transmission grid.

As illustrated in the table below, LUI's reliability statistics compare favourably among peer utilities:

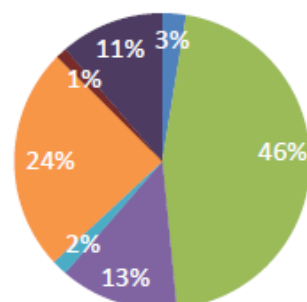
2014 Reliability Indicator	LUI	Whitby Hydro	Peterborough Distribution	Oshawa PUC	Veridion Connections	Kingston Hydro
Length of Outages (hours)	1.1	1.9	0.9	1.3	2.0	1.0
Average # Outages per Customer	0.3	2.3	0.8	1.2	1.7	0.5

Source: 2014 OEB Yearbook; Comparative Reliability Statistics (2015 statistics are not yet available)

The outage analysis and system performance measures provide an overview of performance of the LUI distribution system during 2015. It is based on the raw data provided for incidents and outages and accumulated by the control room staff and contributes to LUI's Asset Management Plan by identifying future maintenance and capital budget priorities to enhance the reliability and performance of the distribution system.

- Unknown
- Scheduled Outage
- Loss of Supply
- Tree Contact
- Lightning
- Defective Equipment
- Adverse Weather
- Adverse Environment
- Human Element
- Foreign Interference

Cause of 2015 Outages

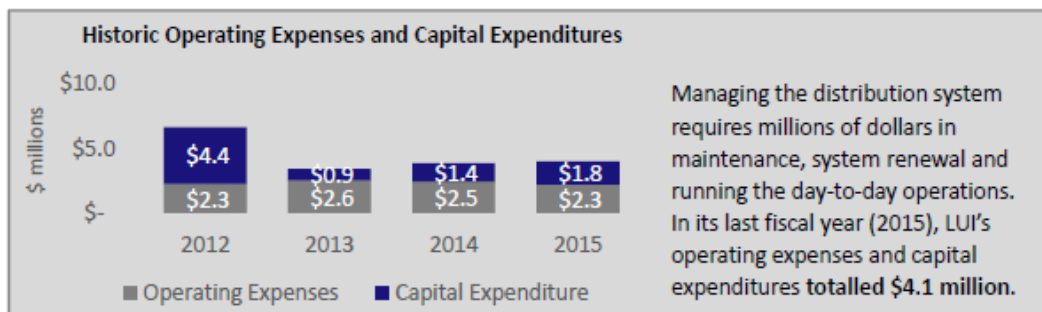


Lakefront Utilities' Distribution System Today

What does it cost to run LUI's distribution system?

Like most businesses, LUI manages its spending in two budgets – an *operating budget* and a *capital budget*.

LUI's **operating budget** covers regularly recurring expenses such as the payroll for employees, and the maintenance of tools, equipment and assets. Its **capital budget** covers items that, when purchased, do not need to be repurchased for some time and which have lasting benefits over many years. This includes much of the equipment that is part of the distribution system, such as poles, wires, cables, transformers, major computer systems, vehicles and facilities.

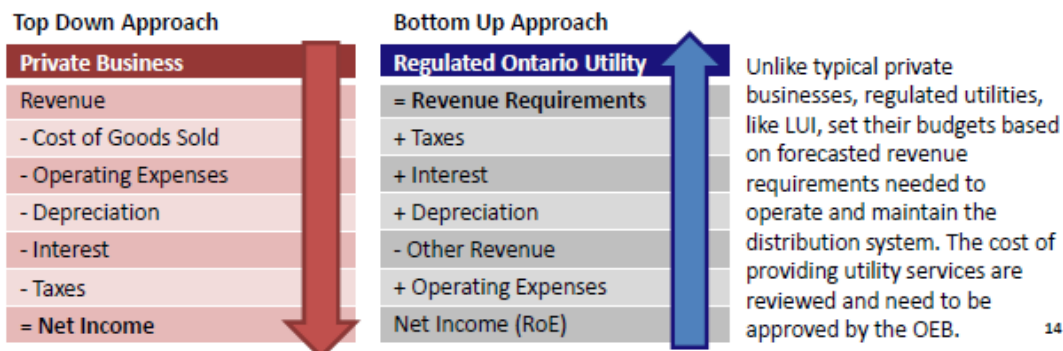


How does Lakefront Utilities set its budgets?

Utilities are monopolies and do not operate in competitive markets like most private businesses. Consumers cannot choose who delivers power to their homes and businesses; LUI is the only delivery choice in Cobourg and the village of Colborne. Due to their monopoly market structure, utilities are highly regulated to ensure that they are offering their customers reliable services at a reasonable price.

For most businesses, net income is determined by revenue minus expenses. To increase net income, businesses need to either increase revenues or decrease expenses. However, unlike private businesses, regulated utilities take a bottom-up approach which starts with net income, plus expenses which equal their revenue requirements.

Does LUI make a profit? Yes, a profit is built into its rate design. Like all regulated utilities in Ontario, LUI can generate a profit based on a target set by the OEB. A portion of this profit is reinvested in the business with the remainder paid out in the form of an annual dividend to its shareholder which may be transferred to the municipal shareholders to fund services such as roads, parks, and other municipal programs.



Customer Feedback

5. In 2015, the average Lakefront Utilities customer experienced less than one power outage. Do you recall how many outages you experienced in the past year?
- ☐ None
 - ☐ One
 - ☐ Two
 - ☐ Three
 - ☐ Four
 - ☐ More than four
 - ☐ Don't know
6. How many power outages do you feel are reasonable in a year?
- ☐ No outage is acceptable
 - ☐ One
 - ☐ Two
 - ☐ Three
 - ☐ Four
 - ☐ Five or more
 - ☐ Don't know
7. What do you feel is a reasonable duration for a power outage?
- ☐ No outage is acceptable
 - ☐ Less than 15 minutes
 - ☐ 15 to less than 30 minutes
 - ☐ 30 minutes to less than 1 hour
 - ☐ 1 hour to less than 2 hours
 - ☐ 2 hours or more
 - ☐ Don't know
8. No distribution system can deliver perfectly reliable electricity service. There is a balancing act between reliability and the cost of running the system. Please select what statement comes closest to your point of view.
- ☐ I would be willing to accept more and longer power outages if that meant there would be a decrease to my distribution rates on my electricity bill
 - ☐ I would be willing to pay a bit more on my distribution rates to maintain the current level of reliability
 - ☐ I would be willing to pay much more on my distribution rates to improve the level of reliability I currently receive from Lakefront Utilities
 - ☐ Don't know

Key Pressures on the Distribution System

From the day-to-day events to major storms, there are a variety of ever-present pressures on LUI's operating and capital budget.

Many of these expenditures are items over which LUI has little or no control – major storms, and the implementation of Smart Meters, for example.

Other costs are associated with preventative maintenance like replacing aging equipment. LUI has already undertaken several large scale projects, and more are planned.

How does LUI determine the appropriate amount of capital spending related to existing infrastructure?

Lakefront maintains a full schedule of distribution asset inspection and maintenance programs operating on a three year rotation as required by the OEB's Distribution System Code (DSC). Inspection, maintenance and operational data that is collected and recorded by the company and is used to maintain and update the asset source data and support Lakefront's operating and capital expenditure plans.

Has LUI previously set aside funds for required upgrades?

The OEB does not allow utilities in Ontario (including LUI) to create reserve funds. If reserve funds were allowed, a utility would have to charge customers a premium on their rates in order to set money aside. Under OEB regulation, a utility can only charge customers the rate required to run the distribution system at a reliability standard set by regulatory bodies.

Cobourg Voltage Conversion Program

A large part of LUI's distribution system was installed in the 1950s and 1960s. This infrastructure has served the city well beyond its expected lifespan. But now the grid is at a point where renewal investments can no longer be deferred without affecting service reliability.

The 4 kV system is coming to the end of its useful life and LUI has planned to replace it with a 27.6 kV system. Voltage conversion has been planned through the forecast period and expenditures of \$1Million have been planned year over year through the forecast period to accomplish this. In addition to the voltage conversion work, LUI will also continue with its pole and transformer replacement programs throughout its service area.

There are a number of issues that have been identified with the existing system:

- 4 kV stations and transformer are old and approaching end of expected useful life;
- 4 kV distribution system is old and approaching end of expected useful life;
- Lower voltage system has higher line losses;
- Distribution system at 27.6 kV would reduce maintenance costs through the elimination of substations; and
- Eliminating the 4 kV distribution system will reduce the amount of inventory that is required to be maintained.

Before load can be converted from 4 kV to 27.6 kV, the 27.6 kV system needs to be extended into the voltage conversion area. This is being done with an overall plan in mind so as to include main feeder runs, laterals and feeder ties between 27.6 kV feeders to ensure that the final system is efficient, reliable and operable. Based on the 27.6 kV expansion plan, the voltage conversion will take place in stages over several years.

(While a portion of the Cobourg Distribution System is in the process of converting from 4kV to 27.6 kV, the Colborne Distribution System continues to operate at 4 kV and there are currently no plans to upgrade the voltage.)

Paying for Lakefront Utilities' Distribution System: *Capital Investment Drivers*

LUI has developed a list of capital investment drivers and decides upon investment programs based on these key drivers.

Reliability: There are two main measures of reliability in the distribution system:

- 1) How often does the power go out?
- 2) How long does it stay out?

To achieve maintained or improved reliability, projects are developed to improve asset performance and decrease the frequency and duration of power outages.

Service Requests: LUI has a legal obligation to connect customers to its distribution system. This includes both traditional demand customers (new homes and businesses) and distributed generation customers (e.g. micro-FIT customers who have contracts to sell electricity back to the grid such as rooftop solar panels). Requests can also include system modifications to support infrastructure development by government agencies, road authorities and developers.

Support Capacity Delivery: Where there are forecasted changes in demand that will limit the ability of the system to provide consistent service delivery or where it is incapable of meeting the demand requirements, new builds or expansion is required. This is the fundamental infrastructure that allows new customers to be hooked up to the distribution system and is paid for by new customers served over time.

System Efficiency: To provide customers with the best service possible, there is always a need to improve power outage restoration capability.

Mandated Compliance: Compliance with all legal and regulatory requirements and government directives, such as compliance with the Ministry of Energy, the Ontario Energy Board, the Independent Electricity System Operator and other regulations.

Obsolescence: Asset installations that no longer align with LUI's current operating practices or current standards. This can include those assets that:

- are no longer manufactured
- lack spare parts
- cannot be accessed
- lack the ability to have maintenance performed on them
- have operational constraints or conflicts, which can result in heightened reliability and/or safety related risks

Aging or Poorly Performing Equipment:

Where there is the imminent risk of failure due to age or condition deterioration, and these potential failures will result in severe reliability impacts to customers as well as potential safety risks to crew workers or to the public, remediation through refurbishment or replacement is required.

Business Support Costs: LUI is not just the local electricity distribution system itself, but a company that operates the system. As a company, it needs buildings to house its staff and vehicles, tools to service the power lines and IT systems to manage the system and customer information.





What are the major issues Lakefront Utilities needs to address?

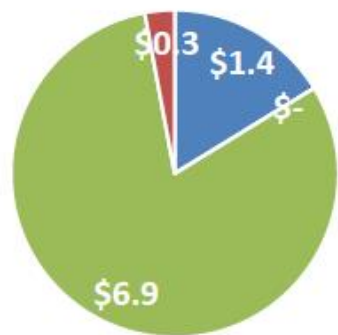
Over the years, LUI has worked hard to keep its equipment working well beyond its originally expected life, to get maximum value for money. However, LUI's key challenge still comes from the need to continue investing in system assets to keep up with growth, in addition to replacing aging equipment.

Between 2017 and 2021, the capital expenditures required to address system renewal, maintain system reliability and invest in other infrastructure priorities are estimated by LUI to be \$8.5 million.

To assist them in prioritizing what needs to be replaced and by when, LUI uses an Asset Management Plan to drive replacement decisions.

Using the information provided by the Asset Management Plan, LUI plans for four types of capital investment costs:

2017-2021 Forecasted Capital Expenditures (millions \$)



■ General Plant ■ System Service
 ■ System Renewal ■ System Access

System Access

Definition: Non-discretionary investments that respond to customer requests for new connections or new infrastructure development. These are high priority, "must do" projects, as LUI is mandated to connect new customers to the distribution system.

Projects Include: new subdivision and business customer connections, relocating assets based on infrastructure needs

System Renewal

Definition: These project are a mix of discretionary (planned end of life replacement) and non-discretionary (emergency replacement) investments.

Projects Include: Transmission station upgrade, underground cable replacement, overhead wire replacement, and pole replacement.

System Service

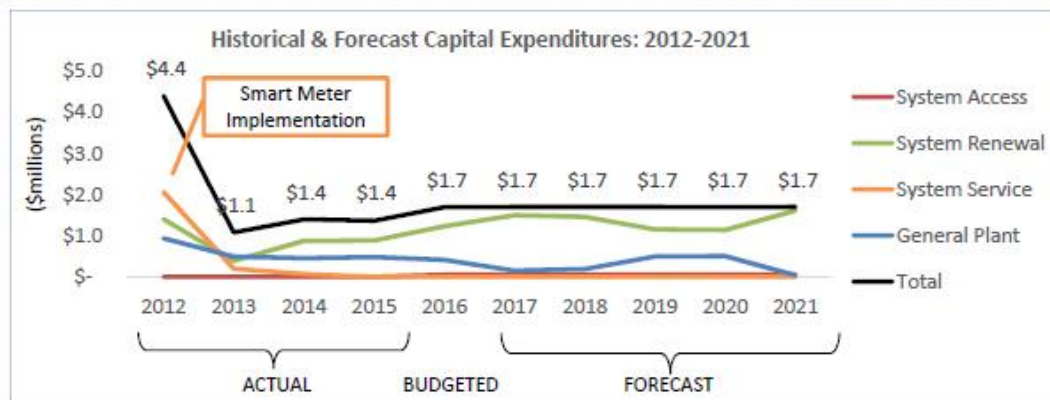
Definition: These discretionary investments consist of projects that improve system reliability and customer service.

Projects Include: automated switches, better distribution system monitoring equipment, mandated Smart Meter program implementation

General Plant

Definition: These are discretionary investments that are needed to support the distribution system: such as tools, vehicles, buildings, and information technology (IT) systems used to manage financial and customer information. They are necessary in order to operate and maintain the distribution system efficiently and service customers.

Projects Include: Financial and customer information system and vehicle replacement



Overall, capital expenditures between 2017 and 2021 are expected to remain consistent at \$1.7 million. Throughout this period, much of LUI's capital expenditure budget will be spent on system renewal projects in the Cobourg and Colborne service areas. These projects help to reduce the amount of aging infrastructure within the system, and they are an important part of the utility's voltage conversion program. The major capital additions in 2017 include the replacement of existing overhead infrastructure that has reached its end of life, the voltage conversion program, and a sub-station rebuild in Colborne to replace equipment that has reached its end of life.

Customer Feedback

9. As a company, Lakefront Utilities needs vehicles and tools to service the power lines and IT systems to manage the system and customer information. Which of the following statements best represents your point of view?
 - ☐ Lakefront Utilities should find ways to make do with the equipment and IT systems it already has.
 - ☐ While Lakefront Utilities should be wise with its spending, it is important that its staff have the equipment and tools they need to manage the system safely, efficiently and reliably.
 - ☐ Don't know
10. With regards to projects focused on replacing aging equipment in poor condition, which of the following statements best represents your point of view?
 - ☐ Lakefront Utilities should invest what it takes to replace the system's aging infrastructure to maintain system reliability, even if that increases my monthly electricity bill by a few dollars over the next few years.
 - ☐ Lakefront Utilities should lower its investment in renewing the system's aging infrastructure to lessen the impact of any bill increase, even if that means more or longer power outages.
 - ☐ Don't know

Operating Budget Cost Drivers *Operations, Maintenance & Administration (OM&A) Expenses*

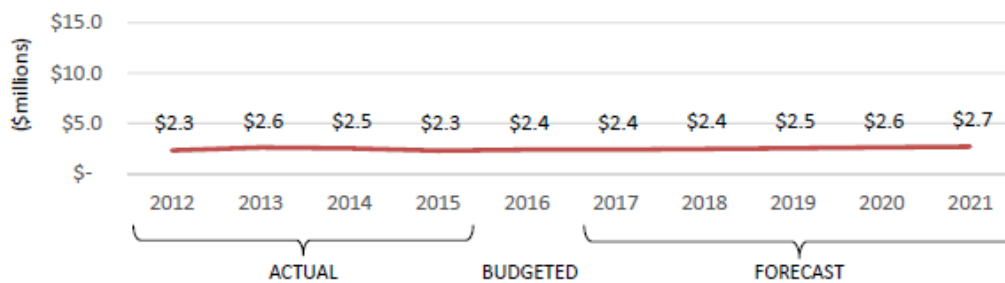
In addition to its capital budget, Lakefront Utilities needs to consider its operating budget which also impacts customer bills.

Cost drivers contributing to the operating budget can largely be attributed to on-going maintenance and management of the distribution system. An example of this type of cost driver is LUI's vegetation program, including tree trimming, designed to lessen the impact of falling tree branches on power lines.

During the last five years, Lakefront Utilities has demonstrated its ability to minimize annual cost increases. In fact, as of 2014, LUI has the 4th lowest OM&A cost per customer out of 72 utilities in the province.

Lakefront Utilities is continually looking for ways to improve its business processes in order to comply with the increasing responsibilities and obligations being established for local distribution companies, without negatively impacting overall costs to the customers.

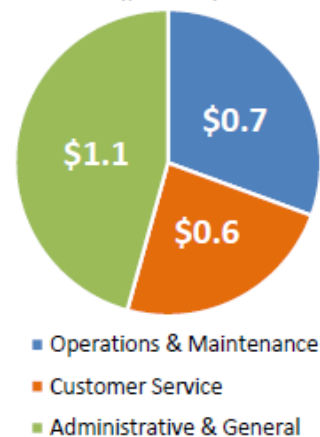
Historical & Forecast OM&A Expenses: 2012-2021



Between 2017 and 2021, the level of OM&A spending is expected to increase gradually due to a combination of inflation and increases that are at least partially offset by decreases:

- A slight increase in wages due to the hiring of one Customer Service Representative (2 retired in 2015, but only one of them is being replaced) and a journeyman lineman. There is also an increase in wages due to inflation.
- A decrease in professional fees due to part time staff contracts coming to an end in 2017.
- IT expenses are expected to decrease in 2017 and remain consistent to 2021.

2017 Forecasted OM&A Costs
 (\$ millions)



Finding Efficiencies and Cost Savings

LUI planning, prioritization and investment processes follow good utility practices that are executed through the Distribution System Plan. Good utility practices have inherent cost savings through sound decision making, thoughtful compromises, right timing and optimum expenditure levels.

There are several other ways in which Lakefront Utilities works to find efficiencies and cost savings in the system:

eCare: This function allows customers to view their usage, consumption, payment history, compare current and previous bills online. Customer Service Representatives are able to view the same information along with the customer to assist with their inquiries.

Mobile Devices: Since 2013, LUI has deployed mobile computers in the field for system mapping and inspections. In 2015, LUI purchased and deployed a product called mCare to allow staff to complete electronic service orders in the field.

mCare: Allows Lakefront to communicate with the Field Service Representative for service orders in real time as well as to eliminate the use of paper. MCare is directly linked to LUI's host system and remotely transfers the service order information as completed.

Interactive Voice Response: In 2016, Lakefront plans to implement an IVR system. Customers without internet access can access consumption data through Lakefront's IVR system. Lakefront continuously strives to deliver a positive customer experience through its automated phone system. The IVR system will allow the customer service representative to concentrate on the more complicated customer inquiries. The system will also allow the customer to answer their questions at their own convenience.

Website: Lakefront's corporate website is a tool used to communicate with its customers and is often the first place people go for information about the Company and its operations. The website was redesigned in 2015 to ensure easier usability and navigation.

Coordination with Telecoms: Near the end of 2015, LUI started to work with one of their telecom companies to have their design requirements factored into pole-line rebuilds. This will help to minimize the timeframe for telecom companies to relocate new poles and remove old poles.

Remote Monitoring and System Automation (SCADA): In 2013 (and 2014), LUI installed electronic equipment and communication infrastructure in their substations to remotely monitor and control five (5) substations in Cobourg.

In 2015, LUI purchased, installed and commissioned a new SCADA system to provide real-time control, monitoring, and logging of system events and alarm conditions of their substations and remote distribution switches and protection devices.

In 2016 and 2017, LUI will be upgrading their station and communications equipment in Colborne at the Victoria St Substation and Durham St Substation respectively. These upgrades will provide remote monitoring and control back to the new SCADA system and reduce travel time.

Geographic Information Systems (GIS): Since 2012, LUI has been gathering field information on circuits, poles, and transformers in preparation for an enterprise GIS system. In 2014, LUI purchased and implemented a GIS system from a well-recognized supplier in the industry. Similar systems are currently installed in various other utilities. This system will be enhanced over the next few years as LUI develops their Distribution System Asset Repository, which will store not only distribution system information, but inspection and maintenance records as well.

As of January 2015, the GIS system information is extracted on a monthly basis and used to generate electronic mapping for use in the field by LUI's underground locate service provider.

Customer Feedback

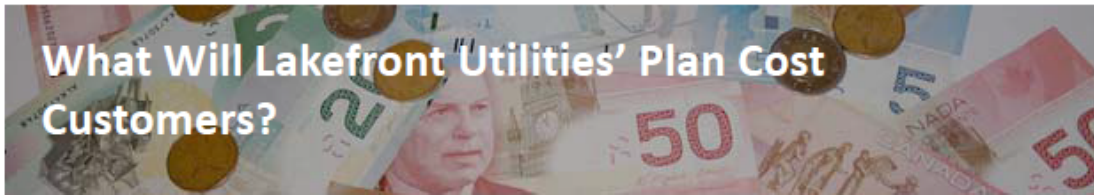
11. How well do you feel you understand the capital and operating budget cost drivers that Lakefront Utilities is responding to?
- ☐ Very well
 - ☐ Somewhat well
 - ☐ Not very well
 - ☐ Not well at all
 - ☐ Don't know

12. How would you rate the job Lakefront Utilities is doing to manage these cost drivers?
- ☐ Very good
 - ☐ Good
 - ☐ Poor
 - ☐ Very poor
 - ☐ Don't know

13. Do any of Lakefront Utilities' forecasted expenses or expenditures appear unreasonable to you? If so which areas appear unreasonable and why?

14. How satisfied are you with the efforts Lakefront Utilities has made to find efficiencies and cost savings in the distribution system?
- ☐ Very satisfied
 - ☐ Somewhat satisfied
 - ☐ Not very satisfied
 - ☐ Not at all satisfied
 - ☐ Don't know

15. Is there anything else you think Lakefront Utilities should be doing to find efficiencies and cost savings in the distribution system?



As mentioned earlier, LUI is funded by the distribution rates paid by its customers. Every few years, LUI is required to file a Cost of Service (COS) application with the OEB to request funding to operate and maintain the distribution system in accordance with its spending and investment plan. As part of its rate filing, LUI must submit evidence to justify the amount of funding required to safely and reliably distribute electricity to its customers.

Rate Design

LUI's last COS application was filed for rates effective May 1, 2012. During the years between COS applications, the OEB approves marginal increases to distribution rates (based on an allowance for inflation less an adjustment for expected efficiency gains). While LUI does its best to keep its rates low, sometimes the rates charged to customers are lower than required to adequately maintain the distribution system.

This rate setting method often results in a revenue shortfall because investments made in the years between COS applications are not recognized and thus do not allow for any adjustment to address the needs of customers. As a result, when utilities apply for new distribution rates, there is often a revenue "catch-up" in the rebased rate year to rebalance revenue requirements with actual costs associated with operating and maintaining the distribution system. Like many utilities in Ontario going through the same process, LUI estimates its rate impact will be greatest in 2017, and lesser in the subsequent years between 2018 and 2021.

Residential Bill Impact

In 2017, it is estimated that an additional \$5.93 per month will be required of the average residential customer (monthly consumption of 800 kWh) to operate, maintain, and modernize LUI's electricity distribution system.

For 2018 through 2021, it is estimated that an additional average of \$0.32 per month each year (on average over 4 years) will be required to cover inflationary increases required to address the needs of the distribution system. In 2019, it is estimated that rates will decrease by \$.025 per month. This is largely due to the anticipated completion of several system renewal projects in the prior year.

By 2021, the average residential household will be paying an estimated \$7.23 more per month on the distribution portion of their electricity bill.

Estimated Typical Residential Annual Increase in Monthly Bill (5 year forecast)

	Year	Average Residential Bill *	Distribution Portion of Bill**	Incremental Rate Change (before HST)	% Change * (on total bill)
Current Rate	2016	\$148.71	\$31.37	-	-
Rebased Rate	2017	\$156.62	\$37.30	\$5.93	3.99%
Forecast for next rate period †	2018	\$157.05	\$37.73	\$0.43	0.27%
	2019	\$156.80	\$37.48	-\$0.25	-0.16%
	2020	\$157.35	\$38.03	\$0.55	0.35%
	2021	\$157.92	\$38.60	\$0.57	0.36%

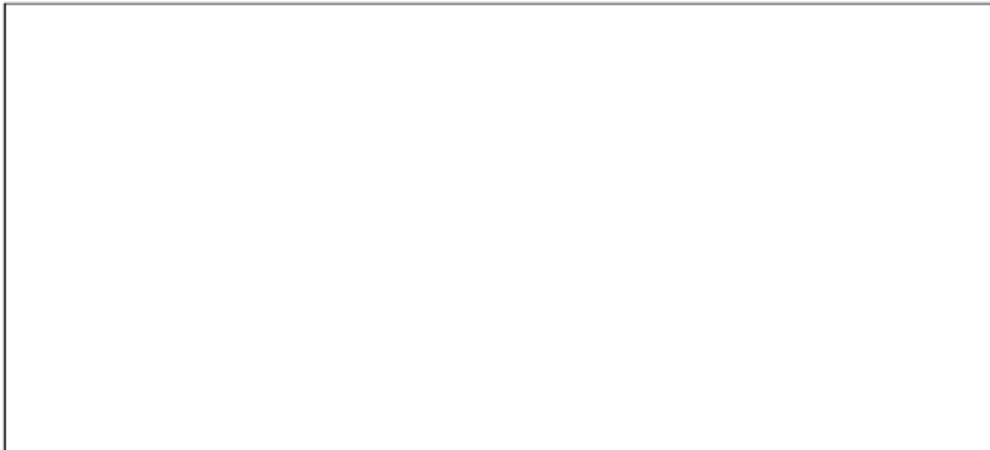
† Please note that these are preliminary estimates and are subject to change as the rate application process progresses.

** Estimates are calculated including distribution pass through charges.

* Assumes all charges on the average electricity bill remain constant at 2016 levels, aside from distribution charges.

Customer Feedback

16. From what you have read here and what you may have heard elsewhere, does Lakefront Utilities' investment plan seem like it is going in the right direction or the wrong direction?
- ☐ Right direction
 - ☐ Wrong direction
 - ☐ Don't know
17. How would you rate the job Lakefront Utilities is doing when it comes to planning for the future?
- ☐ Very good
 - ☐ Good
 - ☐ Poor
 - ☐ Very poor
 - ☐ Don't know
18. Considering what you know about the local distribution system, which of the following best represents your point of view?
- ☐ The proposed rate change is reasonable and I support it
 - ☐ I don't like it, but I think the proposed rate change is necessary
 - ☐ The proposed rate change is unreasonable and I oppose it
 - ☐ Don't know
19. Thinking about your answer to the previous question, why do you either support the proposed rate change, think the proposed rate change is necessary, oppose the proposed rate change, or don't know?



Final Thoughts

Lakefront Utilities values your feedback. This is the first time the utility has conducted a review about its upcoming investment plan in this type of format.

Overall Impression: What did you think about the workbook?

Volume of Information: Did Lakefront Utilities provide too much information, not enough, or just the right amount?

Content Covered: Was there any content missing that you would have liked to have seen included?

Outstanding Questions: Is there anything that you would still like answered?

Suggestions for Future Consultations: How would you prefer to participate in these consultations?

Glossary

Breakers: Devices that protect the distribution system by interrupting a circuit if a higher than normal amount on power flow is detected.

Feeder Circuit: Is a wire that connects the transmission station to the broader distribution system in order to deliver electricity to customers.

General Plant: Investments in things like tools, vehicles, buildings and information technology (IT) equipment that are needed to support the distribution system.

Generation Station: A facility designed to produce electric energy from another form of energy, such as fossil fuel, nuclear, hydroelectric, geothermal, solar thermal, and wind.

Geographic Information System (GIS): A system designed to capture, store, manipulate, analyze, manage, and present all types of spatial or geographical data.

Kilovolt (kV): 1,000 volts (see "volt" below).

Kilowatt (kW): 1000 watts.

Local Distribution Company (LDC): In Ontario, these are the companies that take electricity from the transmission grid and distribute it around a community.

OM&A: Operations, Maintenance and Administration or operating budget.

Substations: Used to change AC voltages from one level to another and to switch generators, equipment and circuits and lines in and out of an electrical system.

Switches: These control the flow of electricity—they direct which supply of electricity is used and which circuits are energized. Distribution systems have switches installed at strategic locations to redirect power flows for load balancing or sectionalizing.

System Access: Projects required to respond to customer requests for new connections or new infrastructure development. These are usually a regulatory requirement to complete.

System Renewal: Projects to replace aging infrastructure in poor condition.

System Service: Primarily projects that improve reliability.

Transmission lines: Transmit high-voltage electricity from the generation source or substation to another substation in the electricity grid.

Transformer: Is an important piece of equipment that reduces the voltage of electricity from a high level to a level that can be safely distributed to your area or to your residence/business.

Underground Cable: A conductor with insulation, or a stranded conductor with or without insulation and other coverings (single-conductor cable), or a combination of conductors insulated from one another (multiple-conductor cable) with an intended use of being buried.

Volt (V): A unit of measure of the force, or 'push,' given the electrons in an electric circuit. One volt produces one ampere of current when acting on a resistance of one ohm.

Watt (W): The unit of electric power, or amount of work (J), done in a unit of time. One ampere of current flowing at a potential of one volt produces one watt of power.

Wire: A conductor wire or combination of wires not insulated from one another, suitable for carrying electric current.

26

1 Attachment B - 2014 Scorecard
2

Scorecard - Lakefront Utilities Inc.

10/2/2015

Performance Outcomes	Performance Categories	Measures	2010	2011	2012	2013	2014	Trend	Industry	Target
Customer Focus Services are provided in a manner that responds to identified customer preferences.	Service Quality	New Residential/Small Business Services Connected on Time	100.00%	100.00%	100.00%	100.00%	93.90%	📈	90.00%	90.00%
		Scheduled Appointments Met On Time	100.00%	100.00%	100.00%	100.00%	100.00%	📈	90.00%	90.00%
		Telephone Calls Answered On Time	100.00%	100.00%	100.00%	100.00%	96.60%	📈	65.00%	65.00%
Customer Satisfaction	Customer Satisfaction	First Contact Resolution					99.58%	📈	98.00%	98.00%
		Billing Accuracy					99.98%	📈		
		Customer Satisfaction Survey Results					A			
Operational Effectiveness	Safety	Level of Public awareness [measure to be determined]								
		Level of Compliance with Ontario Regulation 22/04	C	NI	NI	C	C	📈		C
		Serious Electrical Incident Index	0	0	0	0	0	📈		0
System Reliability	System Reliability	Rate per 10, 100, 1000 km of line	0.000	0.000	0.000	0.000	0.000	📈		0.000
		Average Number of Hours that Power to a Customer is Interrupted	2.95	1.94	0.50	2.48	1.06	📈		at least within 0.50 - 2.95
		Average Number of Times that Power to a Customer is Interrupted	1.55	1.51	1.00	1.24	0.34	📈		at least within 1.00 - 1.55
Asset Management	Cost Control	Distribution System Plan Implementation Progress					In-progress.			
		Efficiency Assessment			2	2	2			
		Total Cost per Customer ¹	\$413	\$427	\$430	\$465	\$451			
Public Policy Responsiveness	Conservation & Demand Management	Total Cost per Km of Line ¹	\$34,350	\$36,999	\$36,506	\$39,825	\$23,584			
		Net Annual Peak Demand Savings (Percent of target achieved) ²		8.22%	16.97%	28.16%	40.20%	📈		2.77MW
		Net Cumulative Energy Savings (Percent of target achieved)		39.83%	55.22%	66.62%	76.88%	📈		13.59GWh
Financial Performance	Financial Ratios	Renewable Generation Connection Impact Assessments Completed On Time								
		New Micro-embedded Generation Facilities Connected On Time				100.00%				90.00%
		Liquidity: Current Ratio (Current Assets/Current Liabilities)	3.13	3.37	2.53	2.74	1.68			
Financial Performance	Financial Ratios	Leverage: Total Debt (includes short-term and long-term debt) to Equity Ratio	1.31	1.33	1.19	1.17	1.18			
		Profitability: Regulatory Return on Equity		8.57%	9.12%	9.12%	9.12%			
		Achieved		8.64%	11.40%	9.20%	6.50%			

Legend: 📈 up 📉 down 📊 flat
📈 target met 📉 target not met

Notes:
1. These figures were generated by the Board based on the total cost benchmarking analysis conducted by Pacific Economics Group Research, LLC and based on the distributor's annual reported information.
2. The Conservation & Demand Management net annual peak demand savings include any persisting peak demand savings from the previous years.