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June 23, 2017

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

Re: Lakeland Power/Parry Sound Power – 2018 Cost of Service Rate Application – EB-2017-0058 – Additional information

Dear Ms. Walli

On June 15, 2017 Lakeland Power Distribution Ltd. (LPDL) wrote to seek a one-year deferral of its 2018 Cost of Service ("COS") application. This letter is intended to supplement this request with additional information, with particular reference to the January 19, 2016 Handbook to Electricity Distributor and Transmitter Consolidations regarding Extension of Selected Deferred Rebasing Period.

On March 27, 2014 the Ontario Energy Board (the "OEB") approved the merger of LPDL with Parry Sound Power Corp (PSP) (OEB File No. EB-2013-0427/EB-2014-0428) (the "MAADs Decision").

During the MAADs application, LPDL had proposed to defer rebasing and harmonization until 2018 – that was **4 years** after the MAADs Decision.

The OEB's policy at that time was set out in the Board Report on Rate making Associated with Distributor Consolidation, issued on July 23, 2007 (the "2007 Report"). As described by the OEB panel at pages 5-6 of the MAADs Decision, the 2007 Report permits an amalgamated utility to defer rebasing for a period of up to 5 years following the closing date for the transaction.

Based on this, the Board found the Applicant's proposal to defer rate harmonization and rebasing until 2018 to be acceptable. The OEB stated "This proposal is consistent with the Board Report referenced above."

The amalgamation of LPDL and PSP closed on July 1, 2014.

LPDL’s request to defer rebasing by an additional year to 2019 is consistent with the 2007 Report as it related to deferred rebasing and harmonization. The rebasing deferral would be from 4 years to 5 years.

In addition, LPDL’s request to defer rebasing is also consistent with the January 19, 2016 Handbook to Electricity Distributor and Transmitter Consolidations regarding Extension of Selected Deferred Rebasing Period. Specifically:

1. the extension to the originally proposed 4 year deferred rebasing period is required for the following reasons:
    a. The costs and effort associated with combining the operations of LPDL and PSP have been beyond any reasonable expectation of LPDL management. Rather, LPDL has encountered a number of unexpected problems which it has been working to remedy when merging PSP into LPDL’s operations, including:
        i. LPDL undertook a detailed asset assessment in Parry Sound territory following amalgamation which found various unexpected concerns, including historic lack of maintenance and system failures. For example, when opening switches during routine maintenance, the switches fell apart resulting in outages.
        ii. LPDL also found evidence of lack of maintenance of general plant assets, including the roof collapse of the Parry Sound building likely due to lack of maintenance.
        iii. LPDL found evidence of numerous transformers with PCBs, which were not disclosed prior to amalgamation.
        iv. LPDL identified numerous problems with PSP billing practices that resulted in various billing errors and an increase in bad debt expense.
        v. LPDL identified problems with PSP’s accounting practices surrounding regulatory assets (some of which came up during the last IRM application).
    b. LPDL management is actively working to resolve these unexpected concerns, including by:
        i. Updating asset maintenance practices in the Parry Sound area to be in conformance with LPDL standards and good utility practice.
        ii. Hiring a journeyman in the Parry Sound area that could meet the standards and qualifications of other LPDL staff.
        iii. Finalizing the removal of transformers with PCBs in the Parry Sound area.
        iv. Preparing a consolidated Distribution System Plan for the merged utility that will show the reallocation of capital and maintenance dollars towards the former Parry Sound service territory to ensure the system maintenance and capital is brought back in-line with good utility practice.

        v. Resolving problems with billing practices to minimize billing errors and reduce bad debt going forward.
        vi. Resolving problems with accounting of regulatory assets.
    c. However, because of the effort required of management and staff to uncover and properly resolve each these unexpected problems, it has become apparent LPDL will be unable to, without incurring significant incremental cost and expense, successfully conclude all of the necessary post-merger activities and prepare a comprehensive cost of service application **<u>at the same time</u>**.
    d. For this reason, LPDL is asking for one additional year to conclude necessary post-merger work before having to prepare and file a complete and comprehensive cost of service application.

2. the proposed amendment to the deferred rebasing period is in the best interest of customers for the following reasons:
    a. Based on current estimates and forecasts of expected costs, and in light of the problems in the PSP service area noted above, LPDL would likely be submitting a Cost of Service application requesting approximately a 6% increase in rates. A deferral would result in LPDL filing under a Price Cap IR, which results in an immediate and direct cost savings to customers for one year.
    b. In addition, customers will benefit from the implementation of overall better practices particularly in the Parry Sound area, which should result in lower line losses, improved efficiencies in billing and accounting as well as managing capital and maintenance costs to a reasonable level.
    c. Finally, a deferred application will benefit from more focused and comprehensive customer engagement focusing on ensuring the application is directly responsive to customer feedback and preferences in a manner that is consistent with the Board's RRFE.

Respectfully submitted,

Margaret Maw
CFO

Lakeland Power Distribution Ltd.