

February 14, 2025

Ms. Nancy Marconi, Registrar

Ontario Energy Board

2300 Yonge Street, 26th Floor

P.O. Box 2319

Toronto, ON M4P 1E4

Dear Ms. Marconi,

Re: EB-2024-0038 Lakefront Utilities Inc. 2025 IRM Application

Please find attached Lakefront Utilities reply to submissions with respect to our application for an ICM.

Respectfully submitted.



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1. Introduction

Lakefront Utilities Inc. (LUI) appreciates the thorough review of its Incremental Capital Module (ICM) request by:

* Ontario Energy Board (OEB) Staff
* Vulnerable Energy Consumers Coalition (VECC)
* Coalition of Concerned Manufacturers and Businesses of Canada (CCMBC)

regarding the construction of a new 27.6 kV substation (MS28-3). This submission:

1. Demonstrates the broader system benefits of MS28-3—including improved reliability, increased capacity, and contingency support for both existing and future customers.
2. Explains why recovering the predominant project costs through general rates is both fair and necessary, given MS28-3’s multi-purpose function as a system-wide investment that benefits the entire distribution network.
3. Addresses concerns about timing—clarifying that seeking ICM relief after the project is in service is consistent with OEB precedent, which allows prospective ICM recovery but prohibits retroactive relief for past years.
4. Acknowledges the mandatory nature of DSC Sections 3.2.4–3.2.9 on capital contributions and the implications of not having strictly enforced those requirements in certain developer agreements.
5. Proposes a developer offset mechanism—ensuring that future beneficiaries of added capacity contribute their fair share, thereby offsetting a portion of the station costs embedded in rate base over time.

2. Project Need and Background

**2.1 Unanticipated Growth and Capacity Constraints**

In 2023, the Town of Cobourg experienced a sudden surge in new residential developments—reaching roughly three times the historic growth rate—and placing a significant strain on LUI’s aging substation network.
*[See EB-2024-0038, LUI 2025 IRM Application (September 6, 2024), Section 3.3.3 at p. 54;
LUI\_IRR\_CCMBC-1a\_20250123, response to CCMBC-3 (Figure 1).]*

Although growth eased somewhat in 2024, the unexpected spike the prior year made it clear that existing station capacity could quickly become inadequate if load continued to climb. Compounding this concern, a 2022 maintenance review revealed adverse conditions at a critical 27.6 kV substation—conditions that would pose elevated reliability risks if the system were to remain near peak utilization.
*[See EB-2024-0038, LUI 2025 IRM Application (September 6, 2024), Section 3.3.3;
VECC\_SUB\_LUI\_20250131, p. 2 (chronology of project and substation needs).]*

Together, these factors underscored the urgency of reinforcing LUI’s infrastructure to manage both present and future demand.

**2.2 Voltage Conversion and Modernization**

LUI has been undertaking a transition from 4.16 kV to 27.6 kV across its distribution system. This system-wide voltage conversion is intended to enhance reliability and accommodate future load growth, thereby requiring additional station capacity to serve both new and existing customers. In its 2020 Station Capacity Study, prepared by Raven Engineering, the consultant evaluated various alternatives—including an upgrade to substation MS28-2—and concluded that constructing a new 27.6 kV substation was the most cost-effective, long-term approach.
*[See EB-2024-0038, LUI 2025 IRM Application (September 6, 2024), Section 3.3.3 at p. 54;
VECC\_SUB\_LUI\_20250131, pp. 1-2 (referencing the 2020 Raven Engineering Station Capacity Study and its findings).]*

**2.3 Avoiding a “Do-Nothing” Scenario**

Deferring a needed capacity expansion would expose LUI to significant reliability risks and, over time, could necessitate piecemeal, higher-cost fixes. As both load and equipment continue to age, failing to address capacity shortfalls proactively may result in sudden, larger capital expenditures—particularly if actual demand outpaces forecasts or critical infrastructure reaches end-of-life prematurely. This scenario increases the likelihood of rate shock for customers, underscoring that timely investment in new station capacity is both prudent and cost-effective.
*[See EB-2024-0038, LUI 2025 IRM Application (September 6, 2024), Section 3.3.3 at p. 54;
VECC\_SUB\_LUI\_20250131, pp. 1–2 (noting urgency and consequences of deferral).]*

3. Addressing Stakeholder Concerns

**3.1 System-Wide Benefits, Not a Single-Developer Project**

Intervenors have questioned whether substation MS28-3 is primarily driven by new growth tied to a single developer. LUI emphasizes that the substation serves broader system purposes. First, it enhances reliability by offering contingency and lowering overall network stress for existing customers. Second, it expands capacity to accommodate both present and future loads, rather than focusing on just one development. Finally, by integrating voltage conversion efforts into this project—tapping into a 27.6 kV supply—LUI avoids the higher life-cycle costs that would arise if these expansions were deferred.
*[See EB-2024-0038, LUI 2025 IRM Application (September 6, 2024), Section 3.3.3 at pp. 54–55; LUI\_IRRs\_20250117, CCMBC-5 (highlighting system-wide capacity and reliability improvements).]*

**3.2 Economic Evaluations for New Connections**

Although LUI has noted that new residential growth typically involves small, incremental loads—often around 3 kVA per customer—these developments are geographically scattered rather than driven by a single large project. Moreover, the potential for future commercial or industrial connections remains uncertain, making it challenging to allocate substation costs solely to one group of developers. As part of its economic evaluations, LUI has also recognized that the Distribution System Code (DSC) typically treats system-wide reliability upgrades as appropriately rate-based. These upgrades ensure all ratepayers benefit from improved capacity and reliability, rather than forcing narrow cost responsibility on a handful of developments.
*[See EB-2024-0038, LUI 2025 IRM Application (September 6, 2024), Section 3.3.3 at pp. 54–55;
LUI\_IRR\_CCMBC-1a\_20250123, response to CCMBC-3 (Figure 1) (scattered residential developments and forecasted loads).]*

**3.3 Prudence in Acting Sooner**

LUI determined that timely construction of the new substation was warranted due to a surge in 2023 load growth and reliability concerns identified in 2022, which signaled that capacity constraints would only intensify if not addressed promptly. Both internal reviews and external engineering evaluations indicated that smaller-scale solutions would ultimately prove more expensive, merely postponing the inevitable need for a larger infrastructure upgrade. By proactively investing in this new station, LUI sought to avoid higher long-term costs and ensure that system capacity remains sufficient to meet current and emerging demands.
*[See EB-2024-0038, LUI 2025 IRM Application (September 6, 2024), Section 3.3.3 at pp. 54–55;
VECC\_SUB\_LUI\_20250131, pp. 2–3 (discussing 2022 system concerns and timing of capacity expansion).]*

**3.4 Why LUI Did Not Apply for ICM in 2023 or 2024**

LUI did not seek Incremental Capital Module (“ICM”) relief in 2023 or 2024 for multiple, interrelated reasons. First, as of mid-2022—during the 2023 IRM filing window—both the scale and timing of MS28-3 remained uncertain, delaying any firm decision on how to proceed. Second, it was only in early 2023 that reliability needs and rapid load growth made an immediate expansion unavoidable. Third, a management transition included the departure of a former financial manager who appears to have concluded that station-level expansions were not eligible for rate recovery under the IRM process, resulting in internal delays and uncertainty. Subsequently, after much more evaluation of the OEB’s policies and precedents, LUI determined that it does not share this view and is entitled to apply for ICM relief—hence the present application. Fourth, by the time of the 2024 IRM preparation, MS28-3 was already under construction but not yet finalized, raising the risk of multiple future true-ups if LUI were to file prematurely. Finally, applying for ICM now—with the project largely complete—provides accurate, final cost data, thereby avoiding repeated or partial relief requests..
*[See EB-2024-0038, LUI 2025 IRM Application (September 6, 2024), Section 3.3.2.1 at p. 47;
LUI\_IRR\_CCMBC-1a\_20250123, response to CCMBC-1(a) (discussing reasons for not applying sooner);
VECC\_SUB\_LUI\_20250131, p. 3 (highlighting timeline and evolving circumstances).]*

4. Clarification on Timing: Newmarket vs. RSL and Enbridge

OEB Staff has suggested that Incremental Capital Module (ICM) relief cannot be obtained years after an asset’s in-service date, citing the Newmarket case (EB-2020-0041). LUI provides the following clarification:

1. Newmarket’s Specific Exclusion
In the Newmarket-Tay proceeding, the OEB ultimately denied ICM relief for a five-year true-up payment tied to a 2015 in-service asset—not because there is a blanket rule barring ICM approval after in-service, but because that payment pertained to a time period when Newmarket-Tay was not operating under a Price Cap IR mechanism that allowed for ICM. The OEB decision also turned on the fact that Newmarket-Tay had chosen the Annual IR path during those years and only later merged under a deferred rebasing scenario.
2. RSL and Enbridge References
The Newmarket decision cites both Rideau St. Lawrence (RSL) and Enbridge as precedents where ICM (or similar) funding was approved prospectively for assets already in service. Crucially, the determining factor was that the utilities sought forward-looking (rather than retroactive) recovery of the net book value.
3. Implication for LUI
	* LUI acknowledges that it cannot collect the 2023 or 2024 revenue requirement retroactively for MS28-3.
	* Consistent with the RSL and Enbridge precedents, LUI’s position is that it may still seek prospective ICM relief or general rate recovery of MS28-3’s net book value in future rate years, so long as it does not request retroactive collection.

In other words, the Newmarket case does not categorically preclude LUI from obtaining ICM relief for an asset already in service. Rather, each case turns on whether the utility is seeking a retrospective revenue requirement (which the OEB disallows) or a prospective one.

[*See dec order Newmarket Tay\_2021IRM\_20210422, at pp. 28–31 (denying ICM relief for certain past expenditures under unique Annual IR circumstances), citing EB-2017-0265 (Rideau St. Lawrence) and EB-2018-0305 (Enbridge Gas).]*

5. Mandatory Nature of DSC Capital Contributions

**5.1 DSC Sections 3.2.4–3.2.9 Are Not Optional**

Under DSC section 3.2.4, a distributor must collect a capital contribution from a new development if the present value of the forecasted load’s revenues does not cover the costs of the associated expansion. Lakefront Utilities Inc. (“LUI”) did not seek any exemption under DSC section 3.3.2 or other waiver provisions, recognizing that these requirements are mandatory where a developer’s load materially drives capacity investments, and that noncompliance could attract regulatory scrutiny.

That said, LUI’s view—as outlined in its submissions—is that this substation primarily serves broader system interests, including existing customers and future load, and might therefore be viewed as an enhancement project not subject to station-level capital contributions. However, LUI acknowledges the possibility that the Ontario Energy Board (“OEB”) could find that advancing the project’s construction to accommodate some new developments justifies allocating a proportional share of costs to those developments, based on the fraction of the substation’s capacity allocated to them.

*[See EB-2024-0038, LUI 2025 IRM Application (September 6, 2024), Section 3.3.3 at pp. 54–55;
LUI\_IRR\_CCMBC-1a\_20250123, response to CCMBC-6 (discussion of capital contributions under DSC).]*

**5.2 Implications for Existing Developer Agreements**

Certain existing developer agreements lack explicit station-level capital contribution provisions for MS28-3 due to two main factors:

1. 1. No Economic Evaluations Conducted Before Transition. During the tenure of the previous financial manager, no detailed economic evaluations were completed to determine whether station-level contributions might be applicable. When the manager departed, some institutional knowledge was effectively lost, and it then fell to the incumbent team to analyze and interpret the relevant DSC requirements.
2. Contractual Constraints. As a result, LUI may now be prevented from retroactively adding such clauses to these signed agreements, effectively locking out cost-recovery from those developers.

From the OEB’s perspective, the absence of explicit station-level charges in these older agreements could appear to conflict with DSC sections 3.2.4–3.2.9, which mandate contributions where new developments materially drive capacity expansions. While LUI regrets any oversight arising from past misunderstandings, it respectfully asks the Board to consider the broader system value of MS28-3 and the corrective actions LUI has since taken to ensure that future developer agreements explicitly capture station-level contributions when warranted.

*[See EB-2024-0038, LUI 2025 IRM Application (September 6, 2024), Section 3.3.3 at pp. 54–55;
LUI\_IRR\_CCMBC-1a\_20250123, response to CCMBC-6 (discussion of DSC compliance for older developer agreements).]*

**5.3 Balancing DSC Compliance with Practical Realities**

LUI commits to fully enforcing DSC sections 3.2.5–3.2.9 for all new developments not yet under contract, ensuring that capital contributions are applied whenever a development’s forecast revenues fall short of covering expansion costs. However, older agreements lacking station-level contribution clauses may not be able to be unilaterally revised; if those contracts effectively lock out recovery from developers, LUI must either absorb the station-related costs allocated to those developments or request that the OEB include them in rate base. Denying recovery of these prudently incurred infrastructure costs poses a potential risk to LUI’s financial viability and may affect its ability to deliver reliable service for all ratepayers.
*[See EB-2024-0038, LUI 2025 IRM Application (September 6, 2024), Section 3.3.3 at pp. 54–55; LUI\_IRR\_CCMBC-1a\_20250123, response to CCMBC-6 (discussing contractual and financial realities).]*

6. Why General Rate Recovery Is Still Appropriate

6.1 Equitable Cost Allocation

By placing the MS28-3 substation into the rate base, LUI ensures that costs are allocated fairly among all customers who benefit from the project’s reliability, redundancy, and voltage-conversion enhancements:

1. Recognizes System Benefits. Existing customers gain from a reduced risk of outages and enhanced contingency in the event of equipment failure, thereby receiving system-wide reliability improvements.
2. Long-Term Health. Incorporating MS28-3 into the rate base extends overall system longevity and defers the need for future emergency investments, avoiding piecemeal fixes that would otherwise drive-up maintenance expenses.
3. Spreading MS28-3’s costs over many years—and across a broad base of ratepayers—significantly reduces the financial impact on a small group of developers. While the sudden appearance of new loads in 2023/2024 made accelerating the project timeline prudent, only around 15% of the station’s 33 MVA capacity is specifically allocated to these known new developments. The remaining 85% supports broader reliability, voltage conversion, and future load for the entire service territory. By taking this system-wide view, the rate base approach aligns with cost-causation principles in the Distribution System Code and avoids unfairly penalizing either developers or existing customers.

 *[See EB-2024-0038, LUI 2025 IRM Application (September 6, 2024), Section 3.3.3 at pp. 54–55;
LUI\_IRR\_CCMBC-1a\_20250123, response to CCMBC-1(a) (explanation of system-wide reliability and cost considerations).]*

**6.2 Regulatory Support**

The Ontario Energy Board (OEB) has, in various proceedings, approved either Incremental Capital Module (ICM) funding or rate-based solutions for large-scale system projects that deliver broader benefits—such as improving reliability and providing contingency to existing customers. Although Distribution System Code (DSC) rules impose capital contributions for strictly load-driven expansions, LUI maintains that the MS28-3 substation is indispensable not only to meet new load but also for critical reliability, voltage conversion, and system modernization across its service territory.
*[See EB-2024-0038, LUI 2025 IRM Application (September 6, 2024), Section 3.3.3 at pp. 54–55;
LUI\_IRR\_CCMBC-1a\_20250123, response to CCMBC-1(a) (outlining the broader system benefits of MS28-3).]*

**7**. Known Developers, Prospective Loads, and Potential Development Fees

In addition to the system-wide benefits outlined in this Application, LUI has identified specific developers whose projects are projected to add new residential (and potentially commercial) load to the MS28-3 substation. Although the substation’s total capacity is approximately 33 MVA, the following subdivisions collectively represent roughly 4.4 MVA of new load if all projects build out fully. Where a developer does not yet have a final agreement omitting station-level charges, LUI intends to seek capital contributions consistent with DSC sections 3.2.5–3.2.9.

**7.1 Developer-Specific Load Forecasts**

The table below summarizes the principal subdivisions and developments in the Cobourg area, each contributing incrementally to substation load. (All figures are estimates, subject to change as projects advance.)

| **Subdivision / Developer** | **Number of Lots** | **Estimated Load (kVA)** | **Informed of Project** | **Construction Start** | **Lots Connected** |
| --- | --- | --- | --- | --- | --- |
| New Amherst Stage 2, Phase 2 | 156 | 468 | 08/2019 | Yes | 55 |
| Nickerson Woods | 23 | 69 | 12/2021 | Yes | 23 |
| Gates of Camelot Stage 5, Phase 1 | 83 | 249 | 01/2022 | Yes | 83 |
| Densmore Meadows | 124 | 372 | 06/2021 | Yes | 124 |
| Tribute Phase 1 | 182 | 546 | 01/2021 | Yes | 169 |
| Gates of Camelot Stage 5, Phase 2 | 155 | 465 | 01/2022 | Yes | 55 (ongoing) |
| Mason Homes (425 King St. E) | 27 | 81 | 05/2021 | Yes | 27 |
| Tribute Phase 2 | 105 | 315 | 01/2021 | No | 0 |
| Victoria Meadows | 72 | 216 | 01/2022 | No | 0 |
| New Amherst Phase 3 | 135 | 405 | 04/2022 | No | 0 |
| Tribute Phase 3 | 163 | 489 | 01/2021 | No | 0 |
| Tribute Phase 4 | 176 | 528 | 01/2021 | No | 0 |
| Tribute Phase 5 | 233 | 699 | 01/2021 | No | 0 |
| Tribute Phase 6 | 182 | 546 | 01/2021 | No | 0 |
| Sunnyside Village | 100 | 300 | 08/2024 (est.) | No | 0 |
| Mistral – Brook Road North | 300 (est.) | 900 | 01/2022 (est.) | No | 0 |

**Total Estimated Load from Known Developments**: ~**4,400 kVA** (~4.4 MVA)

*(Adapted from LUI\_IRR\_CCMBC-1a\_20250123, response to CCMBC-3, Figure 1.)*

**7.2 Substation Capacity and Unassigned Load**

Given the 33 MVA rating of MS28-3, the developments listed above—if fully built—would consume approximately 15% of the substation’s capacity (4.4 MVA out of 33 MVA). The remaining ~85% is not currently assigned to any specific developer; instead, it will accommodate future growth, voltage conversion projects, and improved system redundancy. Because future expansions may emerge over the next five to ten years, LUI must plan sufficient station headroom to manage unforeseen demands while maintaining system reliability.

**7.3 DSC-Driven Developer Fees**

Although the total load from these known subdivisions accelerated the need for MS28-3, LUI’s ability to collect station-level contributions hinges on the status of each developer agreement:

1. Existing Agreements without Contribution Clauses
	* May not be amended retroactively.
	* LUI is barred from imposing station-level charges if the developer has a vested connection right that predates such requirements.
2. Future or Unfinalized Agreements
	* Under DSC sections 3.2.5–3.2.9, LUI will require capital contributions from developers whose present-value revenues do not cover their share of substation costs.
	* DSC section 3.2.27 provides for true ups, ensuring that if actual load from a new development differs materially from the forecast, the contribution can be recalculated to better align with cost causation.

By identifying developers that will add a known amount of incremental load to MS28-3, LUI ensures that station-level charges are carefully allocated where DSC compliance is feasible. This approach shields existing ratepayers from subsidizing growth-driven capacity expansions, while recognizing that not all legacy agreements can be amended to include station-level fees at this stage.

*[See EB-2024-0038, LUI 2025 IRM Application (September 6, 2024), Section 3.3.3 (discussion of substation capacity and DSC compliance).LUI\_IRR\_CCMBC-1a\_20250123, response to CCMBC-3 (Figure 1) (detailed breakdown of developments, lots, and estimated load).DSC sections 3.2.5–3.2.9, 3.2.27 (capital contribution requirements and true-up provisions).]*

8. Proposed Offset Mechanism for Future Developer Contributions

**8.1 Two-Pronged Strategy**

1. **Immediate Inclusion in General Rates**
	* Under the first prong, LUI proposes to include the costs for MS28-3 in its general rates. This recognizes both the broad system-wide benefits—including enhanced reliability and redundancy—and the prudently incurred nature of this critical infrastructure investment.
	* By recovering costs through general rates initially, LUI ensures timely cost recovery while reflecting the shared value MS28-3 brings to all customers.
2. **Prospective DSC Compliance**
	* The second prong addresses future developments and expansions not yet under final agreements. In these cases, LUI will apply the requirements of DSC sections 3.2.5–3.2.9, including station-level capital contributions, whenever the present value of forecast revenues does not fully cover the costs associated with the new or additional load.
	* Moreover, DSC section 3.2.27 provides a built-in true-up mechanism. This allows LUI to recalculate final contributions if actual loads materialize differently than initially forecast, ensuring that customers drawing on the incremental capacity ultimately pay their fair share.
	* Through this prong, LUI mitigates the risk of cross-subsidization by existing customers, aligning station costs with the beneficiaries of its capacity on a forward-looking basis.

In sum, these two steps function cohesively:

* **Prong 1** ensures immediate, system-wide rate recovery for a critical investment—justified by reliability and redundancy benefits.
* **Prong 2** enforces cost responsibility for large, load-driving projects or unanticipated load growth, consistent with Distribution System Code rules.

*See EB-2024-0038, LUI 2025 IRM Application (September 6, 2024), Section 3.3.3 at pp. 54–55; and LUI\_IRR\_CCMBC-1a\_20250123, response to CCMBC-6 (detailing the framework for future DSC compliance and its underlying rationale).*

**8.2 Reconciling Past Omissions**

* Existing Agreements. In cases where LUI may have already granted connection rights without station-level capital contribution clauses, the utility cannot retroactively impose these requirements.
* Rate Base Compensation. LUI respectfully requests that the OEB allow any unrecovered portion of MS28-3’s cost to remain in, or be added to, the rate base. This approach is intended to balance prior noncompliance (arising from management oversights) with the urgent need to finance critical infrastructure that benefits all ratepayers.

*[See EB-2024-0038, LUI 2025 IRM Application (September 6, 2024), Section 3.3.3 at pp. 54–55;
LUI\_IRR\_CCMBC-1a\_20250123, response to CCMBC-6 (acknowledging historic omissions and rationale for rate base recovery).]*

9. Conclusion and Request

**1. Project Necessity and Timing**

MS28-3 is a critical system investment that addresses urgent reliability concerns, supports long-term system modernization, and positions LUI for future load growth. Deferring this investment would increase operational risks, lead to higher long-term costs, and potentially result in rate shocks for customers.

**2. System-Wide Benefits**

MS28-3 is not a developer-driven project, but a broad system-wide enhancement that:

* Strengthens reliability and contingency planning, reducing outage risks for all customers.
* Facilitates voltage conversion, improving system efficiency and accommodating future demand.
* Provides additional capacity that can serve both existing and future ratepayers over time.

**3. DSC Compliance and Developer Contributions**

LUI maintains that MS28-3 primarily serves system-wide needs and would not typically require station-level capital contributions. However, LUI recognizes that the OEB may determine that a portion of the project’s costs (approximately 15%) is attributable to known developments.

To ensure compliance with DSC Sections 3.2.4–3.2.9, LUI will enforce capital contribution requirements for new developments not yet under contract, ensuring that, where applicable, growth pays for growth.

To be clear, LUI is not waiving capital contributions but is implementing a structured $/kVA developer offset mechanism. This ensures that:

* Future developments benefiting from MS28-3’s excess capacity contribute proportionally over time rather than through an upfront lump sum.
* Contributions are collected equitably, aligning with OEB cost causation principles and DSC Section 3.2.27, which provides for true-ups if actual loads exceed initial forecasts.
* Any contributions collected will be used to reduce the rate base impact of the project over time.

LUI notes that it is not unusual for new customers, after a project is completed, to be allocated a proportional share of the costs commensurate with their load. This is the same principle that underlies Section 3.2.27 of the DSC, which requires new, unforecasted customers to contribute to an earlier expansion based on their allocated capacity share.

LUI’s proposal is also similar to the use of an Hourly Allocation Factor by Enbridge Gas Inc. (EB-2020-0094), which provides a mechanism for collecting contributions based on the cost of a project allocated to customers beyond the initial stages and approval of the project. However, unlike EGI’s HAF model, LUI is not requiring a pre-commitment of capacity before proceeding with the project, nor is LUI proposing that developers fund 50% of the initial expansion.

**4. Cost Recovery Approach**

**1. ICM & Rate Base Inclusion**

LUI requests that the OEB approve ICM relief for MS28-3, recognizing its multi-purpose benefits, including:

* Voltage conversion, supporting LUI’s long-term system plan.
* Reliability and contingency improvements, enhancing service for all ratepayers.
* Future capacity growth, ensuring adequate supply for system-wide expansion.

The proposed ICM treatment ensures fair cost recovery by including MS28-3 in general rates, spreading costs equitably among all customers who benefit from the increased grid resilience and capacity.

**2. Two-Pronged Mechanism for Future Developments**

(a) **Immediate Inclusion in General Rates**

* Ensures timely and fair cost recovery by incorporating MS28-3 into general rates, recognizing that essential reliability and redundancy improvements should be funded collectively.

(b) **Prospective DSC Compliance for Future Load**

* For unfinalized or future developments, LUI will require station-level capital contributions in accordance with DSC Sections 3.2.5–3.2.9 where the present value of forecast revenues does not fully cover incremental costs.
* Under DSC Section 3.2.27, LUI will apply a true-up mechanism, ensuring that if actual loads exceed initial projections, capital contributions are recalculated fairly.
* Future developments will pay an allocated cost per kVA, offsetting the amount embedded in rate base and ensuring that new load pays its fair share.

**Final Request**

Lakefront Utilities Inc. (LUI) respectfully urges the Ontario Energy Board to approve ICM treatment for MS28-3, allowing LUI to recover the prudently incurred project costs through its 2025 IRM application.

While LUI maintains that MS28-3 primarily serves as a system-wide enhancement, it acknowledges that the OEB may designate a portion of the costs as load-driven and attributable to known developments. In such a case, LUI’s two-pronged cost recovery approach ensures that:

* Any portion allocated to new developments is recovered through capital contributions, reducing the long-term rate base impact.
* The remaining station costs—associated with system-wide reliability, redundancy, and voltage conversion—are fairly and efficiently recovered through general rates.

This approach ensures that developers who drive accelerated capacity expansion bear their appropriate share, while LUI continues to provide critical infrastructure improvements that benefit all customers.

Respectfully Submitted

**Sample Calculation**

**New Development Load vs. Total Station Capacity**

* **Total Substation Capacity**: 33 MVA (33,000 kVA)
* **New Developer Load**: 4.4 MVA (4,400 kVA)
* **Voltage Conversion Load**: 5 MVA
* **Remaining Capacity**: Available for both existing customer growth and unknown future load over the 5+ year horizon

Despite LUI’s position that the primary driver of the station is not new development (given only 4.4 MVA is strictly tied to known developer demand), LUI did accelerate the project timeline largely due to these emerging developments in 2023—without seeking a corresponding developer contribution. Below is a quick cost-share illustration if we allocate the station cost on a pro rata basis to the 4.4 MVA driven by developers.

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**Interpretation**

* Even though LUI asserts that the station’s primary drivers also include voltage conversion (5 MVA) and future load, the acceleration of the project in 2023 was predominantly tied to the new developments.
* A developer contribution in the range of $333k would be the straightforward pro rata share of costs if the station’s capacity were allocated based on load responsibility.

**Rationale for Developer Contribution**

1. **Acceleration Trigger**
	* The distribution system plan did not originally list the substation in the immediate near-term, yet the utility undertook it urgently in 2023 because of new development demands.
2. **DSC Principle**: “Growth Pays for Growth”
	* Under the Distribution System Code, expansions significantly driven by new load typically require capital contributions if revenues from that load will not cover the incremental cost.
3. **Fairness and Cost Causation**
	* Charging developers a proportionate share (here, $333k for 4.4 MVA) ensures existing ratepayers are not fully subsidizing acceleration costs for developments that, at least in part, precipitated the urgency.

In summary, while LUI attributes only 4.4 MVA to specific new developments, the timeline for this station was clearly moved up to accommodate them. A capital contribution of roughly $333k reflects the pro rata share if one allocates total costs by each load segment’s fraction of 33 MVA. This approach aligns with the cost-causation principle and would guard existing customers against carrying the full cost of an accelerated project schedule driven, in part, by new developer needs.