IN THE MATTER OF the Ontario Energy Board Act, 1998, being Schedule B to the Energy Competition Act, 1998, S.O. 1998, c.15;

AND IN THE MATTER OF an Application by Lakeland Power Distribution Ltd. to the Ontario Energy Board for an Order or Orders approving or fixing just and reasonable rates and other service charges for the distribution of electricity as of May 1, 2026.

LAKELAND POWER DISTRIBUTION LTD.

RESPONSE TO PROCEDURAL ORDER NO. 3

EB-2025-0024

Filed: May 11, 2026

INTRODUCTION

On April 29, 2026, the Ontario Energy Board issued Procedural Order No. 3 and a Decision on Confidentiality in this proceeding. In that Procedural Order, the OEB directed Lakeland Power Distribution Ltd. ("Lakeland Power") to provide written responses to two questions related to its Z-factor claim for the lightning storm event at the Centennial MS Substation.

This document provides Lakeland Power's responses to those questions.

QUESTION 1

Please provide a breakdown of the difference between Lakeland Power owning the rental transformer versus renting the transformer.

RESPONSE

In Lakeland Power's Z-Factor application, interrogatory responses and submissions the difference between owning versus renting the transformer was presented from three different perspectives: (1) the cash impact limited specifically to the transformer; (2) the cash impact expanded to factor in all costs; and (3) the customer impact (via the relief requested). Each perspective results in the same conclusion, the rental scenario is more favourable, both in terms of costs and customer impacts, when compared to purchasing.

For clarity these three perspectives are summarized below, with the breakdown of the difference between rental versus purchase detailed in the numbered sections that follow:

1. In response to OEB Staff-13(b) Lakeland Power outlined the difference in the **cash impact limited specifically to the transformer**. The cash impact of renting the transformer is $314,898; the cash impact of purchasing the transformer is $371,476. It is noted that perspective 1 is limited to an assessment of the cash impacts associated solely with the transformer. This assessment also forms part of perspective 2, which considers the full suite of associated costs.
2. Lakeland Power also provided the **total cash impact expanded to include all costs**. These were provided at different times:
    a. **Rental** - In response to SEC-2(b) Lakeland Power updated its Z-Factor submission and outlined the total cash impact under the rental scenario, being $698,210 in operating costs and $793,803 in capital costs.
    b. **Purchase** - In response to OEB Staff-13(c) Lakeland Power provided a scenario assuming the purchase of the transformer. This scenario includes the non-cash item of writing off the transformer net book value. As shown below in more detail, removing this non-cash item results in $388,901 in operating costs and $1,184,343 in capital costs.
3. In SEC-2(b) and OEB Staff-13(c) Lakeland Power provided the revenue requirements and customer impact for the rental and purchase scenarios. These are outlined in more detail below.

If the OEB has concerns regarding any benefit to Bracebridge Generation arising from the purchase of the transformer and ownership of the asset once no longer required by Lakeland Power, Bracebridge Generation is prepared to refund any amounts in excess of $75,000, together with applicable carrying charges, in the event that the transformer is able to be sold.

1. Transformer only cash perspective

As outlined in OEB-Staff-13(b) a breakdown of the cash impact of renting the transformer and purchasing the transformer limited specifically to the transformer is outlined below:

Table 1

Cost Element	Purchase / Own	Rent
Purchase price	$375,000	–
Rental payments	–	$300,000
Carrying costs	$26,476	$14,898
Net salvage benefit	$(30,000)	–
Total cost	**$371,476**	**$314,898**

An explanation of each of the rows in the above table is as follows:

1. *Purchase Price*: The temporary transformer was purchased by Bracebridge Generation for $375,000 on February 27, 2025.
2. *Rental Payments*: The rental paid by Lakeland Power to Bracebridge Generation was established at $30,000 per month, based on the market rental price from K.P.C. Electrical at $33,000 per month, with a cap on total rental payments of $300,000. This cap was reached with the December 2025 payment.
3. *Carrying costs*: The carrying costs are calculated (using a consistent 4% in each scenario) as the interest/carry costs on any cash outlaid under each scenario starting from February 27, 2025 extending to October 2026 when the temporary transformer is no longer needed by Lakeland Power. For clarity, the 4% rate is used solely for illustrative cash comparison purposes. All regulatory amounts (including carrying charges reflected in revenue requirement) are calculated using the OEB's prescribed interest rate.
4. *Net salvage benefit*: This is an estimated net salvage benefit as outlined in OEB Staff 13(d).
5. *Total Cost*: This value is equal to the sum of the purchase price, rental payments, carrying charges/interest, and net salvage benefit.

2. Total Cash perspective

A summary of the total cash impact under the rental and purchase scenarios is provided in Table 2 below, with full details provided in sections a) and b) following.

Table 2

Cost Element	Rent	Purchase / Own
Operating	$698,210	$388,901
Capital	$793,803	$1,184,343
Total	**$1,492,013**	**$1,573,245**

- For a detailed breakdown of the $1,492,013 Rent scenario costs above, refer to Table 3 in section a) below.
- For a detailed breakdown of the $1,573,245 Purchase scenario costs above, refer to Table 4 in section b) below.

a) Outline of costs under the rental scenario as provided in SEC-2(b)

Table 3 – Detail cost buildup of rental scenario

Category	Operating	Capital	Total	Ref
Costs to Sept 30th (original submission)				
Install of temporary transformer	$68,408	$0	$68,408	
Transformer rental	$507,000	$0	$507,000	A
Consulting fees / reports	$9,341	$1,870	$11,211	
Transformer re-build costs	$0	$243,593	$243,593	
Transformer purchase		$0	$0	B
Sub-Total	**$584,748**	**$245,463**	**$830,211**	
Carrying charges	$23,462	$7,893	$31,355	
Sub-Total incl. carrying charges	**$608,210**	**$253,356**	**$861,566**	
Costs from Oct'25 to fall 2026				
Install of transformer	$0	$64,347	$64,347	
Transformer rental	$90,000	$0	$90,000	C
Transformer re-build costs	$0	$476,100	$476,100	
Sub-Total	**$90,000**	**$540,447**	**$630,447**	
Total Z-Factor Claim Costs	**$698,210**	**$793,803**	**$1,492,013**	D

b) Outlined of costs provided under the purchase scenario, as provided in OEB Staff-13(c).

Table 4 – Detail cost buildup of purchase scenario

Category	Operating	Capital	Total	Ref
Costs to Sept 30th				
Install of temporary transformer	$68,408	$0	$68,408	
Transformer rental	$297,000	$0	$297,000	**A**
Consulting fees / reports	$9,341	$1,870	$11,211	
Transformer re-build costs	$0	$243,593	$243,593	
Transformer purchase		$375,000	$375,000	**B**
Sub-Total	**$374,748**	**$620,463**	**$995,211**	
Carrying charges	$14,153	$23,433	$37,586	
Sub-Total incl. carrying charges	**$388,901**	**$643,896**	**$1,032,798**	
Costs from Oct'25 to fall 2026				
Install of transformer	$0	$64,347	$64,347	
Transformer rental	$0	$0	$0	**C**
Transformer re-build costs	$0	$476,100	$476,100	
Sub-Total	**$0**	**$540,447**	**$540,447**	
Sub-Total - Total Cash Costs	**$388,901**	**$1,184,343**	**$1,573,245**	**D**
Transformer write off (NBV less salvage)	$326,000	$0	$326,000	**E**
Total Z-Factor Claim Costs	**$714,901**	**$1,184,343**	**$1,899,245**	**F**

c) Differences between Table 3 and Table 4 above

Table 3 and Table 4 above contain substantially the same costs, however with some differences. The differences between the two tables are as follows:

i. Rental Costs (up to September 2025)
   - *Table 3, Reference A*: This item includes both the costs associated with the K.P.C. and Bracebridge Generation transformer rental costs up to September 2025. Thus, the Rental Scenario includes $210,000 of incremental rental costs paid to Bracebridge Generation up to September 2025 that would not be paid in the Purchase Scenario.
   - *Table 4*: This $210,000 amount does not appear in Table 4. The $297,000 shown in Table 4 reflects transformer rental costs paid to K.P.C., which originally supplied the transformer on a rental basis prior to its purchase.

ii. Rental Costs (after September 2025 until October 2026)
   - *Table 3 Reference C*: In the Rental Scenario, $90,000 of rental costs paid to Bracebridge Generation are included from October 2025 to December 2025 at $30,000 per month. This is when the rental cap was hit. Combining together the $210,000 and this $90,000 make up the $300,000 paid to Bracebridge Generation.
   - *Table 4 Reference C*: This $90,000 does not appear in Table 4 as no payments would be made to Bracebridge Generation in the purchase scenario.

iii. Transformer Purchase
- *Table 4 Reference B*: In the Purchase Scenario, Table 4 shows $375,000 for the transformer purchase.
- *Table 3 Reference B*: This $375,000 does not appear in Table 3 as the transformer would not be purchased in the Rental Scenario.

iv. Carrying charges
- The purchase scenario includes higher carrying charges due to the full $375,000 outlay in February 2025, compared to monthly rental payments in the rental scenario. The carry charges are calculated using the prescribed interest rates up to April 2026.

v. Write Off
- *Table 4 Reference E*: Under the Purchase scenario the $375,000 transformer capital cost is included as a capital item. However when calculating the Capital costs rate rider (see section 3 below) the rate rider specific to the $375,000 is recovered over 2 years only. After the transformer is no longer of value to Lakeland Power, the remaining net book value is written off and included in the operating costs for recovery.

Further breakdown of certain rows in Table 3 and Table 4 are as follows:

vi. Consultant fees / reports
- These costs are for a consultant to attend Surplec's facility, review its capabilities and consult with its personnel in order to satisfy Lakeland that Surplec was suitable to perform the repair.

vii. Transformer re-build costs
- These costs are as quoted by Surplec for the rebuilding and repair of the damaged Centennial transformer, as well as Surplec costs for the initial assessment and root cause analysis of the damaged transformer.

viii. Install of transformer
- The future installation costs quoted for the repaired transformer are based on internal estimates from Lakeland Power's engineering department.

3. Revenue requirement and customer impact perspective

The costs outlined in the section above result in the Z-Factor relief summarized below.

Recovery type / component	Rent	Purchase
Costs for recovery - O&M	$698,210	$714,901
Capital rate rider- transformer only (2 years)	-	$27,759
Capital rate rider – all other capital (until rebasing - 4 years)	$58,760	$59,910
Total relief over recovery period *	**$933,250**	**$1,010,058**

** Total relief reflects the cumulative recovery over the applicable rate rider periods; for example, the Purchase total relief is $714,901 + $27,759 x 2 + $59,910 x 4.*

See the Appendix for calculations of the three capital revenue requirements/rate riders above.

The breakdown of each of the rows in the above table are as follows

1. *Costs for recovery - O&M*: These values tie to the totals in Tables 3 and 4 above. For the $698,210 Rent scenario O&M costs refer Table 3, Ref D. For the $714,901 Purchase scenario O&M costs refer Table 4, Ref F.
2. *Capital rate rider – transformer only (2 years)*: This is the capital revenue requirement and rate rider specifically for the $375,000 transformer purchase, and is in addition to the capital rate rider for all other capital below. The rate rider is for two years only, the approximate duration that the temporary transformer was in use, after which the transformer Net Book Value (net of salvage estimate) is written off and included in the O&M costs for recovery (as shown in Table 4 Reference E and F).
3. *Capital rate rider – all other capital (until rebasing – 4 years) – until rebasing*: these are the capital revenue requirements and rate riders until rebasing and include all capital costs in each scenario, except for the transformer purchase price, as outlined in point 2 above.

Lakeland Power did not provide a breakdown of the difference between Lakeland Power owning the rental transformer versus renting the transformer for the model it provided in Appendix C of its Reply Argument. Lakeland Power does not agree with the approach SEC took in supplying this model to the OEB.

QUESTION 2

Identify and provide commentary on the financial constraints that prevented Lakeland Power from buying the transformer, instead of Bracebridge Generation purchasing the transformer

Response:

Lakeland Power's interrogatory responses and Reply Argument outline the financial constraints that management felt prevented Lakeland Power from purchasing the transformer outright in early 2025, and outline the context in which the decision for Bracebridge Generation to purchase the transformer was made. These are summarized below and discussed in turn.

1. **General context**

   The financial constraints described below illustrate the circumstances Lakeland Power management understood itself to be facing at the time the decision to purchase the transformer was made. A combination of factors came together and contributed to management being at a heightened awareness to maintain financial viability of the utility, and specifically concerns regarding limited cash reserves and trepidation about committing to a significant capital outlay given the limited remaining borrowing capacity.

   These factors include:

   - Lakeland Power had experienced bank covenant breaches.
   - Declining cash reserves/balances in the preceding months and possible overdraft events forecasted.
   - Uncertainty regarding the transformer repair costs and timelines which were yet to be finalized.
   - The possibility of a spring ice storm event in the months following the decision.

   The decision to avoid a $375,000 immediate outlay was made in this context and details on some of these financial concerns are detailed below.

2. **Multiple bank covenant breaches**

   - Between December 2024 and September 2025, Lakeland breached its debt service coverage bank covenant four separate times and breached its debt-to-capital covenant twice as evidenced below.

	Sep 2024	Dec 2024	Mar 2025	Jun 2025	Sep 2025
DSCR* (>1.20x)	1.43x	1.14x	1.07x	0.96x	0.75x
Debt to Cap ratio (<0.60x)	0.584x	0.584x	0.603x	0.603x	0.598x

** Debt Service Coverage Ratio*

3. **Operating at the upper limit of borrowing capacity**

- As shown in the above table under the row "Debt to Cap ratio (<0.60x)", Lakeland Power was in breach for the quarter ended March 2025 – this possibility was feared at the time the decision to purchase the transformer was being contemplated.

4. **Overdraft events**

- Five overdraft events between March and August 2025. While Lakeland Power did not go into overdraft in February, our forecasts indicated it was possible in the coming months. As noted above, this was a concerning and worsening trend for a utility that did not historically rely on its bank overdraft to cashflow operations.

	Mar 2025	Jun 2025	Jul 2025	Aug 2025	Aug 2025
Overdraft amount	$90,000	$1,000,000	$90,000	$700,000	$230,000
Time used	1 day	1 day	3 days	3 days	1 day

- The overdraft events may actually have been worse had Lakeland Power not been able to manage cashflow by delaying payments due to Bracebridge Generation (an affiliate). Bracebridge Generation is an embedded generator, and therefore Lakeland Power makes monthly cost of power payments to Bracebridge Generation. Historically these payments have been made at a similar time as cost of power payments to Hydro One and the IESO (around the middle of the month) – however more recently the payments to Bracebridge Generation for amounts owed were delayed until the end of the month. In particular, in January, February and March 2025 the amounts owed by Lakeland Power to Bracebridge Generation were over $1m and were delayed. This delay was done in order to manage cashflow. With the advent of the lightning and ice storms and related costs incurred, this management of cashflow via delayed payments to Bracebridge Generation is an almost monthly occurrence. A weekly cash estimate process was started in January 2025 to monitor cash balances and to help inform the timing of the monthly cost of power payment.

2025 ROE confirmation and clarification

Lakeland Power is aware that the OEB denied Hydro One Networks Inc. Z-Factor claim in Decision and Order EB-2025-0030 on the basis that it expected to exceed its approved return on equity for 2025. Lakeland Power believes it is important to comment on its ROE in light of this decision and the question asked by the OEB.

As stated in the response to OEB Staff-6(e), Lakeland Power's estimated ROE for 2025 was expected to be 6.2%. Lakeland Power's final 2025 submitted ROE for the OEB's Reporting and Record Keeping Requirements was determined to be 8.71%. However, included in Lakeland Power's 2025 audited results is an adjustment of $369,057 relating to Centennial transformer

costs incurred and expensed in 2024. In 2025 these expenses were moved into account 1572 resulting in 2025 OM&A expenses being reduced by the amount of $369,057 resulting in a higher ROE than would have otherwise been achieved. **The achieved ROE of 8.71% adjusted for this amount is approximately 6.2% - which is in line with the previously supplied estimate.**

Appendix – revenue requirement calculations

Purchase Scenario Capital revenue requirements

Return on Rate Base		Other Capital	Transformer
Incremental Capital		$ 809,343	$ 375,000
Depreciation Expense (Full Year)		$ 16,187	$ 7,500
Incremental Capital in Rate Base (Average NBV in Year)		$ 793,156	$ 367,500
Deemed Short Term Interest 4%	3.91%	$ 1,240	$ 575
Deemed Long Term Interest 56%	4.76%	$ 21,142	$ 9,796
Deemed Return on Equity 40%	9.00%	$ 28,554	$ 13,230
Return on Rate Base - Total		**$ 50,936**	**$ 23,601**
Grossed Up Taxes / PILs			
Regulatory Taxable Income		$ 28,554	$ 13,230
Add Back Amortization Expense		$ 16,187	$ 7,500
Deduct CCA		$ 64,747	$ 30,000
Incremental Taxable Income		-$ 20,007	-$ 9,270
Income Tax / PILs Before Gross-Up @ 26.5%		-$ 5,302	-$ 2,457
Income Tax / PILs Grossed Up		-$ 7,213	-$ 3,342
Incremental Revenue Requirement			
Return on Rate Base - Total		$ 50,936	$ 23,601
Amortization Expense - Total		$ 16,187	$ 7,500
Grossed Up Taxes / PILs - Total		-$ 7,213	-$ 3,342
Eligible Incremental Revenue Requirement(s)		**$ 59,910**	**$ 27,759**

Rent Scenario Capital revenue requirement

Return on Rate Base		
Incremental Capital		$ 793,803
Depreciation Expense (Full Year)		$ 15,876
Incremental Capital in Rate Base (Average NBV in Year)		$ 777,927
Deemed Short Term Interest 4%	3.91%	$ 1,217
Deemed Long Term Interest 56%	4.76%	$ 20,736
Deemed Return on Equity 40%	9.00%	$ 28,005
Return on Rate Base - Total		**$ 49,958**

Grossed Up Taxes / PILs		
Regulatory Taxable Income		$ 28,005
Add Back Amortization Expense		$ 15,876
Deduct CCA		$ 63,504
Incremental Taxable Income		-$ 19,623
Income Tax / PILs Before Gross-Up @ 26.5%		-$ 5,200
Income Tax / PILs Grossed Up		-$ 7,075

Incremental Revenue Requirement		
Return on Rate Base - Total		$ 49,958
Amortization Expense - Total		$ 15,876
Grossed Up Taxes / PILs - Total		-$ 7,075
Eligible Incremental Revenue Requirement(s)		**$ 58,760**