EXHIBIT 4 – OPERATION COSTS

2027 Cost of Service

Lakefront Utilities Inc.
EB-2026-0054

TABLE OF CONTENTS

TABLE OF TABLES/FIGURES

4.1. OVERVIEW

OM&A expenses represent the costs incurred by LUI to provide safe and reliable electricity distribution, while meeting regulatory compliance and satisfying other operational and maintenance needs.

Included in OM&A are expenses related to operation and maintenance of distribution infrastructure, engineering and system planning activities, vegetation management, asset management, information technology systems, cybersecurity initiatives, customer service functions, billing and collections activities, regulatory compliance, and general administrative support. These expenditures are necessary to maintain compliance with the Distribution System Code, Electricity Safety Authority requirements, Ontario Energy Board requirements, and other applicable legislative and regulatory obligations.

LUI's customer service and billing functions include maintaining customer accounts system, keeping records of customer usage, billing, payments. The utility incurs indirect costs in reading meters and preparing invoices. Bill payments are processed, and collection processes are in place to contend with past-due accounts. Billing and collecting related costs include answering customer questions, managing their inquiries, and responding to service outages and emergencies. The administrative expenses include employee salaries, benefits, office supplies and facility costs, insurance, professional and contracted services, information technology, regulatory costs, and other expenditures to support utility operations.

Over the 2022 to 2026 period, LUI's operating environment has evolved significantly. The utility has experienced workforce transitions and succession planning requirements, increasing regulatory and cybersecurity obligations, growing asset management and system planning requirements, and continued investment in operational tools and systems, including GIS and SCADA capabilities. LUI has also undertaken initiatives to strengthen internal technical and operational capacity, improve organizational resiliency, and reduce long-term reliance on external consultants while continuing to provide safe and reliable electricity distribution service.

These operating costs are also necessary to comply with the Distribution System Code, environmental requirements, government direction and expenses associated with ensuring the safety of our employees, customers and the public, and costs to maintain distribution service quality and reliability.

The majority of the OM&A increase between the 2022 Board Approved and 2027 Test Year reflects changes in operational and administrative requirements necessary to support the utility's evolving business needs. Key drivers include workforce transitions and succession planning initiatives, compensation adjustments to address labor market pressures and support employee retention, the addition of operational and engineering resources to strengthen internal capabilities, increased reliance on specialized contractors and consultants during periods of organizational transition, higher billing system and customer service costs, and expanding regulatory, cybersecurity, and compliance obligations. These investments are intended to support safe and reliable electricity distribution service, maintain operational resiliency, and reduce long-term operational risk.

LUI's 2027 Test Year operating costs are projected to be $4,146,221, representing an increase of $1,323,981 or 46.9% from its 2022 Board Approved costs. While inflationary pressures have contributed to increases in labour, contractor, software, insurance, and purchased service costs, the majority of the increase is attributable to staffing-related investments, operational capacity enhancements, and evolving regulatory and operational requirements. The principal drivers of these changes are discussed in greater detail throughout this exhibit.

Details are introduced in Table 1 below. Further explanations of the key cost drivers and supporting details are provided throughout this exhibit.

Table 1 – 2027 OM&A vs 2022 Board Approved OM&A

	2022 Board Approved	2027 Proposed	Variance $	Variance %
Operations	$707,393	$1,019,234	$311,841	44.1%
Maintenance	$312,541	$382,921	$70,380	22.5%
Billing and Collecting	$580,283	$756,131	$175,848	30.3%
Community Relations	$19,757	$14,456	($5,301)	(26.8%)
Administrative and General	$1,202,267	$1,973,479	$771,212	64.1%
Total OM&A Expenses	**$2,822,241**	**$4,146,221**	**$1,323,981**	**46.9%**

The bulk of the OM&A variances from the 2022 Board Approved to the 2027 Test Year can be attributed to increases within operations, maintenance and administrative costs totaling $1,323,981.

The increase in Operations and Maintenance is largely related to staffing needs, and an adjustment in remuneration to bring the pay scale to reflect the sector and the extreme increases in the cost of living over the last few years, post Covid plus the increase in outside services and consultants assisting LUI due to staff shortages.

The increase in Billing and Collecting Costs is largely related to adjustments in salaries, significant increases in billing software costs and increases in billing fees.

The increase in Administrative Costs is related to an increase in outside services and an adjustment in remuneration to bring the pay scale to reflect the sector and the extreme increases in the cost of living over the last few years.

Relevant Notes on LUI’s OM&A

The following items provide additional context regarding LUI's OM&A costs and supporting assumptions.

Workforce transition, recruitment and retention were significant OM&A drivers during the rebasing period. Management vacancies, retirements, employee turnover, succession planning activities, recruitment challenges, including recruiting costs in a shrinking sector talent market resulted in increased, competitive labor costs, temporary resource requirements, and consultant support while critical positions were filled and internal knowledge was transferred. These factors contributed materially to the OM&A increase between the 2022 Board Approved and 2027 Test Year and are discussed further in Sections 4.2.4, 4.3.1 and 4.4.8.

LUI's OM&A reflects a transition from reliance on external consultants toward the development of internal operational capacity. During portions of the rebasing period, consultants were required to support engineering, finance, regulatory, operational, and management functions. The Bridge and Test Year staffing additions are intended to internalize these activities, improve operational continuity, and reduce long-term dependence on external resources. These changes are discussed in Sections 4.2.4, 4.3.1 and 4.4.8.

During preparation of this Application, LUI completed a comprehensive review of historical affiliate arrangements, cost allocation practices, and supporting documentation. The review identified opportunities to strengthen governance, documentation, transparency, and internal controls. Further details are provided in Section 4.4.

Compensation increases reflected in this Application are not solely inflationary in nature. In addition to collective agreement and annual inflationary adjustments, LUI implemented compensation changes needed to improve recruitment, retention, succession planning, and market competitiveness. These adjustments contributed to OM&A growth throughout the rebasing period and are discussed in Section 4.3.

LUI participates in OMERS and records pension and OPEB costs within OM&A expenses. Pension, benefits, and statutory burden costs increased during the rebasing period as compensation levels increased and staffing levels expanded. Further details are provided in Section 4.3.

LUI does not capitalize overhead labour or administrative costs. Accordingly, all operating labour and administrative expenditures are reflected directly within OM&A and no offsetting capitalization adjustments have been applied to the Test Year forecast.

Other than forecast customer growth discussed in Exhibit 3, LUI does not anticipate significant changes to its service territory or customer mix. The increase in OM&A between 2022 and 2027 is primarily driven by workforce and compensation-related costs, maintenance requirements, regulatory obligations, affiliate governance improvements, and inflationary pressures.

4.1.1 Budget Tracking and Reporting Process

Overview of Budgeting Framework

LUI's OM&A budgeting process is built on a structured annual planning cycle that is consistent with International Financial Reporting Standards ("IFRS") accounting standards and generally aligned with the budgeting practices of comparable Ontario local distribution companies ("LDCs"), including utilities within the CHEC group. A rolling 6-year budget is developed annually to ensure alignment of the LUI's longer term strategic objectives and the DSP.

The OM&A budgeting framework is designed to:

- support prudent and cost-effective expenditure management;
- align operational activities and work plans with corporate objectives, asset needs, and customer service expectations;
- establish a stable and measurable baseline for evaluating financial and operational performance; and
- incorporate evolving regulatory requirements, economic conditions, and customer-driven impacts.

The annual budget is developed collaboratively by management through a detailed review of historical spending trends, operational requirements, staffing needs, known cost pressures, and planned business activities. The proposed budget is subsequently reviewed by executive leadership and presented to the Board of Directors for approval prior to the commencement of each fiscal year, typically during the November Board meeting.

Once approved, the budget serves as the utility formal financial and operational planning framework for the upcoming year and forms the basis of ongoing monitoring, variance analysis, and performance reporting throughout the fiscal period.

OM&A Budgeting Principles

LUI develops its OM&A budget in accordance with several core principles intended to support prudent financial management, operational effectiveness, and regulatory transparency:

1. **Historical Trend Analysis:** multi-year trends (2–3 years of actuals), are used to establish reasonable baseline expenditure expectations and identify emerging cost trends.
2. **Transparency and Variance Accountability:** material variances are reviewed and explained both during the budget development and through ongoing monthly financial reporting to support accountability and informed management oversight.
3. **Alignment with Operational Planning:** OM&A expenditures are aligned with LUI's DSP, annual business plan, operational priorities, and customer service obligations to ensure resources are directed toward core utility objectives.

4. **Normalization of Non-Recurring Costs:** costs associated with cyclical, periodic, or non-annual activities are normalized where appropriate to reduce year-over-year volatility and better reflect sustainable operating requirements.
5. **Departmental Accountability:** each department is responsible for the accuracy and completeness of budget inputs, including staffing requirements, planned activities, operational changes, and known cost drivers within their area of responsibility.
6. **Prudence and External Considerations:** budget assumptions incorporate and assessment of external cost pressures, inflationary impacts, labour market conditions, and legislative/regulatory requirements to ensure proposed expenditures remain reasonable and support prudent utility operations.

Step-by-Step OM&A Budget Development Process

Step 1 — Historical and Current-Year Analysis

- The OM&A budget development process begins with a detailed review of historical and current financial information. Management analyzes account-level expenditures for the previous 2–3 years, including supplier-level detail where appropriate, to identify spending trends, recurring cost drivers, and abnormal variances.
- Year-to-date actual results are reviewed in conjunction with operational activities and known business developments. Based on this analysis, the Director of Finance prepares a current-year forecast which establishes the baseline for estimating expected year-end results and developing the subsequent year's OM&A budget requirements.

Step 2 — Departmental Review and Adjustments

Each department conducts a detailed review of its historical expenditures, current-year forecast, operational requirements, and anticipated business activities. This review includes consideration of:

- prior years' spending trends;
- current-year actual and forecasted results;
- known or anticipated external cost pressures (e.g., materials, insurance, software and contractor costs);
- operational or compliance-related changes arising from legislation, regulation obligations, or industry developments; and
- changes in workload, staffing responsibilities or service delivery requirements.

Departments are required to provide supporting rationale for:

- any material increases or decreases relative to historical spending levels; and
- any significant or structural changes in operational activities or service delivery models.

Step 3 — Labour Budgeting

The Director of Finance prepares a consolidated labour budget encompassing all departments and operational functions. The labour budget incorporates:

- projected wage adjustments and salary progressions;
- employer benefit and statutory burden costs;
- anticipated vacancies, retirements, hiring plans, and overtime requirements; and
- labour allocation assumptions between OM&A and capital activities based on historical allocation practices and expected operational requirements.

This process is intended to ensure that staffing-related costs appropriately reflect operational needs while maintaining consistency and transparency in labour allocations.

Step 4 — Expense Normalization

Certain OM&A expenditures occur on a cyclical basis, such as vegetation management schedules, and others on a periodic basis rather than annually (e.g., consulting studies, and major regulatory filings).
Where appropriate, these expenditures are normalized within the budget over time to reduce year-over-year volatility and provide a more representative view of ongoing operational requirements and sustainable OM&A levels.

Step 5 — Variance Analysis

Once preliminary budgets are developed, management performs a detailed variance analysis comparing proposed expenditures against prior-year actual results and current-year forecasted amounts.

- Material variances are reviewed to assess reasonableness, identify underlying cost drivers, and confirm alignment with operational and regulatory requirements;
- Supporting explanations are documented for internal management review and for inclusion within the Cost-of-Service rate application.

Step 6 — Integration with Capital Planning

Although OM&A and capital budgeting are developed through separate planning processes, the two are closely coordinated to ensure consistency between operational activities and long-term asset planning objectives.

Capital investments, particularly asset renewal and system improvement programs, directly influence associated operational requirements, including:

- maintenance and inspection programs;
- engineering and technical support requirements;
- vegetation management and asset condition activities; and
- regulatory compliance, reporting, and documentation obligations.

This coordinated planning approach supports prudent asset management and helps ensure that operational resources appropriately reflect planned capital activities and system needs.

Roles and Responsibilities in OM&A Budgeting

Director of Finance

The Director of Finance is responsible for leading and coordinating the overall budgeting process, including OM&A budgeting, capital planning coordination, financial forecasting, and preparation of financial statements. Responsibilities also include:

- Performing historical financial analysis;
- Preparing standardized budgeting templates and assumptions;
- Consolidating departmental budget submissions; and
- Ensuring compliance with IFRS accounting principles and OEB filing requirements.

Director of Engineering and Operations

The Director of Engineering and Operations is responsible for preparing the operating and maintenance components of the OM&A budget and identifying operational requirements affecting forecast expenditures. Responsibilities also include:

- Assessing field operational requirements;
- Identifying contractor and maintenance needs;
- Evaluating system inspections, vegetation management, and system maintenance programs;
- Monitoring compliance related operational activities; and
- Providing rolling operational forecasts and updates throughout the fiscal year.

President & CEO

The President & CEO reviews the consolidated OM&A and capital budgets prepared by management to ensure alignment with corporate priorities, operational priorities, financial sustainability and system needs.

The President & CEO is also responsible for presenting the proposed budget to the Board of Directors, together with management's recommendations and supporting analysis.

Board of Directors

The Board of Directors provides oversight and governance throughout the budgeting process and is responsible for reviewing and approving the final annual budget. The Board evaluates the proposed budget with consideration to:

- Prudence and reasonableness of expenditures;
- Alignment with corporate strategy and operational objectives;

- Financial sustainability; And
- The utility's obligation to maintain safe and reliable electricity distribution service.

Economic and Inflationary Assumptions

LUI incorporates macroeconomic and external market considerations as part of its OM&A forecasting and budget development process. Key assumptions and considerations include:

- Inflation assumptions based primarily on Bank of Canada metrics, together with OEB cost-of-capital parameters and price-cap data information;
- Consideration of broader inflationary pressures affecting labor, materials, contractor services, insurance, technology, and operating inputs; and
- Evaluation of local economic conditions, including customer growth trends, customer-class composition, regional business activity, and broader economic impacts that may influence operational requirements and OM&A cost pressures.

In prior Cost of Service evidence, LUI used core inflation assumptions (2.5%) and absorbed higher short-term inflationary pressures (4.09%) continuing into 2022. In this application, LUI has applied a 3.30% inflation as a base. The subject is discussed further at Section 4.2.5. That said, LUI continues to monitor evolving economic conditions and incorporates updated information into its annual budgeting process where appropriate. Local economic conditions (population stability, customer-class shifts, business climate, and lingering COVID impacts) are evaluated to understand external drivers affecting OM&A needs.

4.2. ANALYSIS OF OPERATING EXPENSES

4.2.1 Overview

The table below summarizes LUI's recoverable OM&A expenses for historical, bridge and test years. As demonstrated, OM&A spending has remained generally stable and reflective of the operational realities of a small distributor since the last Board-approved Cost of Service application in 2022. Over the 2022 Board Approved to 2027 Test Year period, total OM&A expenses are projected to increase by $1,323,981 or 46.91%.

Given LUI's relatively small customer base and operating scale, the utility is inherently more sensitive to inflationary pressures, regulatory requirements, staffing changes, contractor costs, and other external cost drivers that can materially affect annual operating expenditures. Despite these pressures, LUI continues to actively manage costs through ongoing monitoring of expenditures, operational prioritization, and the identification of efficiencies where feasible, while maintaining safe, reliable, and compliant electricity distribution operations. The utility manages unforeseen expenses as they occur and tries to balance the increase, if any, by reducing costs or finding efficiencies wherever possible.

The primary OM&A cost drivers contributing to the increases are discussed further in detail in section 4.2.3.

OEB Appendix 2-JA below shows a summary of LUI Operations, Maintenance, and Administrative ("OM&A") costs as required by the OEB's filing guidelines.

Table 2 – Summary of Recoverable OM&A Expenses (Appendix 2-JA)

SUMMARY OF RECOVERABLE OM&A EXPENSES

	BOARD APPR.	2022	2023	2024	2025	2026	2027
Operations	$707,393	$402,525	$510,316	$434,954	$668,205	$991,819	$1,019,234
Maintenance	$312,541	$364,103	$401,421	$339,697	$358,158	$371,768	$382,921
TOTAL	**$1,019,934**	**$766,628**	**$911,738**	**$774,651**	**$1,026,363**	**$1,363,587**	**$1,402,155**
%Change (year over year)		**-24.84%**	**18.93%**	**-15.04%**	**32.49%**	**32.86%**	**2.83%**
%Change (Test Year vs Last Rebasing Year - Actual)							**37.48%**
Billing and Collecting	$580,283	$550,197	$575,877	$560,229	$806,216	$686,124	$756,131
Community Relations	$19,757	$29,397	$20,655	$17,837	$13,521	$14,035	$14,456
Administrative and General & LEAP	$1,202,267	$1,231,924	$1,624,584	$1,888,305	$1,799,285	$1,865,023	$1,973,479
TOTAL	**$1,802,306**	**$1,811,518**	**$2,221,117**	**$2,466,372**	**$2,619,022**	**$2,565,182**	**$2,744,066**
%Change (year over year)		**0.51%**	**22.61%**	**11.04%**	**6.19%**	**-2.06%**	**6.97%**
%Change (Test Year vs Last Rebasing Year - Actual)							

T O T A L	**$2,822,241**	**$2,578,145**	**$3,132,855**	**$3,241,023**	**$3,645,385**	**$3,928,768**	**$4,146,221**
%Change (year over year)		**-8.65%**	**21.52%**	**3.45%**	**12.48%**	**7.77%**	**5.53%**
							46.91%

OM&A costs increased over the 2022–2027 period as a result of several operational, staffing, regulatory, and inflationary factors affecting LUI’s electricity distribution operations. Key drivers contributing to the increase include:

- Normal staffing transitions, including retirements, succession planning activities, onboarding of new staff, and evolving regulatory and administrative requirements;
- The addition of an engineering resource in 2026 to support asset management initiatives, distribution system planning, operational oversight, and reliability objectives;
- Temporary staffing and labour related impacts associated with employees leaves during the 2025–2026 period;
- Increased expenditures related to line clearing activities, vegetation management, station maintenance programs, and the use of specialized contractors to support operational requirements;
- Expanded regulatory compliance obligations, reporting requirements, cybersecurity initiatives, and audit-related requirements; and
- Inflationary pressures affecting labour, materials, postage, IT software systems, employee benefit costs, and professional consulting services costs.
- Correction of the corporate cost allocation methodology as discussed in section 4.2.6.1.

These factors collectively contributed to the upward trend in OM&A expenditures over the period and reflect the operational realities and evolving compliance obligations faced by a small Ontario electricity distributor operating within an increasingly complex regulatory, technical, and customer-service environment.

4.2.2 OM&A Programs

Table 3 – Summary of Appendix 2-JC

Program Area	2022 BA	2022 Actual	2023 Actual	2024 Actual	2025 Bridge	2026 Bridge	2027 Test
Customer Focus	$655,425	$654,868	$674,639	$694,070	$904,635	$798,283	$861,355
Operational Effectiveness	$1,019,934	$766,628	$911,738	$792,488	$1,026,363	$1,363,587	$1,402,155
Public & Regulatory Responsiveness	$1,150,382	$1,156,650	$1,546,478	$1,754,465	$1,714,387	$1,766,899	$1,882,711
Total Recoverable OM&A	$2,825,741	$2,578,145	$3,132,855	$3,241,023	$3,645,385	$3,928,768	$4,146,221

Table 4 – Variance of Summary of Appendix 2-JC

Program Area	2022 BA	2027 Test	Increase	% Change	Share of 2027 OM&A
Customer Focus	$655,425	$861,355	$205,930	31.4%	20.8%
Operational Effectiveness	$1,019,934	$1,402,155	$382,221	37.5%	33.8%
Public & Regulatory Responsiveness	$1,150,382	$1,882,711	$732,329	63.7%	45.4%
Total OM&A	$2,825,741	$4,146,221	$1,320,480	46.7%	100.0%

Customer Focus increased by 31.4% between the 2022 Board-approved and 2027 Test Year levels, primarily reflecting increased billing, metering, and bad debt costs. Operational Effectiveness increased by 37.5%, reflecting staffing, engineering, vegetation management, and asset maintenance activities. Public and Regulatory Responsiveness increased by 63.7%, driven by regulatory compliance requirements, governance activities, organizational transition costs, consultant support, and the internalization of administrative functions. The majority of these increases were already reflected in the 2025 Bridge Year and are further annualized in the Test Year.

Program Descriptions

LUI's Operations, Maintenance, Customer Service, and Administrative programs are structured to support the delivery of safe, reliable, and customer-focused electricity distribution service in accordance with the Ontario Energy Board's Distribution System Code ("DSC"), industry good utility practice, and LUI's internal operational, safety and reliability standards.

LUI is committed to meeting or exceeding the maintenance, inspection, and operational requirements established under Section 4.4.1 of the DSC, which states:

"A distributor shall maintain its distribution system in accordance with good utility practice and performance standards to ensure reliability and quality of electricity service, on both a short-term and long-term basis."

LUI's OM&A programs are designed to support this objective through a combination of proactive asset maintenance, customer service delivery, operational oversight, prudent system management, transparent governance, and ongoing regulatory compliance activities. T

Consistent with the OEB's Renewed Regulatory Framework ("RRF") pillars, LUI's OM&A activities are organized around the following three core pillars:

- Customer Focus;
- Operational Effectiveness; and
- Public and Regulatory Responsiveness.

These programs areas collectively support LUI's obligation to deliver safe, reliable, and customer-centric electricity distribution service while ensuring compliance with applicable regulatory, legislative, operational and governance requirements. The following sections describe the key activities and functions performed within each of these core OM&A program areas.

Customer Focus

Table 5 – Appendix 2-JC Customer Focus

Account	2022 BA	2022 Actual	2023 Actual	2024 Actual	2025 Bridge	2026 Bridge	2027 Test
5175 Maintenance of Meters	55,385	65,472	78,106	116,004	84,898	88,124	90,768
5310 Meter Reading	202,868	210,919	218,356	185,861	229,801	238,533	245,689
5315 Customer Billing	257,637	225,141	207,918	227,987	236,478	255,736	312,832
5320 Collecting	28,029	34,966	44,515	49,080	44,325	46,009	47,390
5325 Cash Over & Short	-	(1,479)	(399)	(1,780)	-	-	-
5330 Collection Charges	10,225	-	-	-	478	496	511
5335 Bad Debt Expense	25,750	22,875	40,769	38,423	210,278	57,269	58,987
5340 Misc. Customer Accounts	55,773	57,774	64,718	60,658	84,856	88,081	90,723
5410 Community Relations	19,757	29,397	20,655	17,837	13,521	14,035	14,456
6205 LEAP Funding	6,247	10,000	10,000	10,000	10,000	10,000	10,000
Subtotal Customer Focus	655,425	654,868	674,639	694,070	904,635	798,283	871,355

Billing and Customer Service (5310, 5315, 5340)

LUI’s billing and customer service functions are designed to ensure customers receive accurate, timely and reliable billing and account support services. Core activities include the preparation and issuance of customer bills, retailer settlement administration, customer account management, and responding to customer inquiries and service requests.

LUI also supports customer engagement through various service channels and tools, including its customer website portal and electronic billing (“eBilling”) services. Approximately 140,000 customer bills are issued annually, of which approximately 54% are issued electronically, with billing accuracy maintained at approximately 99.6%.

Collections and Bad Debt (5320, 5325, 5330, 5335)

LUI utilizes proactive and early-stage collection practices to support timely payment of customer accounts and minimize the number of accounts progressing to disconnection or write-off status.

Collection activities include customer communication, payment arrangements, reminder notifications, and account monitoring. Final overdue accounts are referred to third-party collection agencies after approximately 60 days from the original billing date where appropriate.

These practices are intended to support responsible account management while balancing customer service considerations and prudent bad debt management.

Community Relations and LEAP (5410, 6205)

LUI maintains an active community engagement through customer communication initiatives, public safety awareness activities and community outreach programs.

LUI also participated in and administers the OEB's Low-Income Energy Assistance Program ("LEAP") in partnership with the United Way and designated intake agencies. Through this program, eligible customers experiencing financial hardship may receive emergency financial assistance in accordance with OEB program requirements and guidelines.

Metering (5175)

LUI's metering activities include meter installation, testing, commissioning, and the collection and retrieval of smart meter interval data.

These activities support accurate measurement of electricity consumption, reliable billing processes, regulatory compliance, and the integrity of customer and operational data. Metering functions also contribute to overall distribution system reliability and customer service effectiveness.

Operational Effectiveness

Table 6 – Appendix 2-JC Operational Effectiveness

Account	2022 BA	2022 Actual	2023 Actual	2024 Actual	2025 Bridge	2026 Bridge	2027 Test
5005 Operation Supervision & Engineering	204,628	87,321	92,696	31,465	43,588	155,742	134,681
5016 Distribution Station Equipment - Operation Labour	69,822	57,450	88,419	71,146	93,759	97,322	100,242
5017 Distribution Station Equipment - Operation Supplies & Expense	4,706	-	514	238	-	-	-
5020 Overhead Distribution Lines - Operation Labour	202,971	120,630	121,945	165,523	111,719	115,964	119,443
5025 Overhead Distribution Lines - Supplies & Expense	33,064	37,423	94,477	22,302	22,217	23,061	23,753
5040 Underground Distribution Lines - Operation Labour	29,842	13,514	18,617	9,480	5,013	5,203	5,360
5045 Underground Distribution Lines - Supplies & Expense	10,457	9,767	29,383	-	-	-	-
5070 Customer Premises - Operation Labour	91,371	65,910	60,986	47,618	122,444	104,950	108,099
5085 Miscellaneous Distribution Expense	60,533	10,511	3,280	65,519	202,857	420,437	456,444
5095 Rental Paid	-	-	-	21,665	-	-	-
5096 Other Rent	-	-	-	-	66,608	69,139	71,213
5130 Maintenance of Overhead Services	100,777	210,238	201,741	130,320	158,534	164,558	169,495
5135 Right-of-Way Maintenance	55,068	42,534	64,068	58,903	59,754	62,025	63,885
5155 Maintenance of Underground Services	46,186	30,697	35,787	19,127	54,972	57,061	58,773
5160 Maintenance of Line Transformers	55,126	15,162	21,719	15,344	-	-	-
5620 Office Supplies & Expenses	100,064	108,170	146,857	141,799	154,929	160,816	165,641
5665 Miscellaneous General Expenses	49,366	43,582	43,901	45,317	45,505	87,234	89,851
5675 Maintenance of General Plant	66,523	71,849	84,506	145,362	179,864	164,194	169,120
Total Operational Effectiveness	1,019,934	766,628	911,738	992,128	1,322,763	1,687,706	1,736,093

System Operations, Engineering & Supervision (5005–5045, 5085)

These activities support safe, reliable and efficient operation of LUI’s distribution system and include system monitoring, GIS maintenance and updates, switching operations, outage coordination, non-capital engineering activities, and operational supervision of field crews.

Engineering and operational oversight activities support system reliability, asset management, regulatory compliance, work planning, and the coordination of day-to-day utility operations.

Overhead Distribution Maintenance (5130–5145)

LUI performs both corrective and preventative maintenance on overhead distribution system, including poles, conductors, hardware, transformers, and associated distribution equipment.

Activities include routine inspections, repairs, replacement of deteriorated components, storm response and restoration activities, and right-of-way maintenance necessary to maintain system reliability, public safety, and operational performance.

Underground Distribution Maintenance (5155–5160)

Underground distribution maintenance activities include cable repairs, fault locating, pad-mount equipment inspections, conduit and duct maintenance, and operational support for subdivision and underground distribution infrastructure.

These activities are intended to support the continued reliability and integrity of LUI's underground distribution assets while minimizing service interruptions and operational risks.

Vegetation Management (5130/contractor costs)

LUI undertakes both planned and cycle-based and reactive vegetation management activities to maintain appropriate line clearances and mitigate reliability and public safety risks associated with tree contact and vegetation interference.

Vegetation management work is primarily completed through specialized contractors and supports system reliability, outage prevention, and compliance with applicable safety and operational standards.

Fleet, Facilities, Safety and Support (5620, 5665, 5675)

This program area includes vehicle and fleet maintenance, building and facility upkeep, employee training, health and safety programs, and various internal support functions necessary to sustain utility operations and field service activities.

These activities support operational readiness, employee safety, regulatory compliance, and the efficient delivery of day-to-day distribution system operations.

Public and Regulatory Responsiveness

Table 7 – Appendix 2-JC Public and Regulatory Responsiveness

Account	2022 BA	2022 Actual	2023 Actual	2024 Actual	2025 Bridge	2026 Bridge	2027 Test
5605 Executive Salaries & Expenses	7,820	17,473	13,776	15,266	15,663	16,259	16,746
5610 Management Salaries & Expenses	143,731	146,204	161,763	150,801	177,965	228,591	260,095
5615 General Administrative Salaries & Expenses	413,968	401,066	386,840	307,803	655,199	623,123	649,665
5630 Outside Services Employed	222,496	232,485	558,170	856,842	345,105	325,177	346,691
5635 Property Insurance	32,000	32,756	35,012	37,909	36,633	47,625	39,166
5640 Injuries & Damages	49,030	40,149	49,515	43,933	46,209	47,965	49,404
5646 Employee Pensions & OPEB	-	-	-	-	(21,179)	-	-
5655 Regulatory Expenses	114,523	122,077	131,028	128,726	152,441	153,052	176,084
5660 General Advertising	-	6,064	3,218	717	950	986	1,016
6205 Donations	-	50	-	3,831	-	-	-
Total Public & Regulatory Responsiveness	983,567	998,323	1,339,322	1,545,828	1,408,986	1,442,778	1,538,867

Governance (5605)

Governance related activities include Board of Directors costs, governance administration, policy oversight, strategic planning support, and related corporate governance functions necessary to support prudent utility management and regulatory accountability.

Regulatory Compliance (5630, 5655)

Regulatory compliance activities include OEB assessments and licence fees, regulatory reporting obligations, rate applications and compliance filings, ESA fees and audit support, and other ongoing regulatory and legislative requirements.

These activities ensure LUI remains compliant with applicable regulatory frameworks, industry standards, and reporting obligations.

Legal (5630)

Legal activities include routine legal support services including contract review, regulatory and corporate legal advice, and occasional external legal services required to support operational, governance, or regulatory matters.

Insurance (5635, 5640)

Insurance related costs include property, environmental, liability, cyber, and vehicle insurance coverage maintained to protect LUI's assets, operations, employees, and customers from operational and financial risks associated with utility operations.

4.2.3 OM&A Costs per Customer and FTE

The table below shows the OM&A per customer and full-time employee. Although the utility strives to find cost efficiencies, it recognizes that a minimum cost level is necessary to run a utility of any size, and that its OM&A cost per customer is a function of having to recover that minimum cost level from a small customer base.

Table 8 – Recoverable OM&A Cost per Customer and FTE (Appendix 2-L)

			COSTS PER CUSTOMER/FTE (Appendix 2-L)				
	BOARD APPR.	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
OM&A Costs							
Operation and Maintenance	$1,019,934	$766,628	$911,738	$774,651	$1,026,363	$1,363,587	$1,402,155
Admin Expenses	$1,802,306	$1,811,518	$2,221,117	$2,466,372	$2,619,022	$2,565,182	$2,744,066
Total Recoverable OM&A from Appendix 2-JA 5	**$2,822,241**	**$2,578,145**	**$3,132,855**	**$3,241,023**	**$3,645,385**	**$3,928,768**	**$4,146,221**
Number of Customers	**10994**	**10911**	**11050**	**11332**	**11541**	**11696**	**11854**
Number of FTEs	**17.00**	**17.58**	**17.52**	**18.83**	**19.05**	**19.43**	**20.91**
Customers/FTEs	**646.71**	**620.63**	**630.68**	**601.79**	**605.81**	**601.95**	**566.88**
OM&A cost per customer	**$257**	**$236**	**$284**	**$286**	**$316**	**$336**	**$350**
O&M per customer	**$93**	**$70**	**$83**	**$68**	**$89**	**$117**	**$118**
Admin per customer	**$164**	**$166**	**$201**	**$218**	**$227**	**$219**	**$231**
OM&A cost per FTE	**$166,014**	**$146,652**	**$178,816**	**$172,120**	**$191,359**	**$202,201**	**$198,289**
O&M per FTE	**$59,996**	**$43,608**	**$52,040**	**$41,139**	**$53,877**	**$70,179**	**$67,057**
Admin per FTE	**$106,018**	**$103,044**	**$126,776**	**$130,981**	**$137,481**	**$132,022**	**$131,232**

4.2.4 OM&A Variance Analysis (by traditional grouping)

The variance between the 2027 OM&A and the previous Board Approved OM&A for 2022 was introduced in the previous section and explained below. Tables 9 to 14 provide comparatives deemed essential in determining the reasonableness of the 2027 OM&A.

The official materiality threshold when comparing two years is $50,000. The variance used to compare the last Board-approved OM&A expenses vs. the 2027 proposed expenses is $30,000.

Variances above the materiality threshold of $30,000 are explained in section 4.2.6.

In compliance with the filing requirements released in December 2025, LUI is presenting the following comparisons.

- Table 9 - Last Board Approved (2022BA) vs Last Board Actuals (2022)
- Table 10 - Historical (2022) vs 2023 Actual
- Table 11 - Historical (2023) vs 2024 Actual
- Table 12 - Historical (2024) vs 2025 Actual
- Table 13 - Historical (2025) vs Bridge Year (2025)
- Table 14 - Bridge Year (2026) vs Proposed Test Year (2027)

Table 9 – 2022 Board Approved vs 2022 Actuals

	2022 Board Approved	2022 Actuals	Variance $	Variance %
Operations	$707,393	$402,525	-$304,868	-43.10%
Maintenance	$312,541	$364,103	$51,562	16.50%
Billing and collecting	$580,283	$550,197	-$30,086	-5.18%
Community Relations	$19,757	$29,397	$9,640	48.79%
Administrative and General	$1,202,267	$1,231,924	$29,657	2.47%
Total OM&A Expenses	$2,822,241	$2,578,145	-$244,095	-8.65%

Overall Theme: Lower Operational Activity and Resource Requirements

Total OM&A expenses were $2,578,145 in 2022, which was $244,095 (8.7%) below the Board Approved amount of $2,822,241. The variance was primarily attributable to lower Operations expenditures. The reduction primarily reflects management and operational vacancies, lower labour costs, and lower utilization of consulting and operational support services than anticipated in the Board Approved forecast. Certain operational initiatives and resource requirements were also deferred or implemented later in the rebasing period.

Operations (-$304,868 / -43.1%)

Operations costs were significantly below Board Approved levels in 2022 and were the primary driver of the overall OM&A under-spend.

The decrease reflects a combination of:

- Unfilled vacancies related to staggered resignation of three journeyman staff
- Lower labour and benefit costs than anticipated in the Board Approved forecast.
- Lower utilization of consulting and contracted operational support services.
- Timing differences associated with operational initiatives and work activities planned for 2022.
- Increased capitalization of labour associated with capital projects, reducing costs charged to OM&A.

The lower spending experienced in 2022 reflects operational timing and resource utilization differences rather than a permanent reduction in the utility's operating requirements.

Maintenance (+$51,562 / +16.5%)

Maintenance costs exceeded Board Approved levels primarily due to the timing and scope of distribution system maintenance activities completed during the year. The increase reflects ongoing efforts to maintain system reliability, asset condition, and operational performance.

Billing & Collecting (-$30,086 / -5.2%)

Billing and Collecting costs were generally consistent with Board Approved levels. The modest decrease reflects normal fluctuations in customer service, billing, and meter data management activities.

Community Relations (+$9,640 / +48.8%)

Community Relations costs exceeded Board Approved levels due to increased customer communication and stakeholder engagement activities undertaken during the year.

Administrative & General (+$29,657 / +2.5%)

Administrative and General costs remained generally consistent with Board Approved levels. The modest increase reflects normal fluctuations in administrative support, information technology, regulatory, and corporate governance activities required to support utility operations.

Table 10 – 2022 Actuals vs 2023 Actuals

	2022 Actuals	2023 Actuals	Variance $	Variance %
Operations	$402,525	$510,316	$107,792	26.78%
Maintenance	$364,103	$401,421	$37,318	10.25%
Billing and Collecting	$550,197	$575,877	$25,680	4.67%
Community Relations	$29,397	$20,655	-$8,741	-29.74%
Administrative and General	$1,231,924	$1,624,584	$392,661	31.87%
Total OM&A Expenses	$2,578,145	$3,132,855	$554,709	21.52%

Overall Theme: Management Vacancies and Transitional Consulting Support

Total OM&A increased by $554,709 (21.5%) between 2022 and 2023. While the increase is significant on a year-over-year basis, it is important to note that 2022 OM&A was substantially below the OEB-approved level. As shown in Table 9, 2022 actual OM&A expenses were $244,095 (8.7%) lower than the Board-approved amount, primarily reflecting management vacancies and related labour underspending during the year.

Management and operational staffing vacancies and resource constraints contributed to lower labour costs in 2022. As a result, labour costs were lower than normal and contributed to the overall OM&A underspend relative to approved levels.

During 2023, the increase was primarily driven by consulting costs incurred to support vacancies in the Director of Engineering and Operations and Director of Finance and Regulatory positions. These transitional consulting costs contributed to the increase in Administrative and General OM&A. Accordingly, a significant portion of the increase between 2022 and 2023 reflects the recovery from the temporary labour underspend experienced in 2022 and the costs required to maintain operational continuity during the transition period.

In addition to transitional consulting support, OM&A increases in 2023 were attributable to inventory adjustments, station maintenance activities, and strategic planning initiatives undertaken during the year.

Operations (+$107,792 / +26.8%)

Operations costs increased primarily due to higher consulting support and operational expenditures incurred during a period of management transition.

Key drivers included:

- Engineering consulting support required to maintain operational oversight while the Director of Engineering and Operations position remained vacant.

- An inventory shortage adjustment of approximately $44,000 identified through inventory reconciliation activities.
- Increased labour costs associated with maintenance activities performed at the Victoria Street distribution station.

Maintenance (+$37,318 / +10.3%)

Maintenance costs increased primarily due to additional station maintenance activities completed during 2023.

The increase was largely attributable to labour resources required to complete maintenance work at the Victoria Street distribution station, resulting in higher contractor and labour costs compared to 2022.

Billing & Collecting (+$25,680 / +4.7%)

Billing and Collecting costs remained relatively stable between 2022 and 2023. The modest increase reflects normal year-over-year fluctuations in billing, collection, and customer service activities.

Community Relations (-$8,741 / -29.7%)

Community Relations costs decreased primarily due to lower customer outreach and community engagement activities undertaken during 2023 compared to the prior year.

Administrative & General (+$392,661 / +31.9%)

Administrative and General costs increased significantly due to consulting and professional services required to support vacant management positions and corporate initiatives.

Key drivers included:

- Engineering consulting costs of approximately $185,000 to support the vacant Director of Engineering and Operations position.
- Finance and regulatory consulting costs of approximately $74,000 to support the vacant Director of Finance and Regulatory position.
- Business strategy development consulting costs of approximately $75,000 incurred to support corporate planning initiatives.

These expenditures were transitional in nature and were necessary to maintain operational continuity, regulatory compliance, and strategic planning activities during a period of organizational change.

Table 11 – 2023 Actual vs 2024 Actuals

Category	2023 Actuals	2024 Actuals	Variance $	Variance %
Operations	$510,316	$434,954	-$75,362	-14.77%
Maintenance	$401,421	$339,697	-$61,724	-15.38%
Billing and Collecting	$575,877	$560,229	-$15,648	-2.72%
Community Relations	$20,655	$17,837	-$2,818	-13.64%
Administrative and General	$1,624,584	$1,888,305	$263,721	16.23%
Total OM&A Expenses	$3,132,855	$3,241,023	$108,168	3.45%

Overall Theme: Continued Reliance on Specialized Consulting and Regulatory Compliance Activities

Total OM&A increased by $108,168 (3.5%) between 2023 and 2024. While Operations and Maintenance expenditures declined from elevated 2023 levels, the utility continued to rely on external consulting resources to support vacant management positions and emerging regulatory requirements. Additional expenditures were incurred for cybersecurity initiatives, strategic planning activities, and facility improvement projects.

Operations (-$75,362 / -14.8%)

Operations costs decreased primarily due to lower operational labour and field activity requirements relative to 2023 attributed to improve reliability.

The reduction reflects the completion of certain transition-related operational activities undertaken in the prior year, partially offset by continued engineering and SCADA consulting support required to maintain operational oversight and system reliability while internal resources remained constrained.

Maintenance (-$61,724 / -15.4%)

Maintenance costs decreased primarily due to lower levels of distribution maintenance activity compared to 2023 with certain activities scheduled or deferred to subsequent periods based on operational priorities and resource availability.

The reduction reflects the timing and cyclical nature of maintenance programs and infrastructure work completed during the year. The decrease was partially offset by expenditures related to building improvements, electrical upgrades, alarm system enhancements, and other facility maintenance activities.

Billing & Collecting (-$15,648 / -2.7%)

Billing and Collecting costs remained generally consistent with prior years.

The modest decrease reflects normal fluctuations in customer billing, collection, and account management activities and does not represent a significant change in service delivery requirements.

Community Relations (-$2,818 / -13.6%)

Community Relations costs remained relatively stable during 2024.

The modest decrease reflects the timing and scope of customer communication, public education, and community outreach activities undertaken during the year.

Administrative & General (+$263,721 / +16.23%)

Administrative and General costs increased primarily due to continued reliance on external consultants and increased regulatory compliance requirements.

Key drivers included:

- Finance and Regulatory consulting costs of approximately $203,000 incurred to support the ongoing vacancy in the Director of Finance and Regulatory position.
- Business strategy development consulting costs of approximately $62,000 associated with corporate planning initiatives.
- Cybersecurity development and reporting costs of approximately $55,000 incurred to support evolving regulatory and security requirements.
- Building and facility improvement projects, including building repairs, electrical upgrades, alarm system enhancements, waste disposal activities, and grounds maintenance.

These expenditures were necessary to support regulatory compliance, corporate governance, operational continuity, and facility maintenance requirements during the year.

Table 12 – 2024 Board Approved vs 2025 Actuals

Category	2024 Actual	2025 Actual	Variance $	Variance %
Operations	$434,954	$668,205	$233,251	53.6%
Maintenance	$339,697	$358,158	$18,461	5.4%
Billing and Collecting	$560,229	$806,216	$245,987	43.9%
Community Relations	$17,837	$13,521	-$4,316	-24.2%
Administrative and General	$1,888,305	$1,799,285	-$89,020	-4.7%
Total OM&A Expenses	**$3,241,023**	**$3,645,385**	$404,362	12.5%

Overall Theme: System Modernization, Customer Service Activity and Regulatory Requirements

Total OM&A increased by $404,362 (12.5%) between 2024 and 2025. The increase was primarily driven by system modernization initiatives, increased customer service activity, higher bad debt provisions, meter data management costs, engineering support requirements, and underground system maintenance projects. These investments supported utility operations, customer service requirements, and ongoing improvements to system reliability and operational efficiency.

Operations (+$233,251 / +53.6%)

Operations costs increased significantly in 2025 due to investments in system modernization initiatives, engineering support activities, and increased customer service-related workload.

Key drivers included:

- GIS modernization activities associated with the transition from ESRI's legacy Geometric Network to the ArcGIS Utility Network.
- Increased locate activity and Ontario One Call costs resulting from higher volumes of customer and contractor locate requests.
- Engineering support services and operational initiatives required to support system planning, reliability, and modernization activities.

These expenditures supported system reliability, operational efficiency, and modernization of the utility's engineering and mapping systems.

Maintenance (+$18,461 / +5.4%)

Maintenance costs increased modestly during 2025.

Key drivers included:

- Underground system maintenance projects, including manhole removals and split-kit decommissioning activities completed by external contractors.
- Facility maintenance and security improvement projects, including camera upgrades, building repairs, fencing repairs, and related facility improvements.

These expenditures supported ongoing asset maintenance, system safety, and facility security requirements.

Billing and Collecting (+$245,987 / +43.9%)

Billing and Collecting costs increased significantly in 2025 due to higher bad debt provisions, meter data management costs, and billing service expenditures.

Key drivers included:

- Increased provisions for doubtful accounts reflecting customer payment experience and collection requirements.
- Higher Utilismart meter data management and meter reading costs.
- Increased billing service costs associated with customer account administration and billing support activities.

The increase reflects both customer account management requirements and a higher allowance for uncollectible accounts recorded during the year.

Community Relations (-$4,316 / -24.2%)

Community Relations costs decreased modestly during 2025.

The decrease primarily reflects the timing and scope of customer communication and community engagement activities undertaken during the year.

Administrative and General (-$89,020 / -4.7%)

Administrative and General costs decreased in 2025 despite continued investment in corporate support functions. The decrease was primarily attributable to lower consulting and professional service expenditures compared to 2024, partially offset by costs associated with implementing enhanced payroll and time-entry allocation processes and other administrative support activities.

Table 13 – 2025 Actual vs 2026 Bridge

	2025 Actuals	2026 Bridge	Variance $	Variance %
Operations	$668,205	$991,819	$323,614	48.4%
Maintenance	$358,158	$371,768	$13,610	3.8%
Billing and Collecting	$806,216	$686,124	($120,092)	(14.9%)
Community Relations	$13,521	$14,035	$514	3.8%
Administrative and General	$1,799,285	$1,865,023	$65,738	3.7%
Total OM&A Expenses	$3,645,385	$3,928,768	$283,383	7.8%

Overall Theme: Workforce Investments and Building Internal Capacity

Total OM&A increased by $283,383 (7.8%) between 2025 and the 2026 Bridge Year. The increase is primarily attributable to strategic staffing investments intended to strengthen internal operational capabilities, support succession planning, improve organizational resilience, and address the utility's growing operational and regulatory requirements. Additional increases reflect compensation adjustments, inflationary pressures, and ongoing investments in employee retention and workforce development.

Operations (+$323,614 / +48.4%)

Operations costs increased significantly in 2026 due to planned staffing additions and organizational investments intended to strengthen internal expertise and support utility operations.

Key drivers included:

- Recruitment of a Director of Engineering and Operations to provide leadership and oversight of engineering and operational functions.
- Recruitment of a GIS/SCADA/Engineering Design resource to support engineering, mapping, and system operations activities.
- Recruitment of a Purchasing and Inventory Analyst to improve inventory controls and support operational workload requirements.
- Recruitment of a Metering Support resource to replace a vacancy created by a resignation in 2025.
- Compensation adjustments implemented to support employee retention and maintain competitive compensation levels.

These additions strengthen internal operational capacity, support succession planning, and improve the utility's ability to manage increasingly complex operational requirements.

Maintenance (+$13,610 / +3.8%)

Maintenance costs remained relatively stable between 2025 and 2026.

The modest increase reflects normal inflationary pressures and ongoing distribution system maintenance requirements, with no significant changes in maintenance programs or asset management activities.

Billing and Collecting (-$120,092 / -14.9%)

Billing and Collecting costs decreased in 2026 primarily due to the normalization of expenditures that were elevated in 2025.

The decrease reflects lower bad debt provisions and reduced customer service-related activity compared to the higher levels experienced in the prior year.

Community Relations (+$514 / +3.8%)

Community Relations costs remained stable and reflect normal inflationary increases associated with ongoing customer communication and public outreach activities.

Administrative and General (+$65,738 / +3.7%)

Administrative and General costs increased modestly in 2026.

The increase primarily reflects staffing additions within administrative functions, compensation adjustments, and normal inflationary pressures, partially offset by lower consulting expenditures compared to prior years.

.

Table 14 – 2026 Bridge vs 2027 Test Year

	2026 Bridge	2027 Test Year	Variance $	Variance %
Operations	$991,819	$1,019,234	$27,415	2.8%
Maintenance	$371,768	$382,921	$11,153	3.0%
Billing & Collecting	$686,124	$756,131	$70,007	10.2%
Community Relations	$14,035	$14,456	$421	3.0%
Administrative & General	$1,865,023	$1,973,479	$108,456	5.8%
Total OM&A Expenses	**$3,928,768**	**$4,146,221**	**$217,453**	**5.5%**

Overall Theme: Annualization of Staffing Investments and Compensation Adjustments

Total OM&A increased by $217,453 (5.5%) between the 2026 Bridge Year and the 2027 Test Year. The increase is primarily attributable to the full-year impact of staffing additions and compensation adjustments implemented during 2026. These investments were made to strengthen internal capabilities, improve customer service, support employee retention, and reduce reliance on external consultants. The 2027 Test Year reflects the annualized impact of positions added during the Bridge Year together with ongoing inflationary and compensation-related cost pressures.

Operations (+$27,415 / +2.8%)

Operations costs increased modestly as a result of the full-year impact of staffing investments made during 2026.

Key drivers included:

- The full-year impact of the GIS/SCADA/Engineering Design position hired in August 2026.
- The full-year impact of compensation adjustments implemented effective July 1, 2026.

These increases were partially offset by lower engineering consulting costs as internal resources assumed responsibilities previously performed by external consultants.

The increase reflects the utility's continued transition from consultant-supported activities to internal operational expertise.

Maintenance (+$11,153 / +3.0%)

Maintenance costs remained generally stable between 2026 and 2027.

The modest increase primarily reflects inflationary pressures and the annualization of compensation adjustments affecting maintenance-related activities.

Billing & Collecting (+$70,007 / +10.2%)

Billing and Collecting costs increased primarily due to investments in customer service resources and the full-year impact of compensation adjustments implemented during 2026.

Key drivers included:

- The addition of a Customer Service Representative position to support customer growth and increasing customer service workload.
- The full-year impact of compensation adjustments implemented effective July 1, 2026.

The increase reflects the utility's commitment to maintaining customer service levels and supporting increasing customer service requirements.

Community Relations (+$421 / +3.0%)

Community Relations costs remained stable and reflect normal inflationary increases associated with ongoing customer communication and public outreach activities.

Administrative & General +$108,456 / +5.8%)

Administrative and General costs increased primarily due to the full-year impact of compensation adjustments implemented during 2026.

Key drivers included:

- The annualized impact of management compensation adjustments implemented effective July 1, 2026.
- Compensation adjustments intended to support employee retention, succession planning, and the maintenance of competitive compensation levels.

The increase reflects the full-year impact of compensation changes that were only partially reflected in the 2026 Bridge Year.

4.2.5 Actual Yearly Increase vs. Inflationary Increase

Inflation Rate and Assumptions

LUI uses the OEB's Price Cap Inflation Factor of 3.30% as a starting point when developing its OM&A budgets. However, the utility does not apply the inflation factor uniformly across all accounts.

Instead, each OM&A account is reviewed individually to determine the appropriate budget requirement for the year. This review considers historical spending trends, known contractual obligations, vendor quotations, staffing requirements, expected wage and benefit adjustments, regulatory obligations, and planned operational activities.

As a result, some accounts may increase by more than the inflation factor, some may increase by less, and others may decrease depending on the specific circumstances affecting the account. The final OM&A budget therefore reflects both inflationary pressures and the utility's anticipated operational requirements.

Salary and wage adjustments are reviewed separately by management and the Board of Directors and consider factors such as inflation, labor market conditions, employee retention, and organizational needs.

For the 2026 Bridge Year and 2027 Test Year, LUI used the OEB's 3.30% Price Cap Inflation Factor as a budgeting assumption while continuing to develop budgets through a detailed account-by-account review.

4.2.5.1 Factors Within and Outside Management's Control

The OM&A variances discussed in this exhibit reflect a combination of factors within management's control and factors outside of management's control. Management is responsible for determining how best to respond to changing operational, regulatory, and business requirements; however, many of the underlying cost drivers experienced during the rebasing period were outside of management's direct control.

Examples of factors outside management's control include employee turnover, recruitment and retention challenges, employee leaves, inflationary pressures, labour market conditions, increasing regulatory requirements, cybersecurity obligations, and other compliance-related activities. Factors within management's control generally relate to the actions taken in response to these circumstances, including staffing decisions, the use of consultants, compensation adjustments, operational initiatives, and investments intended to maintain operational continuity and regulatory compliance.

Where material, the variance analysis below identifies the primary drivers contributing to changes in OM&A and whether those drivers were principally within or outside of management's control.

Table 15 – Summary of Material OM&A Cost Drivers and Management Control Assessment.

Cost Driver	Primary Driver	Within Management's Control?
Engineering consultant support	Vacancy in Director position	Primarily outside
Finance and regulatory consulting	Vacancy and regulatory requirements	Primarily outside
Compensation adjustments	Labour market and retention pressures	Mixed
Engineering hire	Asset management and planning needs	Primarily outside
KPMG governance review	Historical deficiencies identified	Mixed
Bad debt	Customer payment behaviour	Outside
Cybersecurity initiatives	Regulatory and security requirements	Outside
Shared service internalization	Workforce stabilization strategy	Within

4.2.6 Cost Drivers Analysis

Following the OEB's minimum filing requirements, Appendix 2-JB summarizes the key drivers of OM&A cost changes from 2022 to 2027. These drivers reflect the operational, staffing, and regulatory conditions faced by LUI over the period.

Table 10 identifies the principal account-level OM&A cost drivers contributing to changes in recoverable OM&A during the rebasing period. To improve readability, only variances exceeding $30,000 are presented. Remaining account-level increases and decreases have been aggregated within Other OM&A Variances. Detailed discussion of specific OM&A categories, staffing additions, shared service allocations, and significant programs is provided elsewhere in this Exhibit.

Table 16 – OM&A Expenses & Cost Drivers >$ 5000 (Appendix 2-JB)

Account / Cost Driver	2022 BA	2022 Actual	2023 Actual	2024 Actual	2025 Bridge	2026 Bridge	2027 Test
Opening OM&A Balance	2,825,741	2,822,241	2,578,145	3,132,855	3,241,023	3,645,385	3,928,768
5005 Operation Supervision and Engineering	-	-	-	-	-	112,154	-
5016 Distribution Station Equipment – Operation Labour	-	-	30,969	-	-	-	-
5020 Overhead Distribution Lines and Feeders – Operation Labour	-	-	-	43,577	-	-	-
5025 Overhead Distribution Lines and Feeders – Supplies & Expenses	-	-	57,054	-	-	-	-
5070 Customer Premises – Operation Labour	-	-	-	-	74,826	-	-
5085 Miscellaneous Distribution Expense	-	-	-	62,239	125,493	217,580	36,007
5310 Meter Reading Expense	8,051*	-	-	-	43,940	-	-
5335 Bad Debt Expense	-	-	-	-	171,855	-	-
5610 Management Salaries & Expenses	-	-	-	-	-	50,626	31,504
5615 General Administrative Salaries & Expenses	-	-	-	-	130,642	-	-
5630 Outside Services Employed	-	-	325,685	298,673	-	-	-
5675 Maintenance of General Plant	-	-	-	60,856	34,502	-	-

Specific overhead cost drivers							
5615 General Administrative Salaries & Expenses (overhead)	-	-	-	-	216,755	-	-
5315-Customer Billing (overhead)					3,706		
5085 Miscellaneous Distribution Expense (overhead)	-	-	-		11,844		
Other OM&A Variances	(11,551)	(244,096)	141,002	(357,177)	(409,201)	(96,977)	149,942
Closing OM&A Balance	2,822,241	2,578,145	3,132,855	3,241,023	3,645,385	3,928,768	4,146,221

OM&A costs increased over the 2022 to 2027 period primarily due to evolving operational requirements, staffing transition levels with greater reliance on contractors, increasing regulatory obligations, inflationary pressures, and the need to maintain safe and reliable electricity distribution service. The major cost drivers include:

- staffing transitions, succession planning activities, and compensation adjustments required to address labor market pressures, support employee retention, and maintain operational continuity;
- the addition of operational and engineering resources to support asset management, GIS and SCADA functions, system planning, reliability objectives, and increasing operational workload requirements;
- temporary reliance on external consultants and specialized contractors to support operational, engineering, finance, regulatory, cybersecurity, and management functions during periods of organizational transition and vacancy management;
- increased expenditures associated with vegetation management, line clearing, station maintenance, underground infrastructure support, and other system maintenance activities required to maintain distribution system reliability and compliance with good utility practice;
- expanding regulatory, reporting, cybersecurity, audit, and compliance-related obligations imposed by the Ontario Energy Board, Electricity Safety Authority, and other industry requirements; and
- inflationary pressures affecting labor, employee benefits, contractor services, software systems, insurance, materials, postage, professional services, and other operational inputs.

These drivers collectively explain the majority of the OM&A growth observed over the 2022 to 2027 period. The increases primarily reflect staffing transitions, temporary contractor reliance, enhanced maintenance activities, increasing regulatory requirements, and inflationary pressures affecting labour and non-labour costs. The resulting expenditure levels are consistent with the operational requirements of maintaining a safe, reliable and compliant electricity distribution system while supporting organizational continuity during a period of significant workforce transition.

Staffing-related changes remain the most significant contributor to OM&A variances throughout the period and are discussed further in Section 4.3, together with the corresponding cost details presented in Appendix 2-K.

4.2.6.1. Cost Drivers Related to Historical Management Fee and Revised Corporate Cost Allocation

A contributing factor to the increase in OM&A expenditures during the rebasing period is the change in shared services and corporate cost allocations reflected in the 2025 Actual, 2026 Bridge Year and 2027 Test Year.

Historically, certain affiliate costs were recovered through a management fee arrangement. As discussed in Section 4.4, LUI reviewed its historical approach to allocating affiliate costs and implemented a revised methodology based on an assessment of actual corporate support costs attributable to LUI.

The revised allocation methodology results in the inclusion of corporate support costs totaling $231,950 in 2025, $238,908 in 2026 and $246,075 in 2027. These costs are primarily recorded within Operations, Billing and Collecting, and Administrative and General expenses and support executive management, finance, accounting, regulatory, information technology, insurance and other corporate functions necessary for the operation of the utility.

Section 4.4 provides a detailed discussion of the historical management fee arrangement, the review undertaken by LUI, the development of the revised allocation methodology, and the resulting customer refund and affiliate cost allocation framework.

To assist the reader in understanding the impact of the transition on OM&A trends, Table 17 reconciles the historical management fee, the 2025 fee reversal, and the revised corporate cost allocations.

Table 17 – OM&A Adjusted for Historical Management Fees and KPMG Allocations

	2022	2023	2024	2025	2026	2027
OM&A as filed	$2,578,145	$3,132,855	$3,241,023	$3,645,385	$3,928,768	$4,146,221
Less: Historical Management Fee	($102,954)	($106,763)	($111,888)	($99,284)	-	-
Less: KPMG Cost Allocation	-	-	-	($231,950)	($238,908)	($246,075)
Base OM&A without overhead	$2,475,191	$3,026,092	$3,129,135	$3,314,151	$3,689,860	$3,900,146
Year-over-Year Change		22.3%	3.4%	5.9%	11.3%	5.7%

The transition from the historical management fee arrangement to the revised corporate cost allocation methodology contributes to the increase in OM&A observed during the rebasing period. In 2025, the revised allocation added $231,950 of corporate support costs to OM&A, while $99,284 of costs previously recovered through the historical management fee arrangement were removed. The net impact of the transition was therefore an increase of $132,666.

The revised methodology provides greater transparency by allocating actual corporate support costs to the utility based on the services received rather than applying a fixed management fee. The allocated costs support executive management, finance, accounting, regulatory affairs, information technology, insurance, human resources, and other administrative functions necessary for the operation of the utility. The methodology is discussed further in Section 4.4.

The revised corporate cost allocation is recorded within Operations, Billing and Collecting, and Administrative and General expenses as shown below.

Table 18 – 2022 Board Approved vs 2027 Test Year (Comparable Basis)

	Amount
2022 Board Approved OM&A	$2,822,241
Less Historical Management Fee	($102,954)
2022 Base OM&A	$2,719,287
2027 Test Year OM&A	$4,146,221
Less Total KPMG Allocation	($246,075)
2027 Base OM&A	$3,900,146
Increase	$1,180,859
Increase (%)	43.4%

As shown in Table 18, OM&A on a comparable basis increased from $2.72 million in the 2022 Board Approved year to $3.90 million in the 2027 Test Year, representing an increase of $1.18 million, or 43.4%. While changes in affiliate cost allocations contributed to OM&A growth during the rebasing period, the majority of the increase is attributable to workforce investments, compensation adjustments, increased regulatory obligations, customer growth, system modernization initiatives, information technology investments, and other operational requirements discussed throughout this Exhibit.

The section continues presenting drivers and additional details regarding the principal OM&A cost drivers identified in Table 18. The analysis follows the progression of OM&A through the rebasing period, beginning with variances between the 2022 Board-Approved and 2022 Actual levels and subsequently addressing the significant year-over-year changes from 2022 Actual through the 2027 Test Year. Only material variances exceeding the established threshold are discussed.

OM&A Variance Explanations (2022BA to 2022)

Table 19 – 2022BA Actuals vs 2022 Actuals

Account	Increase
5130-Maintenance of Overhead Services	$109,461.08

5130 – Maintenance of Overhead Services

Increase: $109,461.08

The increase of $109,461.08 in Account 5130 is primarily driven by a redistribution distribution work from operations to maintenance as follows:

Account 5130 increased by $109,461 due primarily to a change in the classification of distribution field work. During 2022, a greater proportion of employee and contractor time was charged to maintenance activities associated with overhead services, while corresponding reductions occurred in Overhead Lines and Feeders (APH 5020) and Underground Lines and Feeders (APH 5040). As a result, the increase in Account 5130 reflects a redistribution of costs between functional activities rather than an overall increase in OM&A spending.

Amounts offsetting $109,461 are as follows:

- Overhead Lines and Feeders (APH 5020) 2022 actual costs are lower than the approved 2022 COS costs by $82,341.
- Underground Lines and Feeders (APH 5040) 2022 actual costs are lower than the approved 2022 COS costs by $16,328.

OM&A Variance Explanations (2022 to 2023)

Table 20 – 2022 Actuals vs 2023 Actuals

	Increase
5630-Outside Services Employed	$325,684.91
5025-Overhead Distribution Lines and Feeders - Operation Supplies and Expenses	$57,053.73
5620-Office Supplies and Expenses	$38,687.08
5016-Distribution Station Equipment - Operation Labour	$30,969.26

5630-Outside Services Employed

Increase: $325,684

The increase in Account 5630 is primarily driven by several one-time or non-recurring items booked in 2023, as well as higher corporate support expenses. Items include:

- Engineering consultants to support the vacancy of the Director of Engineering and Operations totalling $184,934.
- Finance and Regulatory consultants to support the vacancy of the Director of Finance and Regulatory totalling $74,253.
- Consultation costs totalling $74,775 related to exploration of consolidation opportunities.

5025-Overhead Distribution Lines and Feeders - Operation Supplies and Expenses

Increase: $57,053.73

The increase in Account 5025 is primarily driven by several one-time or non-recurring items booked in 2023, as well as higher corporate support expenses. Items include:

- An inventory shortage adjustment totaling $44,216 identified through inventory reconciliation activities during the year.

5620-Office Supplies and Expenses

Increase: $38,687.08

The increase in Account 5620 is primarily driven by Business strategy development consulting costs totaling $27,899 were incorrectly charged to Account 5620 and should have been recorded in Account 5630 - Outside Services Employed.

5016-Distribution Station Equipment - Operation Labour

Increase: $30,969.26

The increase in Account 5016 is primarily attributable to additional labour resources required to complete maintenance activities at the Victoria Street distribution station during 2023. These activities resulted in higher KPC labour charges compared to 2022.

The variance reflects increased station maintenance work performed during the year and is not indicative of a systemic increase in annual station operating labour requirements.

OM&A Variance Explanations (2023 to 2024)

Table 21 – 2023 Actuals vs 2024 Actuals

	Increase
5630-Outside Services Employed	$298,672.63
5085-Miscellaneous Distribution Expense	$62,239.34
5675-Maintenance of General Plant	$60,855.87
5020-Overhead Distribution Lines and Feeders - Operation Labour	$43,577.43

5630-Outside Services Employed

Increase: $298,672.63

The increase in Account 5630 is primarily attributable to the use of external consultants to support key business functions and regulatory requirements during 2024. These expenditures were incurred to address staffing vacancies and specialized compliance requirements that could not be supported with existing internal resources. Items include:

- Finance and Regulatory consultants to support the vacancy of the Director of Finance and Regulatory totalling $202,900.
- Cyber Security development and reporting costs to support mandated requirements totalling $55,258

5675-Maintenance of General Plant

Increase: **$60,855.87**

The increase in Account 5675 is primarily attributable to building, facility and site maintenance activities completed during 2024, including several non-recurring improvement projects. Items include:

- Building improvements, including window repairs, electrical upgrades and miscellaneous building repairs totaling $27,663.
- Alarm system upgrades totaling $7,032.
- Garage lighting and electrical upgrades totaling $5,483.
- Equipment rental costs totaling $3,669 associated with site maintenance activities.
- Snow removal costs totaling $3,454.
- Increased waste management costs of $9,864 associated with the environmentally responsible disposal and recycling of retired meters and transformers.

- Increased landscaping and grounds maintenance costs of $10,583 associated with enhanced vegetation, weed control and property maintenance activities.

5085 – Miscellaneous Distribution Expenses

Increase: $62,239.34

The increase in Account 5085 is primarily attributable to the use of specialized consulting resources to support distribution system operations and engineering activities during 2024. Items include:

- SCADA consulting support totaling $26,323 to maintain and support distribution system monitoring and control functions.
- Engineering consulting support totaling $33,532 to supplement internal resources and support distribution system operational requirements.

5020-Overhead Distribution Lines and Feeders - Operation Labor

Increase: $43,577.43

The increase in Account 5020 is attributable to higher labor costs associated with overhead distribution line and feeder operations during 2024. Items include:

- One of the most significant weather events of the year occurred in July 2024. Multiple rounds of thunderstorms.
- In August, Cobourg experienced the remnants of Tropical Storm Debby including heavy rainfalls and strong winds that took down overhead lines.

OM&A Variance Explanations (2024 to 2025)

Table 22 – 2024 Actuals vs 2025 Actuals

	Increase
5615-General Administrative Salaries and Expenses	$347,396.66
5335-Bad Debt Expense	$171,855.12
5085-Miscellaneous Distribution Expense	$137,337.81
5070-Customer Premises - Operation Labour	$74,826.25
5310-Meter Reading Expense	$43,939.87
5155-Maintenance of Underground Services	$35,845.46
5675-Maintenance of General Plant	$34,502.40

5615-General Admin Salaries and Expenses

Increase: **$347,396.66**

The increase in Account 5615 is primarily attributable to the implementation of the revised shared services allocation methodology and changes in payroll cost allocation practices.

Items contributing to the increase include:

- A KPMG-reviewed allocation of Office and General expenses attributable to LUI totaling $216,755. These costs represent shared corporate support services provided to LUI and are included in the 2025 Actual year under the revised cost allocation methodology.
- In September 2024, the utility implemented a payroll and time-entry system requiring employees to allocate time directly to operating activities and affiliated companies. Prior to implementation, costs were allocated using fixed spreadsheet-based methodologies. The enhanced allocation process resulted in shifts between OM&A accounts and functional activities, affecting year-over-year comparability.
- Other administrative cost changes, including general administrative salaries and expenses required to support corporate, finance, regulatory, and shared services functions.

The 2025 Actual year does not include the historical 12% LUSI management fee. That fee was removed from 2025 OM&A as part of the revised allocation methodology. Further discussion of the historical management fee and revised corporate cost allocation methodology is provided in Section 4.2.6.1.

5335-Bad Debt Expense

Increase: **$171,855.12**

The increase in Account 5335 is attributable to a higher provision for uncollectible accounts recorded in 2025.

The increase reflects delayed customer payments during the winter period and a corresponding increase in the allowance for doubtful accounts. Management expects bad debt expense to return to more typical levels in future years, with 2027 forecast costs of approximately $59,000, consistent with historical experience.

5085- Miscellaneous Distribution Expense

Increase: **$137,337.81**

The increase in Account 5085 is primarily attributable to the reclassification of engineering and operational support costs previously recorded in Account 5630, as well as increased GIS modernization activities. Items include:

- SCADA and engineering support costs totaling $90,867 that were reallocated from Account 5630 to Account 5085 in 2025 to better reflect the nature of the services received.
- GIS and engineering software costs totaling $26,890 associated with ESRI and Quadra software and related data management activities. These costs support the transition from ESRI's legacy Geometric Network platform to the ArcGIS Utility Network, including GIS data cleanup and system modernization efforts required to maintain vendor-supported systems.

5070-Customer Premises - Operation Labour

Increase: **$74,826.25**

The increase in Account 5070 is primarily attributable to higher locate activity during 2025. The increase reflects elevated locate activity during 2025. Management has normalized forecast locate costs in 2026 and 2027 using a four-year average to mitigate the impact of year-to-year fluctuations. Items include:

- Increased locate requests and associated Ontario One Call charges totaling approximately $65,897 compared to 2024.
- Vehicle costs totaling $8,734 that were incurred in 2024 but recorded in 2025.

5310-Meter Reading Expense

Increase: **$43,939.87**

The increase in Account 5310 primarily reflects changes in the recording and allocation of meter data management and meter-related service costs, together with increased operational requirements during 2025. Items include:

- Lower payroll costs recorded in 2024 totaling approximately $33,885, creating a lower comparative base year.
- Increased Utilismart service costs totaling $44,544 in 2025. These costs support critical metering and data management functions, including SmartMap, Meter Data Management and Repository ("MDM/R") integration, and Utility Device Manager services. In prior years, a portion of these costs was recorded in Account 5630 – Outside Services rather than Account 5310. As a result, the 2025 expenses more accurately reflect the full cost of meter data management activities within the Meter Reading function and contribute materially to the year-over-year increase.

Additional factors contributing to the variance include:

- Increased use of specialized contractors following the departure of LUI's Meter Technician in August 2025, resulting in additional costs associated with three-phase meter reading and related field services;
- Higher Sensus metering service costs associated with growth in the number of installed meters and related metering infrastructure;
- Increased internal labour allocations reflecting the actual level of staff effort required to coordinate meter reading activities, meter-related customer service functions, and operational support during the staffing transition period; and
- Minor fluctuations in transportation and other meter-related support costs.

These increases were partially offset by lower settlement management service costs during 2025. Overall, the variance reflects both the realignment of meter data management costs to the appropriate account and increased operational support requirements associated with metering activities during a period of workforce transition.

5155-Maintenance of Underground Services

Increase: **$35,845.46**

The increase in Account 5155 is primarily attributable to underground system maintenance work completed during 2025. Items include:

- Contractor costs totaling approximately $46,000 associated with manhole removals and splicing pits decommissioning activities performed by Kelly's Excavating during the period October to December 2025. These underground splicing pits were not being used and the manholes had started to lift and were presenting a public safety issue (tripping hazard). This is a one-time expenditure.

5675-Maintenance of General Plant

Increase: **$34,502.40**

The increase in Account 5675 is primarily attributable to facility maintenance and security improvement projects completed during 2025. Items Include:

- Security system upgrades totaling $28,871, including camera system enhancements implemented in response to increased incidents of theft and property damage.
- Building repairs and facility improvements totaling $25,862, including flooring repairs, front entrance door replacement, rooftop air conditioning repairs, and fencing repairs.

The variance reflects non-recurring facility improvement and security enhancement projects completed during the year.

OM&A Variance Explanations (2025 to 2026)

Table 23 – 2025 Actuals vs 2026 Actuals

	Increase
5085-Miscellaneous Distribution Expense	$217,580.04
5005-Operation Supervision and Engineering	$112,153.84
5610-Management Salaries and Expenses	$50,626.02
5665-Miscellaneous General Expenses	$41,729.19

5085 – Miscellaneous Distribution Expense

Increase: $217,580.04

The increase in Account 5085 is primarily attributable to organizational investments intended to reduce reliance on external consultants and strengthen internal operational capabilities. Items include:

- Additional staffing costs of approximately $189,360 associated with the planned recruitment of:
  - a GIS/SCADA/Engineering Design resource (anticipated August 2026),
  - a Purchasing and Inventory Analyst (anticipated January 2026), and
  - a Metering Support resource to replace a vacancy created by a September 2025 resignation (anticipated February 2026).
- Salary adjustments for existing staff effective July 1, 2026, to support employee retention and maintain market-competitive compensation levels.

The proposed additions are intended to increase internal capacity, reduce consultant dependence, improve operational efficiency, and strengthen key technical and support functions.

5005-Operation Supervision and Engineering

Increase: $112,153.84

The increase in Account 5005 is primarily attributable to the planned hiring of a Director of Operations in 2026.

The position has remained vacant since 2022, with engineering and operational oversight responsibilities being supported through external consulting resources. The proposed hire will establish permanent internal leadership for the Engineering and Operations department and reduce reliance on external consultants over the longer term.

The increase reflects the annualized compensation associated with restoring this management position.

5610- Management Salaries and Expenses

Increase: $50,626.02

The increase in Account 5610 is primarily attributable to management compensation changes during 2026. Key contributors include:

- Salary adjustments effective July 1, 2026. The adjustments are intended to support employee retention and maintain compensation levels that are competitive with comparable positions in the utility sector.
- The hiring of a new Director of Finance in November 2025, resulting in an incremental compensation increase compared to the predecessor position.

The increase reflects management succession planning and compensation adjustments intended to support organizational stability and retention.

5665-Miscellaneous General Expenses

Increase: $41,729.19

The increase in Account 5665 is primarily attributable to the utility becoming a member of the Electricity Distributors Association (EDA) effective January 2026.

The increase reflects the annual EDA membership fee of approximately $40,000, which provides access to industry advocacy, regulatory support, training opportunities, sector research, and utility-specific resources.

The expenditure is expected to continue an ongoing basis as part of normal utility operations.

OM&A Variance Explanations (2026 to 2027)

Table 24 – 2026 Projected vs 2027 Projected

	Increase
5315-Customer Billing	$57,095.45
5085-Miscellaneous Distribution Expense	$36,006.60
5610-Management Salaries and Expenses	$31,504.35

5315-Customer Billing

Increase: **$57,095.45**

The increase in Account 5315 is primarily attributable to additional customer service staffing requirements and the annualized impact of compensation adjustments implemented in 2026. Key contributors include:

- The addition of a Customer Service Representative position to support additional operational capacity including increased customer service workload, service quality, billing complexity, call volumes, regulatory requirements, improved customer engagement, succession planning and future anticipated customer growth.
- The full-year impact of compensation adjustments implemented effective July 1, 2026.The increase reflects investments in customer service resources and the annualized impact of compensation changes introduced during the test year.

5085 – Miscellaneous Distribution Expenses

Increase: $36,006.60

The increase in Account 5085 is primarily attributable to the annualized impact of staffing additions and compensation adjustments implemented during 2026. Key contributors include:

- The full-year impact of the GIS/SCADA/Engineering Design position hired in August 2026.
- The full-year impact of compensation adjustments implemented effective July 1, 2026.

These increases are partially offset by:

- A reduction in engineering consulting costs of approximately $41,602 as internal resources assume responsibilities previously performed by external consultants.

The net increase reflects the utility's continued transition from external consulting resources to internal technical expertise.

5610-Management Salaries and Expenses

Increase: **$31,504.35**

The increase in Account 5610 is primarily attributable to the full-year impact of compensation adjustments implemented effective July 1, 2026.

The adjustments were implemented to support employee retention, succession planning, and the maintenance of compensation levels consistent with comparable positions within the electricity distribution sector.

The increase reflects the full-year impact of compensation changes that were only partially reflected in 2026.

4.2.7 One-Time Costs and Regulatory Costs

One-Time Costs

The only material one-time costs included in this cost-of-service application relate to regulatory expenditures associated with the preparation, review, and processing of the application. Consistent with OEB's policy and established regulatory practice, these costs are proposed to be amortized over a five-year period.

The one-time regulatory costs primarily include external legal, accounting, regulatory, and professional consulting services required to support the preparation and advancement of the application. These expenditures are discussed in further detail in the following section.

4.2.8 Regulatory Costs

LUIs Regulatory Costs consist of two primary elements.

The first component relates to ongoing annual regulatory costs associated with maintaining compliance with Ontario Energy Board and industry requirements. These expenditures include OEB assessments and licence fees, Electricity Safety Authority ("ESA") fees, ongoing regulatory reporting obligations, and contracted legal expenses and regulatory support.

The second component relates to one-time expenditures associated with the preparation and processing of the current Cost of Service application. These costs include external legal, accounting, regulatory, and professional consulting support services provided by Tandem Energy Services necessary to prepare, review, and advance the application through the regulatory process.

The specific costs associated with the Cost-of-Service application include legal expenses for reviewing the application, examining the IRs, and participating in a settlement conference. Additional expenses encompass payments for external accounting services to input data into the PILs model and assess the balances in the deferral and variance accounts. LUI confirms that it has not expended any funds to create the utility's DSP, as the entire development process was carried out internally.

Based on prior Cost-of-Service proceeding experience, LUI did not include an allowance for a potential oral hearing within the forecasted regulatory costs. Should an oral hearing become necessary, any incremental costs associated with the proceeding would be assessed and addressed through the appropriate regulatory mechanism at that time.

Regulatory expenses are recorded and monitored in account 5655, specifically designated for regulatory expenses. Consistent with OEB policy and regulatory practice, the one-time expenses directly attributable to the Cost-of-Service application are proposed to be amortized over a period of five years (2027-2032).

Table 25 – Regulatory Costs (Appendix 2-M)

Regulatory Costs (Ongoing)	BOARD APPR.	2022	2023	2024	2025	2026	2027
OEB Annual Assessment	$46,081.53	$51,905.12	$53,319.00	$60,993.00	$68,109.00	$70,696.48	$72,818.00
OEB Section 30 Costs (OEB-initiated)	$1,109.00	$236.96	$1,510.78	$2,295.36	$1,007.69	$1,046.00	$1,077.00
Expert Witness costs for regulatory matters	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Legal costs for regulatory matters	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Consultants' costs for regulatory matters	$10,150.00	$10,199.00	$5,431.00	$0.00	$5,000.00	$5,190.00	$5,345.57
Consultants' costs for regulatory matters-	$0.00	$0.00	$10,940.00	$5,510.00	$3,622.00	$3,760.00	$3,872.43
Consultants' costs for regulatory matters	$1,015.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Other regulatory agency fees or assessments ESA	$5,767.00	$5,329.00	$5,420.00	$5,520.00	$5,658.45	$5,873.00	$6,049.68
Any other costs for regulatory matters (please define)	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Intervenor costs	$0.00	$0.00	$0.00	$0.00	$11,636.58	$12,079.00	$12,441.00
2022 Cost of Service (put in Board Approved)	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
1/5 of 2022 Cost of Service (put in 2022 to 2026) 1/5 of 2027 COS	$50,400.00	$54,407.29	$54,407.29	$54,407.28	$54,407.28	$54,407.28	$0.00
Other regulatory agency fees or assessments-OEB assurance	$0.00	$0.00	$0.00	$0.00	$3,000.00	$0.00	$0.00
NEED RECONCILIATION	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Regulatory Costs (One-Time)							
From below	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$74,480.00
Consulting (posted to 1180)	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
From below	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
From below	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
From below	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Sub-total - Ongoing Costs	**$114,522.53**	**$122,077.37**	**$131,028.07**	**$128,725.64**	**$152,441.00**	**$153,051.76**	**$101,603.68**
Sub-total - One-time Costs	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$74,480.00**
T O T A L	**$114,522.53**	**$122,077.37**	**$131,028.07**	**$128,725.64**	**$152,441.00**	**$153,051.76**	**$176,083.68**

Table 26 – Regulatory Costs specific to the 2027 Cost of Service

	Projected Cost
3rd Party Engineering Assistance	$135,000.00
3th Party Legal Assistance	$47,200.00
3th Party Accounting Assistance	$24,800.00
3th Party Regulatory Assistance	$61,900.00
Advertisement Costs	$3,400.00
Public Notice (OEB)	$0.00
Intervenor costs	$72,600.00
Other Costs	$27,500.00
Total Costs	$372,400
Amortized Costs over 5 years	$74,480

4.2.9 Charitable Donations and Disallowed Expenses

Charitable Donations

LUI confirms that no charitable or political donations other than LEAP are included in its OM&A Costs.

4.2.10 Leap

LUI includes funding for the Low-income Energy Assistance Program Emergency Financial Assistance (LEAP EFA) in Account 6205. The annual amount follows the OEB requirement that distributors contribute at least 0.12 percent of their Board-approved distribution revenue requirement or 2,000 dollars. LUI has historically met this requirement, although the timing of contributions has varied slightly from year to year. The table below summarizes the Board-approved amount and the actual or forecast contributions from 2022 to 2027. Eligibility determinations are made by the intake agency in accordance with the OEB's LEAP EFA Guidelines.

Table 27 – LEAP Contributions

Year	Agency administration and program delivery	Total grants disbursed	Total funds disbursed	Accepted Applicants	Avg. grant per accepted applicant
2022BA					
2022	1,500	14,722.42	16,222.42	35	420.64
2023	1,500	10,057.57	11,557.57	26	386.83
2024	1,500	10,846.69	12,921.37	27	401.73
2025	1,500				
2026	1,500	8,500	10,000	25	400
2027	1,500	8,500	10,000	25	400

Alignment with OEB Policy

The OEB updated several components of LEAP EFA effective March 1, 2025. These updates include:

- Increasing the maximum LEAP EFA grant to 650 dollars for electricity or natural gas bills, and 780 dollars for electrically heated homes
- Updating income eligibility thresholds to align with the expanded Ontario Electricity Support Program (OESP) thresholds
- Confirming that no eligible LEAP EFA applicant may be denied funding due to depletion of the distributor's budgeted LEAP amount
- Establishing a generic deferral account (Account 1508 Other Regulatory Assets, Sub-account LEAP EFA Funding Deferral) where distributors must record any incremental

LEAP contributions that exceed the amount embedded in rates, along with a related carrying charge sub-account

Program delivery

LUI has reflected the OEB's updated policy direction in its LEAP planning. For the 2027 test year, OM&A includes a LEAP Emergency Financial Assistance ("EFA") budget of $10,000.

Consistent with OEB policy, if actual LEAP EFA grant payments exceed the approved budget due to customer need, LUI will record the incremental amount in the established LEAP EFA Funding Deferral sub-account for future disposition.

LEAP program delivery continues to be administered through a third-party social service agency. LUI directs customers seeking LEAP assistance to The Help Centre, which conducts intake, assesses eligibility in accordance with OEB requirements, and processes applications on LUI's behalf. Approved grant amounts are remitted directly to LUI and applied to the customer's account.

LUI maintains regular communication with the intake agency regarding eligibility criteria, funding levels, and program administration. LUI fulfills all OEB reporting obligations, including RRR 2.1.16 reporting requirements. Beginning with the 2025 reporting year, LUI will additionally confirm whether any eligible customer was declined assistance, consistent with the OEB's updated reporting expectations.

LUI confirms that no conservation and demand management program costs are included in OM&A.

4.2.11 Non-Wires Solutions and Conservation & Demand Management

For clarity, Lakefront Utilities Inc. confirms that no IESO eDSM program costs are included in the 2027 Test Year revenue requirement. In addition, no costs related to a Local Initiative Partnership ("LIP") are included in the application, nor are any such costs forecast. Lakefront Utilities Inc. further confirms that no Non-Wires Solutions ("NWS") costs are included in the Cost-of-Service application. Accordingly, no Advanced Capital Module ("ACM")-like treatment is proposed in this proceeding.

4.2.12 Purchases of Non-Affiliate Services

Lakefront Utilities Inc.'s Procurement Policy (ADM-4) is attached as Appendix C shown at the next page. LUI acquires equipment, materials, and services in a cost-effective manner, giving due consideration to price, product quality, delivery timelines, reliability, compliance with engineering specifications, and overall service quality. Vendors are evaluated to ensure they possess the necessary expertise, reputation, and capacity to meet LUI's operational requirements.

All procurement activities are conducted in accordance with the highest ethical standards, recognizing the public nature of LUI's expenditures.

The policy outlines the following requirements:

For total expenditures between $31,700 and $57,000, quotations will be obtained from at least three suppliers.

A Request for Quotations (RFQ) is required when the total expenditure is expected to exceed $57,000. Tenders or Requests for Proposals (RFPs) are required when the total expenditure is expected to exceed $95,300.

Depending on the nature and estimated value of the work, the process may be formal or informal.

The quotation process may be waived in emergency situations declared by the President or their designate. Any single- or sole-source procurement must be approved by two Corporate Officers.

LUI's procurement practices are subject to established internal controls designed to ensure transparency in acquisitions and appropriate authorization for all goods and services purchased. Approval authority is assigned to specific positions within LUI and is subject to defined dollar limits, which may vary depending on whether the expenditure has been included in the approved budget.

4.2.13 Summary of Procurement Policy

LUI Procurement Practices

The Procurement Policy establishes the approval procedures and governance framework for capital and operating expenditures. Its purpose is to ensure that all procurement activities are conducted in a manner that is reasonable, economically sound, and aligned with Lakefront Utilities Inc.'s (LUI) objectives of fairness, openness, transparency, and value for money

The policy applies to the acquisition of goods, services, professional services, consulting services, and construction. It ensures that:

- Goods and services are acquired through approved processes and within authorized budgets.
- Competitive procurement practices are used to obtain best value.
- Evaluation criteria are applied consistently and fairly.
- Conflicts of interest are disclosed.
- Senior management and the Board maintain oversight of material procurements.

LUI is not obligated to accept the lowest bid and may apply a "best value" approach considering both quality and price.

Governance and Accountability

Purchase Order Process

All purchases must be initiated through a Purchasing Form that becomes an official Purchase Order once properly authorized. Invoices are matched to approved purchase orders by Finance. Purchases may not be divided to avoid approval thresholds.

Emergency verbal orders are permitted but must be followed by a formal purchase order as soon as practical.

Roles and Responsibilities

- Department Managers report unsatisfactory vendor performance to the President.
- All staff must comply with the policy and ensure regulatory and technical standards are met.
- The President and Director of Finance oversee contract execution and procurement governance.

Conflicts of interest are prohibited. Employees, Board members, and their immediate families may not bid on corporate procurements.

Approval Authorities and Thresholds

Approval authority is tied to position and whether the expenditure is budgeted.

Approved Budget Purchases

- Supervisor: up to $3,200
- Manager: up to $12,700
- Two Corporate Officers: up to $50,700
- President: up to $158,400
- President & Corporate Officer: up to $253,400
- Over $253,400: additional authorization by the appropriate Chair

Non-Budgeted Purchases

Lower thresholds apply, with Board authorization required for purchases exceeding $57,000.

In emergency situations, the President (or delegate) may authorize purchases outside normal thresholds, subject to Board ratification.

Competitive Procurement Requirements

The procurement method depends on the estimated total financial commitment (including renewals):

- Under $760: Purchase order generally not required (with limited exceptions).
- $760 – $31,699: Purchase order required; competitive pricing must be obtained and recorded.
- $31,700 – $57,000: At least three written quotations required.
- Over $57,000: Formal Request for Quotation (RFQ) required.
- Over $95,300: Tender or Request for Proposals (RFP) required.
- Over $95,300 (general rule): Must be procured through an open competitive process.

Construction projects exceeding $253,400 require a documented procurement strategy and Board-level review as part of the capital approval process.

The policy outlines multiple procurement methodologies, including Tenders, RFPs, RFQs, Prequalification Requests, and Requests for Expressions of Interest. Selection must be based on published evaluation criteria, and evaluation teams must document their conclusions.

A communication “blackout” period applies during competitive procurements to ensure fairness.

Non-Competitive Procurement

Single or sole source procurement is permitted only under defined circumstances, such as emergencies, absence of competition, statutory monopoly, protection of exclusive rights, or continuation of prior work for value or compatibility reasons.

- Non-competitive procurements of $57,000 or more require Board authorization.
- Emergency work up to $31,700 may be authorized by a Supervisor/Manager where safety or damage risks exist, with written notice to signing authorities within 48 hours.

Consulting Services

Consulting services must generally be acquired through a competitive process.

- Consulting engagements over $158,400 must be publicly posted (e.g., via MERX).
- Limited exceptions are permitted for urgency, confidentiality, absence of competition, or government direction, subject to appropriate authorization.

The Corporation does not reimburse consultants for hospitality or incidental expenses, and travel costs require prior approval.

Contract Management and Oversight

- Contracts are generally limited to five years unless specific exceptions apply.
- Extensions and renewals require performance review and approval under the signing thresholds.
- Change orders must be documented, justified, and approved in accordance with thresholds.
- Any non-competitive contract that exceeds $31,700 due to a change order must be preceded by an Advance Contract Award Notice (ACAN).

Reporting and Transparency

The Director of Finance must provide annual reports to the Audit and Risk Committee detailing:

- Exceptions to the policy; and
- All contracts awarded in excess of $253,400.

4.3. WORKFORCE PLANNING AND COMPENSATION

Workforce planning is a key component of ensuring the safe, reliable, and efficient operation of LUI's distribution system. This section outlines LUI's staffing structure, workforce evolution, compensation framework, pension and benefit programs, and the organizational changes that occurred over the 2022 to 2027 period. The information presented supports and reconciles with the employee cost information filed in Appendix 2-K and the OM&A program level detail provided in Appendix 2-JC.

In the 2022 Cost of Service application, LUI adopted a lean staffing and compensation model intended to balance operational requirements with ratepayer affordability. The approach reflected the utility's circumstances at that time, including the economic uncertainty associated with the COVID pandemic, a continued focus on cost containment, relatively stable historical staffing levels, and management's commitment to minimizing customer rate impacts wherever prudent and feasible.

The staffing model assumed that existing internal resources, supplemented where necessary by limited external support, would be sufficient to meet the utility's operational, regulatory, and customer service obligations. Consistent with this approach, compensation levels were managed conservatively relative to comparable Ontario LDCs, contributing to lower OM&A costs during the period immediately following the 2022 Cost of Service application.

As operational experience evolved over the subsequent years, LUI experienced increasing labour market pressures affecting the electricity distribution sector, particularly for smaller utilities, including recruitment and retention challenges for skilled technical, engineering, operational, and administrative positions.

As a small utility, vacancies in key positions can have a disproportionate impact on operational continuity, regulatory compliance, asset management activities, customer service, and engineering oversight. Staffing transitions and prolonged vacancies required LUI to rely more heavily on external consultants and contract resources to maintain operational continuity and fulfill regulatory obligations.

Over the 2022 to 2027 period, LUI experienced several staffing transitions affecting management, technical, operational, and administrative functions. To maintain safe and reliable continuity of operations during these periods, and meet its regulatory obligations, LUI utilized a combination of internal resource reallocation, temporary staffing arrangements, cross-functional support, and specialized external consultants.

The workforce additions and compensation adjustments proposed for the Bridge Year and Test Year reflect management's assessment of these operational experiences and evolving business requirements. The proposed changes are intended to strengthen internal capabilities, improve succession planning, enhance organizational resiliency, support employee retention, reduce long-term reliance on external consultants, and position LUI to address increasing operational, technical, cybersecurity, asst management, and regulatory requirements in a cost-effective and sustainable manner.

Table 28 – Appendix 2-K (Employee Costs Table)

EMPLOYEE COSTS							
	BOARD APPR.	2022	2023	2024	2025	2026	2027
Number of Employees (FTEs including Part-Time)1							
Management (including executive)	3.00	4.83	4.50	5.09	5.31	6.29	6.06
Non-Management (union and non-union)	14.00	12.75	13.02	13.74	13.74	13.14	14.85
TOTAL	17.00	17.58	17.52	18.83	19.05	19.43	20.91
							23.00%
Total Salary and Wages including overtime and incentive pay							
Management (including executive)	n/a	$517,841	$713,992	$632,674	$812,498	$975,208	$997,249
Non-Management (union and non-union)	$1,586,265	$986,797	$1,092,943	$1,324,500	$1,247,037	$1,259,453	$1,438,003
TOTAL	$1,586,265	$1,504,638	$1,806,935	$1,957,174	$2,059,535	$2,234,661	$2,435,252
							53.52%
Total Benefits (Current + Accrued)							
Management (including executive)	n/a	$152,299	$185,846	$154,734	$206,478	$268,882	$268,965
Non-Management (union and non-union)	$453,212	$290,222	$284,484	$323,935	$316,907	$347,253	$387,839
TOTAL	$453,212	**$442,521**	**$470,330**	**$478,669**	**$523,385**	**$616,135**	**$656,804**
							44.92%
Total Compensation (Salary, Wages, & Benefits)							
Management (including executive)	n/a	$670,140	$899,839	$787,407	$1,018,976	$1,244,090	$1,266,213
Non-Management (union and non-union)	$2,039,478	$1,277,019	$1,377,427	$1,648,435	$1,563,944	$1,606,705	$1,825,842
TOTAL	$2,039,478	**$1,947,159**	**$2,277,266**	**$2,435,842**	**$2,582,920**	**$2,850,795**	**$3,092,055**
		-4.53%	*16.95%*	*6.96%*	*6.04%*	*10.37%*	*8.46%*
Total Compensation Breakdown (Capital, OM&A)							**51.61%**
OM&A	n/a	$1,258,725	$1,339,774	$1,589,995	$1,623,131	$1,944,309	$2,133,850
Capital	n/a	$688,434	$937,491	$845,847	$959,789	$906,486	$958,206
TOTAL	n/a	**$1,947,159**	**$2,277,265**	**$2,435,842**	**$2,582,920**	**$2,850,795**	**$3,092,056**

As shown in Table 28, total staffing increased from 17.58 FTEs in 2022 to 20.91 FTEs in 2027, representing an increase of approximately 19%. Over the same period, total compensation increased from $1.94 million to $3.09 million, representing an increase of approximately 51.61%.

The increase in compensation reflects a combination of workforce additions, restoration of management and technical positions, compensation adjustments, employee progression, temporary overlap during staffing transitions, benefit cost increases, and the gradual replacement of consultant-supported functions with permanent internal resources.

While FTE growth contributed to compensation increases, the more significant change over the period was the evolution of LUI's workforce structure and the transition from a lean organizational model supported by temporary resources and consultants toward a more stable internal workforce.

4.3.1 Organizational and Staffing Evolution

Table 29 – Workforce Evolution Across Rebasing Periods (2012–2027)

Period	**Approved/Test FTEs**	**Actual FTE Range During Period**	Change from Prior Rebase
2012 CoS	22.20	16.83 – 20.82	
2017 CoS	18.50	16.00 – 18.00	-3.7
2022 CoS	17.00	17.52 – 19.05	-1.5
2027 Test Year	20.91	n/a	+3.9

As shown in Table 29, LUI's workforce planning approach has evolved over several rebasing periods. In its 2012 Cost of Service application, LUI was approved for 22.2 FTEs. Over the following decade, the utility focused on controlling OM&A costs and moderating rate impacts to customers through a lean operating model. As a result, staffing levels declined and remained relatively stable through both the 2017 and 2022 rebasing applications, which were based on staffing complements of 18.5 FTEs and 17.0 FTEs, respectively.

The lean operating model supported affordability objectives and enabled LUI to continue meeting its operational and regulatory obligations. However, during the same period, the obligations imposed on Ontario distributors continued to expand. Cybersecurity requirements increased substantially, regulatory reporting became more extensive, asset management and better planning expectations evolved, and utilities were required to maintain increasingly specialized engineering, operational, and technical capabilities.

For a utility of LUI's size, many of these requirements do not decrease proportionately with customer count. As a result, small distributors are often required to maintain access to the same specialized expertise as larger utilities despite having significantly fewer employees and a smaller customer base.

The practical limitations of the lean operating model became increasingly evident between 2022 and 2025. During this period, LUI experienced a number of retirements, resignations, vacancies, and temporary absences affecting key management, engineering, finance, operations, and customer service positions. To maintain continuity of operations and regulatory compliance, the utility relied on internal promotions, training and development, temporary staffing arrangements, reassignment of responsibilities, and external consultants supporting finance, regulatory, engineering, operations, GIS, SCADA, cybersecurity, and asset management functions.

The staffing additions proposed for the Bridge and Test Years are intended to address these organizational pressures by restoring capacity in key areas, strengthening succession planning, and reducing reliance on consultant-supported functions. They do not represent a significant expansion of the organization. Even with the proposed additions, the 2027 staffing complement of 20.91 FTEs remains below the 22.20 FTEs approved in LUI's 2012 Cost of Service application.

Table 30 – Organizational and Staffing Evolution (2022–2027)

Period	Key Workforce Changes
2022	Director of Engineering & Operations resigned. Finance Assistant resigned. Data Analyst resigned. Meter technician turnover. Temporary finance support and engineering consulting resources utilized.
2023	Director of Regulatory & Finance resigned. Acting CFO and Acting Regulatory Director support retained. Engineering, GIS and asset management consultants utilized.
2024	Manager Electric Distribution retired. Finance Department Manager resigned. Finance Director hired. Temporary finance resources utilized. Operations, engineering, GIS, SCADA and H&S consultants retained.
2025	Finance Director transition. Engineering Supervisor terminated. Billing Supervisor maternity leave. Meter technician resignation. Continued use of finance, engineering, operations and GIS consultants.
2026	Director of Engineering & Operations contract position established. Engineering & Distribution Supervisor added. GIS support added. Purchasing & Inventory support added. Metering support added. Additional customer service support added.
2027	Full-year impact of workforce stabilization initiatives reflected in employee counts and compensation costs.

Workforce Transition and Stabilization

The workforce timeline demonstrates that the primary workforce challenge experienced by LUI between 2022 and 2025 was not overall staffing levels, but turnover, retirements, vacancies, and temporary absences affecting key finance, regulatory, engineering, operational, and customer service positions.

As discussed above, LUI had operated with a lean organizational structure for several rebasing periods. The workforce transitions experienced between 2022 and 2025 highlighted the limited flexibility available within a small organization when key positions become vacant. To maintain continuity of operations and meet its regulatory obligations, LUI relied on internal promotions, temporary staffing arrangements, reassignment of responsibilities, and external consultants supporting finance, regulatory affairs, engineering, operations, GIS, SCADA, cybersecurity, asset management, and health and safety functions.

Administrative and customer service workloads also increased during the period due to customer growth, retailer settlement activities, procurement requirements, customer communications, and expanded regulatory reporting obligations. In addition, a maternity leave beginning in 2025 required temporary staffing coverage extending into 2026, resulting in overlapping labour and benefit costs during the transition period.

The use of consultants and temporary staffing arrangements enabled LUI to continue meeting its operational and regulatory obligations. However, it also demonstrated the challenges associated with prolonged vacancies in key positions and the increasing reliance on external resources to support core utility functions.

Beginning in 2026, LUI initiated a plan to strengthen internal capabilities and reduce dependence on consultant-supported functions. Key staffing additions included:

- Director of Engineering and Operations;
- Engineering and Distribution Supervisor;
- GIS/SCADA and Engineering Design resource;
- Purchasing and Inventory support resource;
- Metering support resource; and
- Additional customer service support.

These positions support engineering oversight, asset management, system planning, operational supervision, inventory management, metering activities, and customer service requirements.

The workforce evolution described above directly influenced the staffing and compensation proposals reflected in the Bridge and Test Years. While LUI was able to operate with a lean organizational structure for an extended period, the turnover, vacancies, and consultant reliance experienced between 2022 and 2025 demonstrated the need for additional organizational depth in certain areas. The staffing additions and compensation adjustments discussed in Section 4.3.2 are intended to support recruitment and retention efforts, improve succession planning, and facilitate the transition of certain consultant-supported functions to permanent internal resources.

Where practical, LUI intends to reduce reliance on external consultants as internal capabilities are developed and positions are filled. The objective is not to duplicate consultant-supported functions, but to internalize critical capabilities where doing so is operationally effective and cost efficient.

4.3.2 Compensation

Compensation Philosophy and Workforce Strategy

Historically, LUI maintained a lean staffing and compensation structure to moderate customer rate impacts. While this approach contributed to lower OM&A costs, it became increasingly difficult to sustain given turnover in key positions, recruitment challenges, and the growing use of external consultants to support critical utility functions.

The staffing additions and compensation adjustments proposed in the Bridge and Test Years are intended to strengthen internal capabilities, improve employee retention, support succession planning, and reduce long-term dependence on consultant-supported functions.

LUI's compensation framework is intended to attract and retain employees with the technical, operational, engineering, regulatory, financial, and customer service expertise required to operate the utility safely and reliably. Compensation includes salary and wages, performance-based compensation for eligible management employees, employer pension contributions, employee benefits, and statutory payroll-related costs.

Compensation levels for unionized employees are established through the collective agreement with CUPE Local 3839. Compensation for non-union employees is reviewed periodically by management and approved by the Board of Directors, taking into consideration industry benchmarking information, labour market conditions, employee responsibilities, and the utility's operational requirements.

Compensation Benchmarking and Labour Market Considerations

LUI’s approach to compensation benchmarking for its non-union roles over the 2022 to 2027 period is based largely on the use of benchmarking data from MEARIE in conjunction with LUI specific compensation analysis from CGP. In 2023 CGP provided LUI analysis using MEARIE MEARIE market data and a job-size methodology based on Korn Ferry Hay points.

The CGP review indicated that LUI’s compensation for several non-union roles was below comparable market levels within the Ontario electricity distribution sector. On an aggregate basis, using the CGP All Organizations job-size total cash design comparator, LUI’s benchmarked positions were approximately 18% below the market P50.

Using the revenue under $10 million comparator, the same positions were approximately 9.5% below the market P50.

CGP also noted that a target market position between P25 and P50 was reasonable and supportable for LUI, recognizing LUI’s size relative to the broader utility sector and the additional complexity associated with its operating structure. LUI has considered this benchmarking information in developing its workforce and compensation plans, with the objective of supporting recruitment, retention, succession planning, and operational continuity while maintaining a prudent and measured approach to employee-related OM&A costs.

Over the 2022 to 2027 period, LUI experienced increasing competition for skilled engineering, operational, technical, regulatory, and management resources. At the same time, the utility experienced turnover, vacancies, and increasing reliance on consultant-supported functions in several key areas. Compensation adjustments implemented during the period were intended to improve the utility's ability to recruit and retain qualified employees, strengthen workforce stability, and support the development of internal capabilities in areas that had become increasingly dependent on external resources.

Management review of LUI’s current compensation levels against CGP’s 2023 analysis, adjusted for expected market movement through the 2027 Test Year, indicates that LUI's benchmarked positions are expected to remain approximately 10% below the market P50 level aggregate compensation recommended by CGP as the target level for LUI.

Accordingly, while compensation adjustments have been implemented during the rebasing period to address recruitment and retention challenges and reduce reliance on consultant-supported functions, LUI's overall compensation structure remains below median market levels. Management believes this reflects a balanced and prudent approach that supports workforce stability, succession planning, and operational continuity while maintaining appropriate cost discipline.

LUI notes, lastly, that beyond the fact that its aggregate compensation remains below the appropriate P50 targets, the compensation analysis does not reflect the economies associated with the sharing of FTEs between LUI and its affiliates through LUSI. Accordingly, for many of the positions, LUI benefits not only from gross compensation costs for its employees below the P50 target, LUI is only responsible for a portion of that compensation based on its sharing of those costs with its affiliates

Compensation Governance and Performance-Based Compensation

Compensation for unionized employees is governed by the collective agreement between LUI and CUPE Local 3839. Compensation adjustments for non-union employees are reviewed periodically by management and approved by the Board of Directors with consideration to benchmarking information, labour market conditions, inflationary impacts, employee responsibilities, and overall organizational requirements.

Compensation review was also informed by LUI's experience during the 2022 to 2025 period. As discussed in Section 4.3.1, the utility experienced turnover, vacancies, retirements, and temporary staffing arrangements affecting finance, regulatory, engineering, operational, and customer service functions. These staffing transitions resulted in increased reliance on consultants and temporary resources to maintain continuity of operations and regulatory compliance. The compensation adjustments proposed in this application are intended to support a more sustainable workforce model by improving the utility's ability to attract, retain, and develop qualified employees in key operational and management positions.

Performance-based compensation for eligible management employees is determined by the Board of Directors and linked to annual performance objectives relating to operational performance, financial management, regulatory compliance, customer service, safety, and strategic corporate initiatives.

Burden and Benefit Cost Trends

As staffing levels and compensation, and workforce participation evolved over the period, corresponding increases occurred in pension, benefit and statutory burden costs. These trends are consistent with small-utility cost structures and reflect:

- Wage-driven increases in employer benefit premiums;
- Expanded participation in pension and benefit plans;
- Inflationary increases affecting benefit costs;
- Overlapping staffing and temporary coverage requirements during workforce transitions; and
- Statutory payroll-related contributions tied directly to compensation growth, including CPP, EI, EHT, and WSIB.

The resulting burden and benefit cost increases are consistent with the operational structure and workforce profile of a small Ontario electricity distributor and align with the detailed benefit cost table provided in Section 4.3.1 and the annual benefit totals set out in Appendix 2-K.

Overhead Costs and Employee Benefits

Overhead costs are reflected in Appendix 2-D and include Operations and Maintenance, Billing and Collecting, Community Relations, and Administrative and General expenses. The increase in overhead costs over the rebasing period is primarily attributable to workforce growth, compensation adjustments, inflationary pressures, increased regulatory and reporting requirements, information technology investments, cybersecurity initiatives, insurance costs, and other activities necessary to support a growing distribution system and customer base.

Appendix 2-D also identifies costs capitalized to distribution plant, including directly attributable labour, employee benefits, fleet burden, and material burden. Capitalized amounts reflect resources dedicated to the execution of LUI's capital program and are removed from OM&A in accordance with LUI's capitalization policies.

Employee benefit costs include employer pension contributions, health and dental coverage, life and disability insurance, and statutory payroll costs such as CPP, EI, EHT, and WSIB. Changes in staffing levels and compensation over the rebasing period have resulted in corresponding changes to benefit and burden costs. These costs are reflected in Appendix 2-K.

Table 31 – Appendix 2-D Functional OM&A Expenses

Category	2022 Historical	2023 Historical	2024 Historical	2025 Historical	2026 Bridge	2027 Test
Operations & Maintenance	$1,462,269	$1,724,913	$1,773,724	$1,968,680	$2,116,949	$2,283,647
Billing & collecting	$562,131	$604,547	$619,548	$681,818	$720,600	$752,199
Community Relations	$12,747	$13,090	$13,469	$13,944	$14,188	$14,456
Administrative & General	$1,226,306	$1,337,721	$1,428,856	$1,557,229	$1,651,854	$1,743,523
Total OM&A Before Capitalization	$3,263,453	$3,680,271	$3,835,597	$4,221,672	$4,503,591	$4,793,825

Table 32 – Appendix 2-D Capitalized OM&A

Category	2022 Historical	2023 Historical	2024 Historical	2025 Historical	2026 Bridge	2027 Test
Direct Labour – Operations and Engineering	$534,432	$760,519	$626,526	$645,574	$628,582	$634,664
Employee Benefits – Operations and Engineering	$154,003	$176,973	$143,890	$142,936	$150,880	$149,322
Fleet Burden	$0	$0	$60,709	$103,397	$106,499	$109,694
Material Burden	$0	$0	$31,474	$42,734	$44,016	$45,337
Total Capitalized OM&A	$688,434	$937,491	$862,598	$934,641	$929,978	$939,017
Metric	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
% of Capitalized OM&A	21%	23%	21%	21%	20%	20%

Post-Retirement Benefits

Although operational staff are employed by Lakefront Utility Services Inc. ("LUSI") under the shared services arrangement, LUI continues to recognize the post-retirement benefit obligations associated with employees and retirees covered under the historical benefit plan.

The post-retirement benefit plan provides health, dental and life insurance benefits to eligible retirees as follows:

- Employees who retire between the ages of 55 and 65 with a minimum of 10 years of service are eligible for post-retirement health, dental and life insurance benefits.
- Management employees with a minimum of 10 years of service are eligible to receive post-retirement health and dental benefits between the ages of 65 and 70.
- All retired employees are entitled to post-retirement life insurance benefits.

LUI's post-retirement benefit obligations are actuarially determined using the projected benefit method prorated on service and based on assumptions that reflect management's best estimates of future experience. The most recent actuarial valuation of the post-retirement non-pension benefit plan was prepared by RSM Canada Consulting LP as of December 31, 2023, and provides projections through 2026. The actuarial report is included as Appendix 4A.

LUI funds its post-retirement benefit obligations on a pay-as-you-go (cash) basis through retiree benefit premiums. The actuarially determined obligation is recorded for financial reporting purposes.

Table 25 presents the historical and forecast retiree premium costs together with the actuarially determined net benefit liability.

Table 33 – Post Retirement Costs

Item	2022 Historical	2023 Historical	2024 Historical	2025 Historical	2026 Bridge	2027 Test
Retiree premiums	16,139	16,862	17,689	15,043	15,495	15,960
RSM OPEB Net Benefit Liability as of Dec 31	415,543	467,349	447,861	427,088	413,643	NA

As shown in Table 33, the actuarial liability is forecast to decline over the period as benefit obligations are paid and the covered retiree population changes over time. No updated actuarial valuation is available for the 2027 Test Year.

4.4. SHARED SERVICES AND CORPORATE COST ALLOCATION

4.4.1 Corporate Structure and Historical Shared Services Model

Lakefront Utilities Inc. ("LUI") operates within a shared-services organizational structure that has existed since 2007. Under this structure, Lakefront Utility Services Inc. ("LUSI") functions as a centralized service company providing management, administrative, treasury, customer service, operational, and regulatory support services to affiliated entities.

The shared-services model was originally established to allow this relatively small electricity distributor to access specialized expertise and administrative resources in a cost-effective manner. Rather than maintaining separate management teams, finance departments, customer service functions, regulatory resources, and operational support staff within each affiliated entity, these functions were centralized within LUSI and shared among the entities benefiting from the services.

The objective of the structure was to improve efficiency through the elimination of duplicate functions, better utilization of specialized personnel, and greater organizational flexibility in responding to operational, regulatory, and customer service requirements. The model also enabled LUI to access specialized resources that would be difficult or uneconomic to maintain independently given its size.

While LUSI provides shared services, LUI remains the licensed electricity distributor and retains responsibility for all regulated distribution activities. LUI continues to own the regulated distribution assets, maintain accountability for service quality and reliability, comply with Ontario Energy Board requirements, and meet its obligations to customers. The shared-services structure does not alter LUI's responsibility for the safe, reliable, and prudent operation of the distribution system.

The Management, Operations and Maintenance Agreement executed in 2007 formalized this relationship by assigning responsibility to LUSI for the provision of management, administrative, financial, operational, maintenance, customer service, and regulatory support services necessary to support LUI's electricity distribution business. Services provided under the agreement included financial management, accounting, treasury, billing and receivables administration, regulatory support, procurement, insurance administration, employee supervision and training, maintenance planning, customer service functions, and other activities required for the operation of the utility.

The shared-services model remained the foundation of LUI's operating structure throughout the historical period and continues to form the basis upon which affiliate costs are allocated among participating entities. As discussed in the sections that follow, the utility periodically reviewed the operation of the shared-services model, the nature of services provided, and the allocation of costs among affiliated entities to ensure that costs charged to LUI remained appropriate and consistent with the requirements of the Affiliate Relationships Code.

4.4.2 Historical Affiliate Arrangements

The original Management, Operations and Maintenance Agreement established the pricing framework governing services provided by LUSI to LUI.

Under the original 2007 agreement, LUSI operated as a non-profit service company and services were provided to LUI at cost. Costs incurred by LUSI in providing services to LUI were transferred without profit and LUI bore its proportionate share of Board and executive costs associated with the provision of those services.

In 2013, the parties executed an amending agreement that modified the pricing provisions contained in Article 4.1 of the original agreement. The amendment distinguished between employees dedicated exclusively to LUI and employees providing services to multiple affiliated entities.

Under the amended arrangement, services provided by employees dedicated exclusively to LUI continued to be charged at cost. For employees providing services to multiple affiliated entities, an administration fee of 6% was introduced effective February 1, 2013, and increased to 12% effective February 1, 2014.

The amended agreement also confirmed that LUI would continue to bear the employment costs associated with services received and would continue to pay its proportionate share of Board and executive costs.

Throughout the period from 2013 onward, affiliate costs were allocated using a combination of direct labour allocations, burdened labour rates, direct assignment of costs where practical, and allocations of common costs based on the nature of the service being provided.

As discussed later in this evidence, LUI undertook a comprehensive review of the historical pricing methodology, allocation practices, and management fee provisions contained in the amended agreement as part of the preparation of this application. The review also included an assessment of the allocation of shared labour, administrative support, and corporate overhead costs among affiliated entities.

4.4.3 Identification of Historical Deficiencies

Historical Review Finding #1 – Incomplete Disclosure of Affiliate Agreements

During preparation of the 2027 Cost of Service Application, LUI determined that while the original 2007 Management, Operations and Maintenance Agreement had been included in the evidentiary record of prior proceedings, the 2013 Amending Agreement, which modified the pricing provisions applicable to certain shared-service employees, had not been filed with the OEB.

As a result, the evidentiary record reflected the original pricing provisions contained in the 2007 agreement rather than the amended pricing provisions that became effective in 2013 and 2014.

Historical Review Finding #2 – Administrative Fee Not Explicitly Identified

The review also determined that while affiliate transactions and shared-service costs were reflected in prior Cost of Service applications, the administration fee applied to certain shared-service employees was not separately identified within the evidence.

Consequently, the nature and application of the administration fee were not explicitly addressed within the affiliate cost allocation evidence filed in prior proceedings.

Historical Review Finding #3 – Limited Documentation Supporting the Administrative Fee

As part of its review, LUI was unable to identify documentation demonstrating how the 12% administration fee was established, validated, or periodically reviewed. In addition, the utility was unable to identify a formal cost allocation study, market assessment, or similar analysis supporting the reasonableness of the fee.

Historical Review Finding #4 – Documentation Continuity and Record Retention

The review further determined that historical affiliate agreements and supporting documentation were not maintained within a centralized regulatory evidence repository. Preparation of subsequent Cost of Service applications relied heavily on prior filing materials and institutional knowledge, contributing to the omission of the 2013 Amending Agreement from regulatory proceedings.

These findings formed the basis for the comprehensive affiliate cost review undertaken as part of the preparation of this application, including a review of historical pricing methodologies, allocation practices, and the customer impacts associated with the administration fee.

4.4.4 Comprehensive Review of Historical Affiliate Charges

During preparation of the 2027 Cost of Service Application, LUI identified that a 12% administration fee had historically been applied by Lakefront Utility Services Inc. ("LUSI") to certain shared-service employees providing services across affiliated entities.

Following discovery of the arrangement, LUI undertook a detailed review to determine the period over which the administration fee had been applied, the amounts charged, and the extent to which those amounts had been incorporated into distribution rates approved by the Ontario Energy Board.

The review included an examination of historical service agreements, audited financial statements, trial balances, Cost of Service applications, Revenue Requirement Work Forms, and supporting financial records. Particular attention was given to the treatment of the administration fee within the 2017 and 2022 Cost of Service proceedings.

The review confirmed that the administration fee was applied beginning in 2014 and that the resulting charges formed part of LUI's operating costs. The review further determined that these costs were reflected in the revenue requirements approved through the 2017 and 2022 Cost of Service proceedings and subsequently carried forward through annual IRM adjustments.

To determine the customer impact associated with the historical arrangement, LUI identified the administration fee amounts embedded within the approved revenue requirements and tracked their recovery through approved distribution rates. The analysis focused on the period beginning with the 2017 Cost of Service proceeding, which was the first rebasing application to reflect the administration fee.

Based on this analysis, LUI calculated that $995,813 of administration fee costs were embedded within approved distribution rates between 2017 and 2026. After the application of carrying charges, the calculated customer impact is approximately $1.15 million.

The methodology, calculations, and proposed customer remediation approach arising from this analysis are discussed in Section 4.4.5.

4.4.5 Historical Charge Reconciliation and Customer Remediation

Following the review of the historical management fee arrangement, LUI also examined the extent to which shared corporate overhead costs incurred by LUSI support the operations of affiliated entities.

While direct labour and operating costs can generally be assigned to specific service recipients, certain administrative functions are inherently shared across multiple entities. These functions include executive oversight, treasury management, budgeting, financial reporting, insurance administration, audit coordination, office administration, information systems, procurement support, facilities management, and other corporate services.

These costs are necessary to support the operation of LUI but are not always captured through direct labour allocations. Accordingly, LUI undertook a review of these shared overhead functions to ensure that future affiliate cost allocations appropriately reflect the services received by each affiliated entity.

As discussed in Section 4.4.4, LUI undertook a detailed review of the historical management fee charged by LUSI under the 2013 Amending Agreement. The purpose of the review was to estimate the extent to which the management fee was incorporated into distribution rates approved by the Ontario Energy Board and ultimately recovered from customers.

The review confirmed that the management fee was first charged beginning in 2014 following implementation of the amended affiliate agreement. However, distribution rates in effect during the 2014 to 2016 period had been established through LUI's 2012 Cost of Service proceeding and therefore did not reflect the subsequently introduced management fee arrangement.

LUI determined that the 2017 Cost of Service proceeding represented the appropriate starting point for quantifying customer impacts associated with the historical management fee arrangement. The 2017 proceeding established a new revenue requirement using test year costs that included the management fee and therefore represented the first rebasing period during which the management fee became embedded within approved distribution rates.

To quantify the customer impact, LUI identified the management fee amount reflected within the approved 2017 revenue requirement. As annual IRM adjustments are applied to the previously approved revenue requirement, LUI then carried this amount forward through subsequent IRM years using the approved annual adjustment factors. A similar analysis was completed for the 2022 Cost of Service proceeding, where the management fee component reflected within the approved revenue requirement was separately identified and subsequently carried forward through the applicable IRM period.

The methodology used by LUI is summarized below.

Step	Description
1	Identify management fee embedded in 2017 approved revenue requirement
2	Carry forward through 2018-2021 using approved IRM adjustment factors
3	Identify management fee embedded in 2022 approved revenue requirement
4	Carry forward through 2023-2026 using approved IRM adjustment factors
5	Apply carrying charges
6	Determine estimated customer impact

Based on this analysis, LUI calculated that $995,813 of management fee costs were recovered through approved rates between 2017 and 2026. After applying carrying charges of $155,911, the total customer impact is $1,151,724.

Following completion of the historical review, LUI considered various alternatives for addressing the estimated customer impact associated with the historical management fee arrangement.

The administrative fee was implemented as part of a bona fide affiliate arrangement and the associated costs were incurred in support of utility operations; as noted in the subsequent detailed analysis, the admin fee actually under recovers the cost of the services provided by LUSI to LUI. However, LUI recognizes that the amended agreement was not filed as part of the evidentiary record supporting the 2017 and 2022 Cost of Service proceedings, with the result that the increase in amounts allocated by LUSI to LUI in rates beginning in 2017 was not properly identified in the 2017 and 2022 Cost of Service applications.

Given these circumstances, management determined that it would be appropriate to return the estimated customer impact associated with the historical management fee arrangement to customers, notwithstanding the conclusion that the fee actually under recovered the costs legitimately allocable to LUI by LUSI.

Accordingly, LUI proposes to refund $1,151,724, including carrying charges, through a temporary rate rider, subject to Ontario Energy Board approval. The proposed refund reflects the management fee amounts embedded within approved rates between 2017 and 2026 together with applicable carrying charges calculated to December 31, 2026.

Detailed calculations supporting the historical charge reconciliation, carrying charge calculations, customer class allocation methodology, and proposed rate rider are provided in Appendix 4B and Exhibit 9 of this application.

Table 34 – Historical Management Fee Embedded in Approved Distribution Rates

Period	Methodology	Amount ($)
2017 Cost of Service	Management fee identified within approved revenue requirement	85,194

2018-2021 IRM Period	2017 amount escalated using approved annual IRM adjustment factors	338,023
2022 Cost of Service	Management fee identified within approved revenue requirement	102,954
2023-2026 IRM Period	2022 amount escalated using approved annual IRM adjustment factors	469,642
Total Estimated Management Fee Embedded in Rates		995,813
Carrying Charges	Calculated to December 31, 2026	155,911
Total Estimated Customer Impact		1,151,724

The objective of the analysis was not to quantify the total administrative fees charged between affiliated entities. Rather, the objective was to quantify the portion of those fees that became embedded within approved distribution rates and were subsequently recovered from customers. Accordingly, the analysis focuses on the 2017 and 2022 rebasing proceedings and the subsequent IRM periods during which those approved revenue requirements remained in effect.

Historical Affiliate Cost Allocation Methodology

Historically, affiliate service costs were accumulated within Lakefront Utility Services Inc. (LUSI), which functions as the shared service entity for the Lakefront group of companies. Shared service costs were subsequently allocated to Lakefront Utilities Inc. (LUI) through broad service categories reflected in Appendix 2-N. The historical approach was primarily designed to recover shared service costs incurred on behalf of the regulated utility and was based on annual cost allocations by service function.

While this methodology provided a reasonable mechanism for allocating shared service costs, it did not include a comprehensive transaction-level analysis of services provided and consumed across all affiliated entities. As a result, the methodology did not fully document the specific service relationships, allocation drivers, or reciprocal service flows among affiliates.

Current Review and Methodology Enhancement

As discussed, the Utility has initiated a detailed review of affiliate transactions and shared service arrangements across all affiliated entities. The review is intended to develop a more transparent and cost-causative allocation framework that:

- identifies service providers and service recipients at the transaction level;
- documents the nature of services provided;
- evaluates appropriate allocation methodologies and supporting drivers;
- supports consistency with the Affiliate Relationships Code;
- improves governance and documentation of affiliate transactions; and
- provides a foundation for future independent validation.

The review includes all affiliate entities and is not limited to transactions affecting LUI. The objective is to ensure that costs are allocated based on the services received and the underlying cost drivers rather than through broad aggregate allocations.

Use of Historical Appendix 2-N

For purposes of this application, Appendix 2-N continues to reflect the historical shared service allocation approach used during the test period and bridge year. The detailed affiliate costing review remains in progress and was not sufficiently advanced to replace the historical methodology for filing purposes.

The Utility expects that the results of the review will provide enhanced transparency regarding affiliate service relationships, allocation drivers, and cost causation. Any material findings arising from the review will be addressed through the settlement process or future regulatory proceedings, as appropriate.

Appendix 2-N is presented following the conclusion section 4.4.8

4.4.6 Revised Cost Allocation Framework

As discussed in Sections 4.4.3 through 4.4.5, LUI identified historical issues relating to the disclosure, support and governance of certain affiliate cost allocation practices. While the utility has discontinued the historical administration fee arrangement and initiated customer remediation, management concluded that a comprehensive review of affiliate cost allocation practices was warranted.

LUI therefore undertook a detailed review of affiliate transactions, service arrangements and allocation methodologies across affiliated entities. The review included an assessment of direct labour allocations, shared service arrangements, and corporate and administrative overhead costs incurred by Lakefront Utility Services Inc. ("LUSI"). The objective of the review was to ensure that costs allocated to LUI are supported by appropriate documentation, reflect the services received, and are allocated on a reasonable and cost-causative basis.

Historically, affiliate costs were allocated through broad service categories and included a 12% administration fee applied to certain shared-service employees. As discussed previously, the administration fee has been discontinued and is not included in the 2026 Bridge Year or 2027 Test Year forecasts.

Under the revised methodology, direct labour and operating costs are allocated to affiliated entities based on the services provided and the entities receiving the benefit of those services. Direct assignments are utilized where practical, while shared costs are allocated using cost-causative allocation factors.

Following the allocation of direct labour and operating costs, certain corporate and administrative expenses remain within LUSI. These costs represent shared overhead functions that support multiple affiliated entities and cannot be directly attributed to a single recipient.

To support the development of a revised overhead allocation methodology, LUI engaged KPMG to perform an independent review of LUSI's shared-service and corporate cost allocation practices. As an initial step, KPMG's completed a preliminary assessment of LUSI's 2025 Office and General expenses based on information and allocation methodologies provided by management, as these were the costs that were not directly captured in the existing methodology, but were instead indirectly and partially captured through the use of the 12% administration fee Based on that preliminary assessment, $231,950 of LUSI's 2025 Office and General expenses were identified as relating to services that directly or indirectly support LUI in 2025. The KPMG allocation review consists of costs directly benefiting LUI together with LUI's allocated share of general management and corporate overhead services and remains ongoing and subject to further validation of allocation drivers, assumptions and supporting documentation.

Unlike the historical 12% administration fee discussed in Sections 4.4.4 and 4.4.5, the costs reflected in Table 35 do not represent a markup, profit allowance, or percentage-based surcharge. Rather, they represent actual Office and General expenses incurred by LUSI that support the operations of LUI either directly or indirectly and which would otherwise need to be incurred by LUI if these services were provided internally.

For forecasting purposes, aninflationary increase was applied in the 2026 Bridge Year and 2027 Test Year.

Table 35 – Preliminary Allocation of LUSI Office and General Expenses

Account	Description	Directly Benefiting LUI (2025)	Allocated Share of General Management Services	Total LUI Allocation (2025)	2026 Bridge Year	2027 Test Year	Cost of Service Category
5187	Ops & Maint. Fibre Optic	9,283	2,205	11,488	11,833	12,188	Operations
5310	B&C Meter Read	-	-	-	-	-	B&C
5315	B&C Billing	1,968	234	2,202	2,268	2,336	B&C
5320	B&C Collecting	-	47	47	49	50	B&C
5340	B&C Miscellaneous	-	232	232	239	247	B&C
5410	Community Relations	-	1,225	1,225	1,262	1,299	B&C
5605	Director Costs	-	3,455	3,455	3,559	3,666	Administration
5610	Management Salaries & Expenses	69,494	7,508	77,002	79,312	81,691	Administration
5615	General Administration Salaries & Expenses	39,102	22,395	61,497	63,342	65,242	Administration
5620	Office Supplies & Expenses	-	26,801	26,801	27,605	28,433	Administration
5630	Outside Services Employed	18,666	22,605	41,271	42,509	43,784	Administration

5640	Injuries and Damages	-	1,555	1,555	1,602	1,650	Administration
5665	Miscellaneous	-	115	115	119	122	Administration
5675	Building Maintenance Operations	4,609	450	5,059	5,210	5,367	Administration
	Total Office and General Expenses	143,122	88,827	231,950	238,908	246,075	

The table below summarizes the allocation of LUSI Office and General expenses attributable to LUI. The allocation consists of costs identified as directly benefiting LUI together with LUI's allocated share of general management and corporate overhead services. The resulting costs have been incorporated into the 2026 Bridge Year and 2027 Test Year forecasts and mapped to the applicable OM&A accounts.

Table 36 – Mapping of LUSI Office and General Allocations to Cost of Service Accounts

Cost of Service Account	Category	APH Account	2025	2026	2027
5085 – Miscellaneous Distribution Expenses	Operations	5085	11,488	11,833	12,188
5315 – Customer Billing	Billing & collecting	5315	3,706	3,818	3,932
5615 – General Administration Salaries & Expenses	Administration	5615	216,755	223,258	229,956
	Total		231,950	238,908	246,075

The KPMG review remains ongoing and subject to further validation of allocation drivers, assumptions and supporting documentation.

The results of this review form the basis of the affiliate cost allocation framework described below. The framework is based on six key steps:

Table 37 – Framework

Step	Framework Objective
1	Identify service providers and service recipients
2	Define service categories
3	Build service cost pools
4	Determine the appropriate pricing basis
5	Select cost allocation methodologies and drivers
6	Validate, document and periodically review results

Each step is described below.

4.4.6.1 Identify Service Providers and Recipients

The first step in the framework is to identify the entity providing the service and the entity receiving the benefit. For LUI, the review focuses on transactions between LUSI, LUI, Holdco and the affiliated water utility operations. This assessment establishes whether costs can be directly assigned or require allocation.

4.4.6.2 Define Service Categories

Services are grouped into common categories to support consistent cost accumulation and allocation. These categories include finance, regulatory affairs, billing and customer service, engineering, operations, information technology, facilities, fleet, executive management, board governance, and health and safety.

4.4.6.3 Build Service Categories

Costs associated with each service category are identified and accumulated before allocation. Cost pools may include direct labour, employee benefits, payroll burden, software, facilities, fleet, consulting and other direct expenditures. This ensures costs are grouped consistently prior to determining an allocation methodology.

4.4.6.4 Determine Pricing Basis

The framework evaluates whether costs should be directly assigned, allocated using a cost-causative methodology, or supported through market-based or contractual pricing where appropriate. Direct assignments are prioritized whenever practical.

Table 38 – Pricing Basis Decision Tree

Question	If YES	If NO
Can the service be directly attributed to a single recipient?	Direct Cost	Proceed to Step 2
Is there a comparable external market or vendor rate?	Market-Based or Contract Rate	Proceed to Step 3
Is the service shared across multiple recipients?	Fully Allocated Cost	Direct Cost

4.4.6.5 Select Cost Allocation Methodology

Where costs cannot be directly assigned, allocation drivers are selected based on the principle of cost causality. Depending on the nature of the service, allocations may be based on labour effort, customer counts, physical usage measures, asset values, work orders, transaction volumes or other appropriate drivers.

Table 39 – Cost Allocation Methodology Decision Tree

Step	Question	If YES	If NO
1	Can the cost be directly attributed to a single entity?	Direct Assignment (No Allocation Required)	Proceed to Step 2
2	Is labour effort the primary cost driver?	Timesheets, Labour Hours or FTEs	Proceed to Step 3
3	Is customer usage the primary cost driver?	Customer Count or User Count	Proceed to Step 4
4	Is physical use the primary cost driver?	Square Footage, Asset Value or Equipment Usage	Proceed to Step 5
5	Is operational activity the primary cost driver?	Work Orders or Transaction Counts	Document Alternative Driver

Table 40 – Allocation Support Matrix

Allocation Method	Typical Supporting Documentation
Direct Assignment	Invoice, Journal Entry, Contract
Timesheets	Employee Timesheets
Labour Hours	Labour Reports
FTE Count	Payroll Records
Customer Count	Customer Reports
User Count	User Inventory
Square Footage	Floor Plans
Asset Value	Fixed Asset Register
Work Orders	Work Order Logs
Equipment Usage	Fleet Logs
Transaction Count	Transaction Reports

4.4.6.6 Validation and Documentation

The framework requires supporting documentation for all material allocations and pricing methodologies. Supporting evidence may include timesheets, payroll reports, customer count reports, floor plans, fixed asset records, work order logs and fleet utilization records.

The framework has been applied in the development of the 2025 Actual, 2026 Bridge Year and 2027 Test Year shared-service allocations. Management expects the framework to evolve as additional information becomes available through the ongoing review and validation of affiliate cost allocation methodologies being undertaken by KPMG.

However, the principles of direct assignment are expected to remain the foundation of future affiliate cost allocation practices and the objective of the framework is to ensure transparency, documentation, reproducible and consistency with the principles of cost causality and the Affiliate Relationships Code..

The revised framework does not materially change the treatment of costs that can be directly attributed to LUI. Under both the historical and revised methodologies, direct labour, operational, engineering, customer service, and other identifiable costs continue to be assigned directly to the entity receiving the service. The principal change introduced by the revised framework relates to the treatment of shared administrative and management overhead costs.

Historically, these shared overhead costs were indirectly recovered through the application of a 12% administration fee to a subset of directly allocated costs. While this approach provided a practical mechanism for recovering overhead expenses, it did not establish a direct relationship between individual overhead costs and the entities benefiting from those services. Under the revised framework, shared overhead costs are identified separately and allocated using documented cost drivers that more closely reflect cost causality and service consumption.

As a result, the revised framework should not be viewed as creating a fundamentally different direct cost allocation outcome for LUI. Rather, it replaces a percentage-based proxy allocation with a documented and supportable methodology that allocates shared overhead costs based on the nature of the services provided and the entities benefiting from those services. This approach improves transparency, reproducibility, and consistency with the Affiliate Relationships Code while preserving the direct assignment of costs wherever practicable.

4.4.7 Governance, Compliance and Internal Controls

The historical review described in Sections 4.4.3 through 4.4.5 identified opportunities to strengthen governance, documentation, and regulatory compliance processes associated with affiliate transactions and cost allocation practices.

In response, LUI has implemented a number of corrective actions designed to strengthen internal controls and improve regulatory oversight. These actions include the establishment of a centralized repository for regulatory evidence, service agreements, supporting studies, and affiliate documentation; enhanced management review and sign-off procedures for regulatory filings; and increased oversight of affiliate transactions and cost allocation methodologies.

LUI has also engaged external regulatory, legal and financial advisors to support the current Cost of Service application and assist in the review of historical affiliate arrangements and future cost allocation practices.

These enhancements are intended to improve transparency, strengthen documentation continuity, and ensure that future affiliate arrangements are supported by appropriate governance, documentation and review processes.

4.4.8 Workforce Stabilization and Internal Capacity Building

The historical review also highlighted the challenges associated with maintaining continuity of knowledge and regulatory oversight within a small utility operating in an increasingly complex regulatory environment.

Between 2022 and 2025, LUI experienced significant workforce turnover, retirements, vacancies and temporary staffing challenges affecting several key finance, regulatory, engineering and operational functions. To maintain continuity of operations and meet its regulatory obligations, LUI relied on a combination of internal promotions, temporary staffing arrangements, external consultants and specialized service providers.

Recognizing the need to strengthen internal capacity, LUI initiated a workforce stabilization strategy beginning in 2026. As discussed elsewhere in this application, the strategy includes targeted additions to engineering, operations, regulatory, GIS/SCADA and management functions, together with enhancements to financial oversight and compliance capabilities.

The objective of these investments is to strengthen internal expertise, improve organizational continuity, reduce reliance on external resources for core functions, and support the increasing technical, operational and regulatory requirements facing the utility.

4.4.9 Conclusion

The historical review described in Sections 4.4.3 through 4.4.5 identified opportunities to strengthen governance, documentation, and regulatory compliance processes associated with affiliate transactions and cost allocation practices.

In response, LUI has implemented a number of corrective actions designed to strengthen internal controls and improve regulatory oversight. These actions include the establishment of a centralized repository for regulatory evidence, service agreements, supporting studies, and affiliate documentation; enhanced management review and sign-off procedures for regulatory filings; and increased oversight of affiliate transactions and cost allocation methodologies.

As a further corrective measure, LUI has rescinded the 2013 Amending Agreement, discontinued the 12% administrative fee, and implemented a revised shared-services allocation methodology. The revised methodology reflects a review of direct labour allocations and corporate overhead costs and is supported by the ongoing validation work being performed by KPMG. Management determined that future affiliate service arrangements should be supported by a documented, transparent, and cost-causative framework consistent with the principles of the Affiliate Relationships Code.

LUI has also engaged external regulatory, legal and financial advisors to support the current Cost of Service application and assist in the review of historical affiliate arrangements and future cost allocation practices. In addition, the utility has initiated an independent review of affiliate cost allocation methodologies to support future validation of shared service arrangements and pricing structures.

These enhancements are intended to improve transparency, strengthen documentation continuity, ensure appropriate oversight of affiliate transactions, and provide greater confidence that future shared service arrangements are supported by appropriate governance, documentation and review processes.

LUI submits that the revised shared-service framework represents a significant improvement relative to historical practices. The framework eliminates the historical administration fee, strengthens transparency and documentation, aligns cost allocations more closely with cost causation principles, and establishes a foundation for ongoing independent review and validation. LUI believes these changes support compliance with the Affiliate Relationships Code and provide a reasonable basis for the recovery of shared-service costs included in the 2027 Test Year revenue requirement. The new service agreement is presented at Appendix 4D

4.4.9 Shared Services and Corporate Cost Allocation App 2-N

Appendix 2-N summarizes the shared service costs allocated between Lakefront Utility Services Inc. ("LUSI") and Lakefront Utilities Inc. ("LUI") for the historical, bridge year and test year periods. The schedules reflect the costs of management, administrative, customer service, operational, engineering and other support services provided by LUSI in support of LUI's regulated distribution business.

For the historical years, the schedules reflect the affiliate cost allocation methodologies in place during the applicable period. For the 2025 Actual, 2026 Bridge Year and 2027 Test Year, the schedules reflect the revised shared-services allocation methodology described in Section 4.4.6, including updated labour allocations and the allocation of shared corporate overhead costs identified through KPMG's preliminary review of LUSI Office and General expenses.

The Appendix 2-N schedules are intended to provide transparency regarding the nature of services provided, the pricing methodology applied, and the costs allocated to LUI.

Table 41 – Appendix 2-N

Year: 2022 Actual					
Shared Services					
Name of Company		**Service Offered**	**Pricing Methodology**	**Price for Service**	**Cost for Service**
From	**To**				
LUSI	LUI	Distribution Operations Wages and Benefits	Cost Based	402,525	402,525
LUSI	LUI	Distribution Maintenance Wages and Benefits	Cost Based	321,569	321,569
LUSI	LUI	Customer Billing and Collecting Wages	Cost Based	436,060	436,060
LUSI	LUI	Miscellaneous Customer Accounts Expenses	Cost Based	57,774	57,774
LUSI	LUI	Community Relations	Cost Based	29,397	29,397
LUSI	LUI	Management and Administrative Wages and Benefits	Cost Based	547,270	547,270
LUSI	LUI	Office Supplies and Expenses	Cost Based	108,170	108,170
LUSI	LUI	Outside Services	Cost Based	232,485	232,485
LUSI	LUI	Maintenance of General Plant	Cost Based	71,849	71,849
LUI	LUSI	Office Rental	Cost Based	56,249	56,249
			Total	**2,263,347**	**2,263,347**
Year: 2023 Actual					
Shared Services					
Name of Company		**Service Offered**	**Pricing Methodology**	**Price for Service**	**Cost for Service**
From	**To**				
LUSI	LUI	Distribution Operations Wages and Benefits	Cost Based	979,986	979,986
LUSI	LUI	Distribution Maintenance Wages and Benefits	Cost Based	309,743	309,743
LUSI	LUI	Customer Billing and Collecting Wages	Cost Based	490,452	490,452
LUSI	LUI	Miscellaneous Customer Accounts Expenses	Cost Based	88,081	88,081
LUSI	LUI	Community Relations	Cost Based	14,035	14,035
LUSI	LUI	Management and Administrative Wages and Benefits	Cost Based	628,456	628,456
LUSI	LUI	Office Supplies and Expenses	Cost Based	160,816	160,816
LUSI	LUI	Outside Services	Cost Based	325,177	325,177
LUSI	LUI	Maintenance of General Plant	Cost Based	164,194	164,194
LUI	LUSI	Office Rental	Cost Based	57,936	57,936
			Total	**3,218,876**	**3,218,876**
Year: 2024 Actual					
Shared Services					

Name of Company		Service Offered	Pricing Methodology	Price for Service	Cost for Service
From	To				
LUSI	LUI	Distribution Operations Wages and Benefits	Cost Based	434,954	434,954
LUSI	LUI	Distribution Maintenance Wages and Benefits	Cost Based	280,795	280,795
LUSI	LUI	Customer Billing and Collecting Wages	Cost Based	413,848	413,848
LUSI	LUI	Miscellaneous Customer Accounts Expenses	Cost Based	60,658	60,658
LUSI	LUI	Community Relations	Cost Based	17,837	17,837
LUSI	LUI	Management and Administrative Wages and Benefits	Cost Based	458,604	458,604
LUSI	LUI	Office Supplies and Expenses	Cost Based	141,799	141,799
LUSI	LUI	Outside Services	Cost Based	856,842	856,842
LUSI	LUI	Maintenance of General Plant	Cost Based	145,362	145,362
LUI	LUSI	Office Rental	Cost Based	59,675	59,675
			Total	**2,870,373**	**2,870,373**

Year: 2025 Actual based on Appendix 2-K and LUSI KPMG reviewed cost allocation

Shared Services

Name of Company		Service Offered	Pricing Methodology	Price for Service	Cost for Service
From	To				
LUSI	LUI	Distribution Operations Wages and Benefits	Cost Based	482,076	482,076
LUSI	LUI	Distribution Maintenance Wages and Benefits	Cost Based	109,960	109,960
LUSI	LUI	Customer Service Billing and Collecting Wages	Cost Based	195,223	195,223
LUSI	LUI	Management and Administrative Wages and Benefits	Cost Based	583,966	583,966
LUSI	LUI	Capital Wages and Benefits	Cost Based	959,789	959,789
LUSI	LUI	Outside Services	Cost Based	185,662	185,662
LUSI	LUI	Maintenance of General Plant	Cost Based	66,245	66,245
LUSI	LUI	Affiliate cost allocation to support treasury, audit, budget and insurance	Cost Based	231,950	231,950
LUSI	LUI	Office Rental	Cost Based	61,465	61,465
			Total	**2,876,335**	**2,876,335**

Year: 2026 Actual based on Appendix 2-K and LUSI KPMG reviewed cost allocation

Shared Services

Name of Company		Service Offered	Pricing Methodology	Price for Service	Cost for Service
From	To				
LUSI	LUI	Distribution Operations Wages and Benefits	Cost Based	644,703	644,703
LUSI	LUI	Distribution Maintenance Wages and Benefits	Cost Based	131,164	131,164
LUSI	LUI	Customer Service Billing and Collecting Wages	Cost Based	261,482	261,482
LUSI	LUI	Management and Administrative Wages and Benefits	Cost Based	693,723	693,723
LUSI	LUI	Capital Wages and Benefits	Cost Based	906,486	906,486
LUSI	LUI	Outside Services	Cost Based	204,904	204,904
LUSI	LUI	Maintenance of General Plant	Cost Based	8,333	8,333
LUSI	LUI	Affilate cost allocation to support treasury, audit, budget and insurance	Cost Based	238,908	238,908
LUSI	LUI	Office Rental	Cost Based	63,309	63,309
			Total	**3,153,012**	**3,153,012**

Year: 2027 Actual based on Appendix 2-K and LUSI KPMG reviewed cost allocation

Shared Services

Name of Company		Service Offered	Pricing Methodology	Price for Service	Cost for Service
From	To				
LUSI	LUI	Distribution Operations Wages and Benefits	Cost Based	751,746	751,746
LUSI	LUI	Distribution Maintenance Wages and Benefits	Cost Based	135,075	135,075
LUSI	LUI	Customer Service Billing and Collecting Wages	Cost Based	387,123	387,123
LUSI	LUI	Management and Administrative Wages and Benefits	Cost Based	662,700	662,700
LUSI	LUI	Capital Wages and Benefits	Cost Based	958,206	958,206
LUSI	LUI	Outside Services	Cost Based	188,361	188,361
LUSI	LUI	Maintenance of General Plant	Cost Based	8,845	8,845
LUSI	LUI	Affilate cost allocation to support treasury, audit, budget and insurance	Cost Based	246,075	246,075
LUSI	LUI	Office Rental	Cost Based	65,208	65,208
			Total	**3,403,339**	**3,403,339**

4.4.10 Variance Analysis of Shared Services and Corporate Cost Allocation

2027 Test Year vs 2022 Board Approved						
Shared Services						
Name of Company		Service Offered	Pricing Methodology	2027 Test Year	2022 Board Approved	Increase (Decrease)
From	To					
LUSI	LUI	Distribution Operations Wages and Benefits	Cost Based	751,746	707,393	44,353
LUSI	LUI	Distribution Maintenance Wages and Benefits	Cost Based	135,075	257,473	-122,398
LUSI	LUI	Customer Service Billing and Collecting Wages	Cost Based	387,123	516,279	-129,156
LUSI	LUI	Management and Administrative Wages and Benefits	Cost Based	662,700	577,455	85,245
LUSI	LUI	Capital Wages and Benefits	Cost Based	958,206	0	958,206
LUSI	LUI	Outside Services	Cost Based	188,361	222,496	-34,135
LUSI	LUI	Maintenance of General Plant	Cost Based	8,845	166,587	-157,742
LUSI	LUI	Affiliate cost allocation to support treasury, audit, budget and insurance	Cost Based	246,075	0	246,075
LUSI	LUI	Office Rental	Cost Based	65,208	56,248	8,960

2027 Test Year vs 2025 Actual						
Shared Services						
Name of Company		Service Offered	Pricing Methodology	2027 Test Year	2025 Actual	Increase (Decrease)
From	To					
LUSI	LUI	Distribution Operations Wages and Benefits	Cost Based	751,746	482,076	269,670
LUSI	LUI	Distribution Maintenance Wages and Benefits	Cost Based	135,075	109,960	25,116
LUSI	LUI	Customer Billing and Collecting Wages	Cost Based	387,123	195,223	191,900
LUSI	LUI	Management and Administrative Wages and Benefits	Cost Based	662,700	583,966	78,734
LUSI	LUI	Capital Wages and Benefits	Cost Based	958,206	959,789	-1,583
LUSI	LUI	Outside Services	Cost Based	188,361	185,662	2,699
LUSI	LUI	Maintenance of General Plant	Cost Based	8,845	66,245	-57,400
LUSI	LUI	Affiliate cost allocation to support treasury, audit, budget and insurance	Cost Based	246,075	231,950	14,126
LUSI	LUI	Office Rental	Cost Based	65,208	61,465	3,743

2022BA vs 2027

Overall, the increase in shared service costs between the 2022 Board Approved year and the 2027 Test Year reflects both changes in affiliate cost allocation methodology and the evolution of LUI's operational and organizational requirements. The 2022 Board Approved amounts included a historical 12% administration fee totaling $102,954 that was embedded within shared service costs. The 2027 Test Year no longer includes this administration fee and instead reflects a direct allocation of corporate support costs totaling $246,075 associated with treasury, audit, budget, insurance, information technology, and other shared corporate functions attributable to LUI.

Beyond the change in methodology, the increase in shared service costs reflects LUI's transition from a smaller organization with significant management vacancies and reliance on external consultants to a utility with greater internal operational capacity, enhanced management oversight, and additional resources dedicated to engineering, operations, customer service, asset management, information technology, regulatory compliance, and administrative support functions. The increase also reflects inflationary pressures, compensation adjustments required to attract and retain qualified employees in a competitive labour market, and the growing operational and regulatory requirements associated with operating a modern electricity distribution system.

While the revised affiliate cost allocation methodology affects direct comparability between the two periods, the majority of the increase in shared service costs is attributable to workforce investments, labour allocation changes, and the resources required to support a growing and increasingly complex utility operation.

2025 vs 2027

The comparison between the 2027 Test Year and 2025 Actual shared service costs reflects changes in labour allocations, workforce stabilization initiatives, and inflationary adjustments to shared corporate support costs. Unlike the comparison to the 2022 Board Approved amounts, both the 2025 Actual year and the 2027 Test Year reflect the revised affiliate cost allocation methodology described in Section 4.4.6, including the allocation of corporate overhead costs identified through KPMG's preliminary review of LUSI Office and General expenses.

The allocation for treasury, audit, budget, insurance and other shared corporate support services increases from $231,950 in 2025 to $246,075 in the 2027 Test Year, reflecting the application of annual inflationary increases. Accordingly, the variances between 2025 and 2027 primarily relate to changes in labour allocations and staffing levels rather than changes in the underlying affiliate cost allocation methodology.

APPENDICES

List of Appendices

Appendix 4A	Actuary Report
Appendix 4B	Detailed Calculation of Management Fees
Appendix 4C	Procurement Policy
Appendix 4D	2026 Service Contract
Appendix 4E	KPMG Letter

Appendix 4A Actuary Report

LAKEFRONT UTILITY SERVICES INC.

REPORT ON THE ACTUARIAL VALUATION OF POST-RETIREMENT NON-PENSION BENEFITS

AS AT DECEMBER 31, 2023

FINAL – February 12, 2024

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM

TABLE OF CONTENTS

EXECUTIVE SUMMARY

Purpose

RSM Canada Consulting LP was engaged by Lakefront Utility Services Inc. (the "Corporation") to perform an actuarial valuation of the post-retirement non-pension benefits sponsored by the Corporation and to determine the accounting results for those benefits for the fiscal period ending December 31, 2023. The nature of these benefits is defined benefit.

This report is prepared in accordance with the following standards:

1. For the Corporation's Electric Division employee/retiree group ("Electric Division"), the International Financial Reporting Standards (the "IFRS") guidelines for post-retirement non-pension benefits as outlined in International Accounting Standard 19 – Employee Benefits ("IAS 19").

2. For the Corporation's Water Division employee/retiree group ("Water Division"), the guidelines set forth under Section 3250 (Retirement Benefits) of the CPA Canada Public Sector Accounting Handbook ("PS 3250").

The Corporation has provided an indicator for each employee/retiree with the requested valuation data which identifies the division for each employee and retiree. This information has been used in providing calculations for each division under the appropriate accounting guidelines as noted above. The most recent full valuation was prepared as at December 31, 2020 based on the then appropriate assumptions and in accordance with IAS 19 for the Electric Division and PS 3250 for the Water Division.

The purpose of this valuation is threefold:

i) To determine the Corporation's liabilities in respect of post-retirement non-pension benefits at December 31, 2023;

ii) To determine the expense to be recognized in the income statement for fiscal year 2023; and

iii) To provide all other pertinent information necessary for compliance with IAS 19 for the Electric Division and PS 3250 for the Water Division.

Note that all monetary figures in this report are rounded to the nearest hundreds of dollars and summated figures in this report may not match total figures due to rounding.

The intended users of this report include the Corporation and its auditors. This report is not intended for use by the plan beneficiaries or for use in determining any funding of the benefit obligations.

Included in the Appendix attached hereto are detailed accounting schedules containing the results of the valuation and projections for future periods.

SECTION A —
VALUATION RESULTS (ELECTRIC DIVISION)

Section A – 1 shows the key valuation results for the Electric Division compared to previous year's figures projected from the most recent full valuation as well as a breakdown between active and retired individuals and type of benefit.

Section A – 2 shows the sensitivity of the valuation results to certain changes in assumptions for the Electric Division. We have shown an increase/decrease in the health and dental claims cost trend rates by 1% per annum and an increase/decrease in the discount rate by 1% per annum.

Section A – 3 shows details of the past service gain and the development of changes in the present value of defined benefit obligation as a result of the re-measurement at December 31, 2023 for the Electric Division.

Valuation Results

Section A.1 — Valuation Results for the Electric Division

Results from the actuarial valuation as at December 31, 2023 compared to previous year's figures projected from the most recent full valuation:

	December 31, 2022	December 31, 2023
Present Value of Defined Benefit Obligation (PV DBO)	415,500	467,300

	CY 2022	CY 2023
Current Service Cost	25,900	14,600
Interest Cost	16,500	19,700
Defined Benefit Cost Recognized in Income Statement	**42,400**	**34,300**
Actuarial (Gain)/Loss	(205,800)	68,500
Defined Benefit Cost Recognized In OCI	**(205,800)**	**68,500**
Defined Benefit Cost	**(163,400)**	**102,800**

The following table provides results from the actuarial valuation as at December 31, 2023 broken down by active and retired individuals and type of post-retirement non-pension benefit:

Dec. 31, 2023 PV DBO	Actives	Retirees	Total
Life	27,600	200,600	**228,300**
Health	40,300	123,900	**164,200**
Dental	18,500	56,400	**74,900**
Total	**86,400**	**381,000**	**467,300**

Sensitivity Analysis

Section A.2 — Sensitivity Analysis for the Electric Division

	Dec. 31, 2023 PV DBO	Difference	% Difference
Base Assumptions	467,300		
Cost Trends +1%	484,500	17,200	4%
Cost Trends -1%	452,500	(14,900)	-3%
Discount Rate +1%	424,500	(42,900)	-9%
Discount Rate -1%	520,900	53,600	11%

Management's best estimate assumptions are those outlined in *Section C – Summary of Actuarial Method and Assumptions* in this report.

Development of Changes in the Present Value of Defined Benefit Obligation

Section A.3 — Development of Changes in the Present Value of Defined Benefit Obligation for the Electric Division

PV DBO at December 31, 2022	415,500
2023 Current Service Cost	14,600
2023 Benefit Payments	(51,000)
2023 Interest Cost	19,700
Expected PV DBO at December 31, 2023	**398,900**
Actuarial (Gain)/Loss at December 31, 2023	68,500
PV DBO at December 31, 2023	**467,300**

The increase indicated above of $68,500 in the PV DBO from the expected PV DBO at December 31, 2023 is due to the re-measurement of the liability; a breakdown of the changes is as follows:

Change in demographics (actual vs expected experience)	101,300
Change in assumptions:	
Health and dental claims costs	(49,800)
Claims cost trend rate	(4,200)
Salary Increase Rate	2,300
Withdrawal Rate	500
Discount Rate	18,300
Total Actuarial (Gain)/Loss at December 31, 2020	**68,500**

Pursuant to IAS 19, the re-measurement of the PV DBO at December 31, 2023 based on the changes in the assumptions and experience is recognized immediately in other comprehensive income at December 31, 2023.

SECTION B — VALUATION RESULTS (WATER DIVISION)

Section B – 1 shows the key valuation results for the Water Division compared to previous year's figures projected from the most recent full valuation as well as a breakdown between active and retired individuals and type of benefit.

Section B – 2 shows the sensitivity of the valuation results to certain changes in assumptions for the Water Division. We have shown an increase/decrease in the health and dental claims cost trend rates by 1% per annum and an increase/decrease in the discount rate by 1% per annum.

Section B – 3 shows details of the past service gain and the development of changes in the accrued benefit obligation and amortization of actuarial gains and losses for the Water Division.

Valuation Results

Section B.1—Valuation Results for the Water Division

Results from the actuarial valuation as at December 31, 2023 compared to previous year's figures projected from the most recent full valuation:

	December 31, 2022	December 31, 2023
Accrued Benefit Obligation (ABO)	185,600	305,400

	CY 2022	CY 2023
Current Service Cost	15,300	9,000
Interest on Benefits	9,200	8,700
Actuarial (Gain)/Loss	6,600	(6,300)
Total Benefit Expense	**31,100**	**11,400**
Contributions / Benefit Payments	**44,300**	**42,700**

The following table provides results from the actuarial valuation as at December 31, 2023 broken down by active and retired individuals and type of post-retirement non-pension benefit:

Dec. 31, 2023 ABO	Actives	Retirees	Total
Life	21,200	119,000	**140,200**
Health	26,600	86,800	**113,400**
Dental	12,100	39,800	**51,900**
Total	**59,800**	**245,600**	**305,400**

Sensitivity Analysis

Section B.2—Sensitivity Analysis for the Water Division

	Dec. 31, 2023 ABO	Difference	% Difference
Base Assumptions	305,400		
Cost Trends +1%	317,300	11,900	4%
Cost Trends -1%	295,200	(10,300)	-3%
Discount Rate +1%	272,300	(33,100)	-11%
Discount Rate -1%	347,200	41,700	14%

Management's best estimate assumptions are those outlined in *Section C – Summary of Actuarial Method and Assumptions* in this report.

Development of Changes in the Accrued Benefit Obligation

Section B.3—Development of Actuarial Gains and Losses at December 31, 2023 for the Water Division

Actual ABO at December 31, 2023	305,400
Less: Expected ABO at December 31, 2023	160,600
(Gain)/Loss on ABO as at December 31, 2023	**144,800**
(Gain)/Loss on ABO at January 1, 2023	(68,900)
Less: Actual Amortization for 2023	(6,300)
(Gain)/Loss on ABO as at December 31, 2023	144,800
Total (Gain)/Loss on ABO as at December 31, 2023	**82,100**

The increase indicated above of $144,800 in the ABO from the expected ABO at December 31, 2023 is due to the re-measurement of the liability; a breakdown of the changes is as follows:

Change in demographics (actual vs expected experience)	165,700
Change in assumptions:	
Health and dental claims costs	(34,400)
Claims cost trend rate	(2,700)
Salary Increase Rate	1,700
Withdrawal Rate	300
Discount Rate	14,100
Total Actuarial (Gain)/Loss at December 31, 2020	**144,800**

PS 3250 requires entities to adopt a systematic method for recognizing actuarial gains and losses in income to be applied consistently from year to year. In prior years, the Corporation has chosen to amortize the amount of actuarial (gains)/losses over the Expected Average Remaining Service Lifetime (“EARSL”) of the active employees in the valuation. Therefore, the amount of unamortized actuarial gain to be recognized in 2023 is approximately $6,300, based on the calculations of the amortization amount in the previous extrapolation.

The EARSL of the current active group is 15 years. The total actuarial loss at December 31, 2023 of $82,100 would be amortized over this period starting in 2024 with an annual amount of approximately $5,500.

SECTION C — PLAN PARTICIPANTS

Section C – 1 sets out the summary information with respect to the plan participants valued in the current valuation compared to those valued in the previous valuation.

Section C – 2 reconciles the number of participants in the previous valuation to the number of participants in the current valuation.

Participation Data

Section C.1—Participant Data

Membership data as at September 30, 2023 was received from the Corporation via e-mail and included information such as name, sex, age, date of hire, current salary, benefit amounts and other applicable details for all active employees and people in receipt of benefits.

Although the data provided reflected status and benefit information as at September 30, the Corporation has indicated that any changes in status and other member data occurring from October 1 to December 31 are not expected to be material to the valuation results.

We have reviewed the data and compared it to the data used in the previous valuation for consistency and reliability for use in this valuation. The main tests of sufficiency and reliability that were conducted on the membership data are as follows:

- Date of hire prior to date of birth;
- Ages under 18 or over 100;
- Abnormal levels of benefits and/or premiums; and
- Duplicate records

In addition, the following tests were performed:

- A reconciliation of statuses from the prior valuation to the current valuation;
- A review of the consistency of individual data items and statistical summaries between the current and prior valuations; and
- A review of the reasonableness of changes in such information since the prior valuation.

	December 31, 2020	September 30, 2023
Employee Count		
Male	22	20
Female	10	9
Total	**32**	**29**
Employee Average Service		
Male	8.6	7.8
Female	9.2	4.4
Total	**8.8**	**6.8**
Retiree (in Receipt of Benefits) Count		
Male	19	22
Female	6	9
Total	**25**	**31**

	Employee Count as of Sep. 30, 2023			Employee Avg Service as of Sep. 30, 2023		
Age	**Male**	**Female**	**Total**	**Male**	**Female**	**Total**
< 30	3	1	4	.9	1.3	1.0
30 - 35	1	-	1	.6	-	.6
36 - 40	4	-	4	8.6	-	8.6
41 - 45	6	4	10	9.4	3.9	7.2
46 - 50	1	4	5	3.4	5.6	5.1
51 - 55	2	-	2	12.7	-	12.7
56 - 60	1	-	1	18.4	-	18.4
61 - 65	-	-	-	-	-	-
66 - 70	2	-	2	7.9	-	7.9
71 - 75	-	-	-	-	-	-
> 75	-	-	-	-	-	-
Total	**20**	**9**	**29**	**7.8**	**4.4**	**6.8**

Participant Reconciliation

Section C.2—Participation Reconciliation

	Actives	Retired
As at December 31, 2020	32	25
New Entrants	13	-
Actives	-	6
Terminated	(10)	-
Retired	(6)	-
Deceased	-	-
Disabled	-	-
No Longer Eligible	-	-
As at September 30, 2023	**29**	**31**

SECTION D — SUMMARY OF ACTUARIAL METHOD AND ASSUMPTIONS

Actuarial Method

The aim of an actuarial valuation of post-retirement non-pension benefits is to provide a reasonable and systematic allocation of the cost of these future benefits to the years in which the related employees' services are rendered. To accomplish this, it is necessary to:

- make assumptions for discount rates, mortality, and other decrements;
- use these assumptions to calculate the present value of the expected future benefits; and,
- adopt an actuarial cost method to allocate the present value of expected future benefits to the specific years of employment.

The Defined Benefit Obligation and Current Service Cost were determined using the projected benefit method, pro-rated on service. This is the method stipulated by IAS 19 and PS 3250. Under this method, the projected post-retirement benefits are deemed to be earned on a pro-rata basis over the years of service in the attribution period. IAS 19 stipulates that the attribution period commences on the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service) and ends on the date when further service by the employee will lead to no material amount of further post-retirement non-pension benefits under the plan, other than from further salary increases. PS 3250 stipulates that the attribution period commences at the employee's hire date and ends at the date of retirement.

For each employee not yet fully eligible for benefits, the Present Value of the Defined Benefit Obligation (PV DBO) or the Accrued Benefit Obligation (ABO) is equal to the present value of expected future benefits multiplied by the ratio of the years of service to the valuation date to the total years of service in the attribution period. The Current Service Cost is equal to the present value of expected future benefits multiplied by the ratio of the year (or part) of service in the fiscal year to total years of service in the attribution period.

The PV DBO or ABO at December 31, 2023 is based on membership data and management's best estimate assumptions established for calculations as at December 31, 2023.

For health and dental benefits, the Corporation has selected the premium rates charge to retirees as management's best estimate of the current base benefits costs to be incurred for both the Electric Division and Water Division. The total monthly premium rates, inclusive of expenses and premium taxes, used are as follows:

January 1, 2021 - December 31, 2021 (Previous Valuation)	Health		Dental	
Retiree Division	**Single**	**Family**	**Single**	**Family**
Management	$ 203.04	$ 472.24	$ 106.76	$ 256.86
Union	$ 196.44	$ 456.74	$ 83.15	$ 199.95

January 1, 2023 - December 31, 2024 (Current Valuation)	Health		Dental	
Retiree Division	**Single**	**Family**	**Single**	**Family**
Management	$192.89	$447.72	$101.42	$240.38
Union	$186.62	$433.90	$78.99	$189.95

The rates above are at the 100% level and prior to any cost-sharing provisions that may be applicable under the plan.

Management's Best Estimate Assumptions

The following are management's best estimate economic and demographic assumptions for calculations as at December 31, 2023. These assumptions are used for both the Electric Division and Water Division.

Economic Assumptions

Discount Rate

The rate used to discount future benefits is assumed to be 4.65% per annum as at December 31, 2023. This rate reflects the Corporation's expected projected benefit cash flows for post-retirement non-pension benefits and the market yields on high quality bonds at December 31, 2023.

This assumption was 5.05% per annum at December 31, 2022.

Salary Increase Rate

The rate used to increase salaries is assumed to be 3.30% per annum for the first 5 years, and 2.50% per annum going forward. This rate reflects the expected Consumer Price Index adjusted for productivity, merit and promotion and for company-specific information.

This assumption chosen as at December 31, 2020 was 2.00% per annum .

Claims Cost Trend Rate

The rates used to project benefits costs into the future were chosen based on a research paper published by the Canadian Institute of Actuaries – Model of Long-Term Health Care Cost Trends in Canada - dated March 2018.

The following table provides a sample of the health and dental trend rates used in the valuation and the assumptions used in the previous valuation:

	Current Valuation
Year	Health and Dental
2024	4.20%
2029	5.30%
2034	5.00%
2039	4.40%
2042 and thereafter	4.00%

	Previous Valuation	
Year	Health	Dental
2024	5.10%	5.40%
2029	5.30%	5.30%
2034	4.80%	4.80%
2039	4.20%	4.20%
2042 and thereafter	4.00%	4.00%

Demographic Assumptions

Mortality Table

The mortality tables used are as per the Canadian Institute of Actuaries Canadian Pensioners' Mortality Pension Experience Subcommittee final report dated February 11, 2014 (CIA Report). More specifically, the Canada Pensioners Mortality ("CPM") Table Public Sector (CPM2014 PUBL) has been used with the generational projection of mortality improvement based upon the CIA MI-2017 mortality improvement scale published in 2017.

This assumption remains unchanged from the previous valuation.

Rates of Withdrawal

Termination of employment is assumed to be in accordance with the following withdrawal table. This is based on analysis of the withdrawal experience compiled for a group of similar companies for which data was available.

Age Bucket	Current Valuation	Previous Valuation
18 – 29	2.75%	2.90%
30 – 34	2.20%	2.15%
35 – 39	1.65%	1.85%
40 – 49	1.40%	1.45%
50 – 54	1.20%	1.25%

Retirement Age

All active employees are assumed to retire at age 60 (or immediately if currently over age 60), which was based on the Corporation's retirement experience as well as the experience of other similar companies for which data was available. The retirement age assumption was increased to the earliest date that the individual receives an OMERS unreduced pension (no later than age 65) if that date is greater than age 60.

This assumption remains unchanged from the previous valuation.

Disability

No provision was made for future disability.

This assumption remains unchanged from the previous valuation.

Other Assumptions

Family/Single Coverage

The following assumptions were chosen for the current valuation and are unchanged from the previous valuation:

- Coverage Type at Retirement (i.e. family, single) – For active employees, the employee's coverage type at the valuation date will remain the same until the employee reaches the assumed retirement age. For retirees, the actual current benefit coverage type at the valuation date was provided by the Corporation.
- Spousal Gender – For employees with family coverage, the retiree has a spouse of the opposite gender at the date of retirement.
- Spousal Age Offset – Male spouses are assumed to be three years older than female spouses.

Expenses and Taxes

The taxes and expenses are included in the premium rates assumed for health and dental benefits.

We have assumed 10% of benefits is required for the cost of sponsoring the program for post-retirement life insurance.

These assumptions remain unchanged from the previous valuation.

SECTION E —
SUMMARY OF POST-RETIREMENT BENEFITS

The following is a summary of the plan provisions that are pertinent to this valuation, based on information provided by and discussions with the Corporation. These provisions are used for both the Electric Division and Water Division.

Eligibility

Upon retirement, all employees of the Corporation are eligible for post-retirement life insurance.

All employees who retire with an unreduced pension after February 1, 2010 with at least 10 years of service between the age 55 and 65 are eligible for post-retirement health and dental benefits.

In addition, all management employees who retire between ages 65 and 70 with at least 10 years of service are eligible to receive post-retirement health and dental benefits until age 70.

Participant Contributions

The Corporation shall pay 100% of the cost of post-retirement life, health, and dental benefits for eligible retirees.

Summary of Benefits

Life Insurance

Upon retirement, all employees are entitled to post-retirement life insurance benefits, as per the MEARIE plan, based upon the following table. There is one exception for an employee who will receive Plan Option 2 benefits at retirement even though they will have less than 10 years of service.

Plan Option	Amount of Coverage	Eligibility
1	Flat $2,000.	Employee retires with less than 10 years of service in the Plan.
2	50% of final annual earnings, reducing by 2.5% of final annual earnings each year for 10 years, to a final benefit equal to 25% of final annual earnings. Reduction occurs on the anniversary date of retirement.	Employee retires with 10 or more years of service in the Plan and was hired before June 16, 1989. OR Employee was insured under the superseded plan and elected coverage under option 2, 3, or 4, or employee was not insured under the superseded plan.
3	50% of final annual earnings.	Employee was insured under the superseded plan and was hired on or after May 1, 1967 and elected coverage under option 1 only.
4	70% of final amount insured under the life plan immediately prior to retirement.	Employee was insured under the superseded plan and was hired before May 1, 1967 and elected coverage under option 1 only.

Health and Dental Benefits

All eligible employees are entitled to receive post-retirement health and dental benefits until age 65. In addition, all management employees who retire between ages 65 and 70 with 10 years of service receive post-retirement health and dental benefits until age 70.

A detailed description of the health and dental benefits covered under the post-retirement non-pension benefits plan can be found in corresponding collective agreements and benefit booklets.

ACTUARIAL CERTIFICATION

An actuarial valuation has been performed on the post-retirement non-pension benefit plans sponsored by Lakefront Utility Services Inc. (the "Corporation") as at December 31, 2023, for the purposes described in this report.

In accordance with the Canadian Institute of Actuaries Consolidated Standards of Practice General Standards, we hereby certify that, in our opinion, for the purposes stated in the Executive Summary:

1. The data on which the valuation is based is sufficient and reliable for the purpose of the valuation;

2. The assumptions employed, as outlined in this report, have been selected by the Corporation as management's best estimate assumptions (no provision for adverse deviations). They are considered appropriate for purposes of the valuation;

3. All known legal and constructive obligations with respect to the post-retirement non-pension benefits sponsored by and identified by the Corporation are included in the calculations. The calculations have been made in accordance with our understanding of the requirements of International Financial Reporting Standards ("IFRS") outlined in International Accounting Standard 19 – Employee Benefits ("IAS 19") for the Electric Division and Section 3250 (Retirement Benefits) of the CPA Canada Public Sector Accounting Handbook ("PS 3250") for the Water Division; and

4. This report has been prepared, and our opinions given, in accordance with accepted actuarial practice in Canada.

We are not aware of any subsequent events after the date of completing this valuation that would have a significant effect on the valuation results contained herein.

The latest date on which the next actuarial valuation should be performed is December 31, 2026. If any supplemental advice or explanation is required, please advise the undersigned.

Respectfully submitted,
RSM CANADA CONSULTING LP

Stanley Caravaggio

Stanley Caravaggio, FSA, FCIA
Director

Toronto, Ontario

February 12, 2024

SECTION F — EMPLOYER CERTIFICATION

**Post-Retirement Non-Pension Benefit Plan
of Lakefront Utility Services Inc.
Actuarial Valuation as at December 31, 2023**

I hereby confirm, as an authorized signing officer of the administrator of the Post-Retirement Non-Pension Benefit Plan of Lakefront Utility Services Inc. that, to the best of my knowledge and belief, for the purposes of the valuation:

i) The membership data summarized in Section C is accurate and complete;

ii) The assumptions upon which this report is based as summarized in Section D, are management's best estimate assumptions and are adequate and appropriate for the purposes of this valuation; and

iii) The summary of Plan Provisions in Section E is an accurate and complete summary of the terms of the Plan in effect on December 31, 2023.

LAKEFRONT UTILITY SERVICES INC.

February/9/24	
Date	Signature
Derek C. Paul	President & CEO
Name	Title

APPENDIX — DETAILED ACCOUNTING SCHEDULES

RSM

02/12/2024

Lakefront Utility Services Inc.

Estimated Benefit Expense (IAS 19)

ELECTRIC DIVISION

FINAL

	Actuals CY 2023 *	Projected ** CY 2024	Projected ** CY 2025	Projected ** CY 2026
Discount Rate at January 1	5.05%	4.65%	4.65%	4.65%
Discount Rate at December 31	4.65%	4.65%	4.65%	4.65%
Health Benefit Cost Trend Rate at December 31	4.90%	4.20%	4.40%	4.60%
Dental Benefit Cost Trend Rate at December 31	5.10%	4.20%	4.40%	4.60%
Long Term Health and Dental Benefit Cost Trend Rate	4.00%	4.00%	4.00%	4.00%
First Year Of Long Term Health and Dental Benefit Cost Trend Rate	2042	2042	2042	2042
Withdrawal Rate	age-based table	age-based table	age-based table	age-based table
Assumed Increase in Employer Contributions	expected ***	expected ***	expected ***	expected ***
A. Change in the Net Defined Benefit Liability/(Asset) Recognized in Balance Sheet				
Net Defined Benefit Liability/(Asset) as at January 1	415,542	467,349	447,861	427,089
Defined Benefit Cost Recognized in Income Statement	34,327	29,425	28,911	28,679
Defined Benefit Cost Recognized in Other Comprehensive Income	68,468	-	-	-
Benefits Paid by the Employer	(50,989)	(48,912)	(49,684)	(42,125)
Net Defined Benefit Liability/(Asset) as at December 31	467,349	447,861	427,089	413,643
B. Determination of Defined Benefit Cost				
B1. Determination of Defined Benefit Cost Recognized in Income Statement				
Current Service Cost	14,630	8,830	9,241	9,799
Interest Cost	19,697	20,595	19,670	18,880
Defined Benefit Cost Recognized in Income Statement	34,327	29,425	28,911	28,679
B2. Remeasurements of the Net Defined Benefit Liability/(Asset) Recognized in Other Comprehensive Income				
Net Actuarial Loss/(Gain) arising from Changes in Financial Assumptions	(33,386)	-	-	-
Net Actuarial Loss/(Gain) arising from Changes in Demographic Assumptions	506	-	-	-
Net Actuarial Loss/(Gain) arising from Experience Adjustments	101,348	-	-	-
Return on Plan Assets (Excluding Amounts Included in Net Interest Cost)	-	-	-	-
Change in Effect of Asset Ceiling	-	-	-	-
Defined Benefit Cost Recognized in Other Comprehensive Income	68,468	-	-	-
Total Defined Benefit Cost	102,795	29,425	28,911	28,679
C. Change in the Present Value of Defined Benefit Obligation				
Present Value of Defined Benefit Obligation as at January 1	415,542	467,349	447,861	427,089
Current Service Cost	14,630	8,830	9,241	9,799
Interest Cost	19,697	20,595	19,670	18,880
Benefits Paid	(50,989)	(48,912)	(49,684)	(42,125)
Net Actuarial Loss/(Gain)	68,468	-	-	-
Present Value of Defined Benefit Obligation as at December 31	467,349	447,861	427,089	413,643

* The CY 2023 defined benefit cost and expected PV DBO at December 31, 2023 are calculated based on membership data at December 31, 2020 and management's best estimate assumptions at December 31, 2022.

** Projected CY 2024, 2025 and 2026 results are provided for informational purposes only. Significant changes such as re-negotiated benefits, increased benefit costs, or significant swings in demographics may require revised projections or a full actuarial review.

*** Based on expected benefits to be paid to those eligible for benefits.

02/12/2024

Lakefront Utility Services Inc.

Estimated Benefit Expense (IAS 19)

ELECTRIC DIVISION

FINAL

	Actuals CY 2023 *	Projected ** CY 2024	Projected ** CY 2025	Projected ** CY 2026
Discount Rate at January 1	5.05%	4.65%	4.65%	4.65%
Discount Rate at December 31	4.65%	4.65%	4.65%	4.65%
Health Benefit Cost Trend Rate at December 31	4.90%	4.20%	4.40%	4.60%
Dental Benefit Cost Trend Rate at December 31	5.10%	4.20%	4.40%	4.60%
Long Term Health and Dental Benefit Cost Trend Rate	4.00%	4.00%	4.00%	4.00%
First Year Of Long Term Health and Dental Benefit Cost Trend Rate	2042	2042	2042	2042
Withdrawal Rate	age-based table	age-based table	age-based table	age-based table
Assumed Increase in Employer Contributions	expected ***	expected ***	expected ***	expected ***

D. Calculation of Component Items

	Actuals CY 2023 *	Projected ** CY 2024	Projected ** CY 2025	Projected ** CY 2026
Service Cost				
Current Service Cost	14,630	8,830	9,241	9,799
Interest Cost				
Present Value of Defined Benefit Obligation as at January 1	415,542	467,349	447,861	427,089
Benefits Paid	(25,494)	(24,456)	(24,842)	(21,062)
Accrued Benefits	390,048	442,893	423,020	406,026
Interest Cost	19,697	20,595	19,670	18,880
Expected Present Value of Defined Benefit Obligation as at December 31				
Present Value of Defined Benefit Obligation as at January 1	415,542	467,349	447,861	427,089
Current Service Cost	14,630	8,830	9,241	9,799
Benefits Paid	(50,989)	(48,912)	(49,684)	(42,125)
Interest Cost	19,697	20,595	19,670	18,880
Expected Present Value of Defined Benefit Obligation as at December 31	398,880	447,861	427,089	413,643

E. Net Actuarial Loss/(Gain)

	Actuals CY 2023 *	Projected ** CY 2024	Projected ** CY 2025	Projected ** CY 2026
Net Actuarial Loss/(Gain) as at December 31				
Expected Present Value of Defined Benefit Obligation	398,880	447,861	427,089	413,643
Actual Present Value of Defined Benefit Obligation	467,349	447,861	427,089	413,643
Net Actuarial Loss/(Gain) as at December 31	68,468	-	-	-

* The CY 2023 defined benefit cost and expected PV DBO at December 31, 2023 are calculated based on membership data at December 31, 2020 and management's best estimate assumptions at December 31, 2022.

** Projected CY 2024, 2025 and 2026 results are provided for informational purposes only. Significant changes such as re-negotiated benefits, increased benefit costs, or significant swings in demographics may require revised projections or a full actuarial review.

*** Based on expected benefits to be paid to those eligible for benefits.

02/12/2024

Lakefront Utility Services Inc.
Estimated Benefit Expense (PS 3250)
WATER DIVISION
FINAL

	Actuals CY 2023 *	Projected ** CY 2024	Projected ** CY 2025	Projected ** CY 2026
Discount Rate at January 1	5.05%	4.65%	4.65%	4.65%
Discount Rate at December 31	4.65%	4.65%	4.65%	4.65%
Health Benefit Cost Trend Rate at December 31	4.90%	4.20%	4.40%	4.60%
Dental Benefit Cost Trend Rate at December 31	5.10%	4.20%	4.40%	4.60%
Long Term Health and Dental Benefit Cost Trend Rate	4.00%	4.00%	4.00%	4.00%
First Year Of Long Term Health and Dental Benefit Cost Trend Rate	2042	2042	2042	2042
Withdrawal Rate	age-based table	age-based table	age-based table	age-based table
Assumed Increase in Contributions/Benefit Payments	expected ***	expected ***	expected ***	expected ***
A. Determination of Benefit Expense				
Current Service Cost	8,962	6,516	6,819	7,136
Interest on Benefits	8,747	13,829	13,410	13,222
Interest on Assets	-	-	-	-
Actuarial (Gain)/Loss	(6,268)	5,477	5,477	5,477
Benefit Expense	**11,440**	**25,821**	**25,705**	**25,834**
B. Reconciliation of Prepaid Benefit Asset (Liability)				
Accrued Benefit Obligation (ABO) as at December 31	305,436	296,665	286,681	288,077
Assets as at December 31	-	-	-	-
Unfunded ABO	(305,436)	(296,665)	(286,681)	(288,077)
Unrecognized Actuarial Loss/(Gain)	82,148	76,671	71,195	65,718
Prepaid Benefit Asset/(Liability)	**(223,288)**	**(219,994)**	**(215,486)**	**(222,359)**
Prepaid Benefit Asset/(Liability) as at January 1	(254,524)	(223,288)	(219,994)	(215,486)
Benefit Income/(Expense)	(11,440)	(25,821)	(25,705)	(25,834)
Contributions/Benefit Payments by the Employer	42,676	29,115	30,212	18,962
Prepaid Benefit Asset/(Liability)	**(223,288)**	**(219,994)**	**(215,486)**	**(222,359)**

* The CY 2023 defined benefit cost and expected PV DBO at December 31, 2023 are calculated based on membership data at December 31, 2020 and management's best estimate assumptions at December 31, 2022.

** Projected CY 2024, 2025 and 2026 results are provided for informational purposes only. Significant changes such as re-negotiated benefits, increased benefit costs, or significant swings in demographics may require revised projections or a full actuarial review.

*** Based on expected benefits to be paid to those eligible for benefits.

02/12/2024

Lakefront Utility Services Inc.
Estimated Benefit Expense (PS 3250)
WATER DIVISION
FINAL

	Actuals CY 2023 *	Projected ** CY 2024	Projected ** CY 2025	Projected ** CY 2026
Discount Rate at January 1	5.05%	4.65%	4.65%	4.65%
Discount Rate at December 31	4.65%	4.65%	4.65%	4.65%
Health Benefit Cost Trend Rate at December 31	4.90%	4.20%	4.40%	4.60%
Dental Benefit Cost Trend Rate at December 31	5.10%	4.20%	4.40%	4.60%
Long Term Health and Dental Benefit Cost Trend Rate	4.00%	4.00%	4.00%	4.00%
First Year Of Long Term Health and Dental Benefit Cost Trend Rate	2042	2042	2042	2042
Withdrawal Rate	age-based table	age-based table	age-based table	age-based table
Assumed Increase in Contributions/Benefit Payments	expected ***	expected ***	expected ***	expected ***

C. Calculation of Component Items

Current Service Cost	8,962	6,516	6,819	7,136
Interest on Benefits				
ABO at January 1	185,577	305,436	296,665	286,681
Current Service Cost	8,962	6,516	6,819	7,136
Benefit Payments	(21,338)	(14,558)	(15,106)	(9,481)
Accrued Benefits	173,200	297,394	288,378	284,336
Interest on Benefits	8,747	13,829	13,410	13,222
Expected ABO as at December 31				
ABO at January 1	185,577	305,436	296,665	286,681
Current Service Cost	8,962	6,516	6,819	7,136
Benefit Payments	(42,676)	(29,115)	(30,212)	(18,962)
Interest on Benefits	8,747	13,829	13,410	13,222
Expected ABO at December 31	160,609	296,665	286,681	288,077
Interest on Assets				
Assets at January 1	-	-	-	-
Funding	21,338	14,558	15,106	9,481
Benefit Payments	(21,338)	(14,558)	(15,106)	(9,481)
Expected Assets	-	-	-	-
Interest on Assets	-	-	-	-
Expected Assets as at December 31				
Assets at January 1	-	-	-	-
Funding	42,676	29,115	30,212	18,962
Benefit Payments	(42,676)	(29,115)	(30,212)	(18,962)
Interest on Assets	-	-	-	-
Expected Assets at December 31	-	-	-	-

* The CY 2023 defined benefit cost and expected PV DBO at December 31, 2023 are calculated based on membership data at December 31, 2020 and management's best estimate assumptions at December 31, 2012.

** Projected CY 2024, 2025 and 2026 results are provided for informational purposes only. Significant changes such as re-negotiated benefits, increased benefit costs, or significant swings in demographics may require revised projections or a full actuarial review.

*** Based on expected benefits to be paid to those eligible for benefits.

RSM

02/12/2024

Lakefront Utility Services Inc.

Estimated Benefit Expense (PS 3250)

WATER DIVISION

FINAL

	Actuals CY 2023 *	**Projected ** CY 2024**	**Projected ** CY 2025**	**Projected ** CY 2026**
Discount Rate at January 1	5.05%	4.65%	4.65%	4.65%
Discount Rate at December 31	4.65%	4.65%	4.65%	4.65%
Health Benefit Cost Trend Rate at December 31	4.90%	4.20%	4.40%	4.60%
Dental Benefit Cost Trend Rate at December 31	5.10%	4.20%	4.40%	4.60%
Long Term Health and Dental Benefit Cost Trend Rate	4.00%	4.00%	4.00%	4.00%
First Year Of Long Term Health and Dental Benefit Cost Trend Rate	2042	2042	2042	2042
Withdrawal Rate	age-based table	age-based table	age-based table	age-based table
Assumed Increase in Contributions/Benefit Payments	expected ***	expected ***	expected ***	expected ***
D. Amortization of Actuarial Loss/(Gain)				
(Gain)/Loss on ABO as at January 1				
Prepaid Benefit Liability/(Asset) as at January 1	254,524	223,288	219,994	215,486
Unamortized (Gain)/Loss	(68,947)	82,148	76,671	71,195
Expected ABO	185,577	305,436	296,665	286,681
Actual ABO	185,577	305,436	296,665	286,681
(Gain)/Loss on ABO at January 1	-	-	-	-
(Gain)/Loss on Assets as at January 1				
Expected Assets	-	-	-	-
Actual Assets	-	-	-	-
(Gain)/Loss on Assets as at January 1	-	-	-	-
Total (Gain)/Loss as at January 1	(68,947)	82,148	76,671	71,195
Expected Average Remaining Service Life (Years)	11	15	14	13
Amortization for Current Year	(6,268)	5,477	5,477	5,477
(Gain)/Loss on ABO at December 31				
Expected ABO	160,609	296,665	286,681	288,077
Actual ABO	305,436	296,665	286,681	288,077
(Gain)/Loss on ABO at December 31	144,827	-	-	-
Unamortized (Gain)/Loss at December 31	82,148	76,671	71,195	65,718

* The CY 2023 defined benefit cost and expected PV DBO at December 31, 2023 are calculated based on membership data at December 31, 2020 and management's best estimate assumptions at December 31, 2022.

** Projected CY 2024, 2025 and 2026 results are provided for informational purposes only. Significant changes such as re-negotiated benefits, increased benefit costs, or significant swings in demographics may require revised projections or a full actuarial review.

*** Based on expected benefits to be paid to those eligible for benefits.

rsmcanada.com

RSM

Appendix 4B Detailed Calculation of Management Fees

Analysis of Management fee from LUSI

Account	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Grand Total
Executive	17,217	21,536	16,362	13,025	13,072	15,336	15,246	16,438	13,767	15,618	17,670	1,548	176,835
Finance	15,096	18,243	20,765	23,402	23,553	25,655	27,106	32,312	25,690	26,057	27,179	58,198	323,256
Customer Service Admin	20,401	2,118	4,899	5,210	6,634	6,317	5,826	8,558	6,942	8,967	9,798	0	85,670
HR General	9,165	6,194	4,729	1,327	1,188	3,319	3,380	3,943	3,056	3,587	298	0	40,186
Operations General Admin	1,284	99	0	0	0	0	3,775	5,341	373	653	103	332	11,960
Customer Service Billing	0	16,448	16,226	21,689	21,894	24,385	23,693	24,332	20,506	23,514	27,681	26,729	247,097
Customer Service Collecting	3,511	1,982	2,090	2,082	2,106	2,545	2,491	3,182	2,859	4,434	5,615	6,077	38,974
Operations Admin	18,613	7,590	6,211	1,595	1,956	2,334	24,661	12,446	8,231	9,667	3,551	6,400	103,255
Total Management Fee	**85,287**	**74,210**	**71,282**	**68,330**	**70,403**	**79,891**	**106,178**	**106,552**	**81,424**	**92,497**	**91,895**	**99,284**	**1,027,233**

Refund calculation

Description	IRM Rate Order Inflation (inc. stretch)	Amount
2017 fee included in RR		$85,194
2018 IRM (2017) impact	1.05%	$86,089
2019 IRM impact	1.35%	$87,251
2020 IRM impact	1.85%	$88,865
2021 IRM impact	2.05%	$90,687
Estimated 2022 fee included in RR (per worksheet)		$102,954
2023 IRM impact	3.70%	$106,763
2024 IRM impact	4.80%	$111,888
2025 IRM impact	3.60%	$115,916
2026 IRM impact	3.70%	$120,205
Total estimated management fee included in rates		**$995,813**
Carrying charges		**$155,911**
Total management fee and carrying charges due to customers		**$1,151,724**

Appendix 4C Procurement Policy

Lakefront Utility Services Inc.	ADMINISTRATIVE PRACTICES	PRACTICE: ADM-4 APPROVED: 9/12/2020 EFFECTIVE: 30/08/2018 SUPERSEDES: 4/01/2016 UPDATED: 11/19/2025 VERSION No: 6
PROCUREMENT POLICY		

ADM 4.1.0 PURPOSE

4.1.1 To set forth the policy of the Corporation regarding the approval procedure for purchasing capital and operational expenditures. The conduct of the Corporation's procurement activities must meet the highest standards of reasonability, be economically achievable and support the Corporation's overall objectives of fairness, openness, and transparency. The Corporation's procurement activities are intended to both achieve maximum value for the Corporation and its stakeholders, and advance the Corporation's strategic objectives.

ADM 4.2.0 POLICY STATEMENT AND OBJECTIVES

4.2.1 It is the policy of Lakefront Group of Companies represented by Lakefront Utility Services Inc. (LUSI) to set up procedures for the purchasing of supplies, materials and other services on behalf of LUSI and its affiliates.

4.2.2 The objectives of the Corporation's Procurement Policy are to ensure that:

a. All goods and services are acquired in accordance with approved procurement processes;
b. All goods and services are acquired within authorized budgets;
c. The Corporation receives value for money, by obtaining goods and services through a fair and competitive procurement process involving reputable suppliers;
d. Evaluation criteria are applied fairly to assess the merits of competitive bids, proposals, quotes and submissions;
e. Those seeking contracts for goods and services are required to disclose potential conflicts of interest;
f. Senior management and the Board of Directors are appropriately accountable for all material procurement;
g. The entire competitive procurement process is fair, open and transparent.

ADM 4.3.0 PURCHASE ORDER CREATION PROCESS

4.3.1 All requests for the purchase of goods or services must be submitted on a Purchasing Form, which when authorized and approved by the appropriate signing authorities and assigned a valid number, becomes an official Purchase Order.

4.3.2 In an emergency, a Supervisor may place a verbal order which must be followed by an official Purchase Order as soon as practical.

ADM 4.4.0 RESPONSIBILITIES

4.4.1 Department Manager's Responsibilities

The Department Manager is responsible for reporting to the President in writing all instances of unsatisfactory vendor performance.

4.4.2 Staff's Responsibilities

All staff are responsible for following the Procurement Policy as outlined within, and for ensuring that all items purchased meet all current Regulatory Standards and/or approved Electrical Standards as per Ontario Regulation 22/04, and/or Water Standards.

ADM 4.5.0 APPROVAL PROCEDURE & SIGNING THRESHOLD LEVELS

4.5.1 Purchasing Forms will be approved by the appropriate authority level as per *Table 1 and Table 2* below, validated for appropriateness of expenditure, verified against the current approved budgets, and checked for account coding accuracy. All invoices will be matched to the corresponding approved purchase order by the Finance Department.

4.5.2 Purchases are not to be divided to circumvent any thresholds in this policy.

Table 1 Approved Budget Purchases Signing Threshold

Supervisor	Approval of purchase orders not to exceed $ 3,200
Manager	Approval of purchase orders not to exceed $ 12,700
Two Corporate Officers	Approval of purchase orders not to exceed $ 50,700
President	Approval of purchase orders not to exceed $158,400
President **and** Corp. Officer	Approval of purchase orders not to exceed $253,400

Purchases over $253,400 require additional authorization by the appropriate Chair.

Table 2 Purchases not included in Approved Budget Signing Threshold

Supervisor	Approval of purchase orders not to exceed $ 760
Manager	Approval of purchase orders not to exceed $ 3,200
Two Corporate Officers	Approval of purchase orders not to exceed $ 10,200
President	Approval of purchase orders not to exceed $ 31,700
President **and** Corp. Officer	Approval of purchase orders not to exceed $ 57,000

Purchases over $57,000 not budgeted require authorization by the appropriate Board. In an emergency situation, the President or his delegate will have the authority to make emergency purchases outside of budget threshold, with the concurrence of the Chair of the appropriate Board to be ratified by the full Board at the next scheduled meeting.

4.5.3 Purchases of miscellaneous items under a value of 760 do not require a purchase order but do require approval and account coding by appropriate supervisor.

4.5.4 Rental of equipment does not require a purchase order but does require the associated work order. The invoice containing the work order number will be approved at the time it is received. The work order number must be recorded on third party documentation.

ADM 4.6.0 PURCHASES PAID OUT OF PETTY CASH

4.6.1 Purchases for goods or services costing less than $50 total can be paid out of petty cash when authorized by the appropriate supervisor.

ADM 4.7.0 CREDIT CARD PURCHASES

4.7.1 Authorization from the appropriate supervisor is required for purchases over $760. Senior management do not require authorization for amounts up to their limits of authority and the statements must be reviewed and approved by their immediate supervisor as per Policy FIN-11 Corporate Credit Card Policy.

ADM 4.8.0 PURCHASES COSTING BETWEEN $ 760 AND $31,699

4.8.1 All purchases over $760 require a Purchase Order with the exception of those listed in the excluded items in ADM 4.11.1. The Purchase order must be signed by the appropriate Manager/Supervisor, subject to their approval level. Purchaser will use his/her discretion in selecting the suppliers from whom to choose based on best value. For all purchases, competitive prices must be obtained and recorded.

ADM 4.9.0 PURCHASES COSTING BETWEEN $31,700, AND $57,000

4.9.1 When the total expenditure for goods or services is between $31,700 and $57,000, informal but written quotations will be solicited from at least three (3) suppliers.

4.9.2 The quotation process may be omitted under the following conditions:

- Emergency situation declared by the President or his designate;
- Sole Source Purchases must be approved by two (2) Corporate Officers.

ADM 4.10.0 PURCHASES COSTING OVER $57,000

4.10.1 A formal Request for Quotations will be required when the total expenditure for goods or services is expected to exceed $57,000

4.10.2 Tenders and Requests for Proposals are required when the total expenditure for goods or services is expected to exceed $95,300

ADM 4.11.0 EXCLUSIONS TO PROCUREMENT PROCESS

4.11.1 The following items are not subject to this Procurement Policy:

2.0 Cheque Requisition

3.0 Training and Education
- a) Conferences
- b) Courses
- c) Seminars
- d) Conventions
- e) Memberships
- f) Periodicals
- g) Magazines
- h) Subscriptions
- i) Staff Training
- j) Staff Development
- k) Staff Workshops

4.0 Refundable Employee Expenses
- a) Meal Allowances
- b) Travel Expenses
- c) Hotel Accommodation
- d) Mileage

5.0 General Expenses
- a) Licenses, insurance (vehicles, etc.)
- b) Banking and underwriting services where covered by agreements
- c) Real estate including land, buildings, leasehold interests, easements, encroachments and licenses
- d) Items of a confidential nature
- e) Professional and special services, including appraisals, medical, etc.
- f) Freight charges
- g) IESO Invoice
- h)
- i) ESA Inspection Charges
- j) OEB Fixed Costs
- k) Insurance, employee benefits (Pension, Health Insurance, etc.)
- l) Taxes
- m) Customer refunds
- n) External audit expenses
- o) Legal expenses

6.0 Utilities
- a) Postage
- b) Water and sewage charges
- c) Hydro
- d) Natural Gas
- e) Internet service

ADM 4.12.0 ADMINISTRATIVE PROCEDURES

1. No contract shall be artificially divided into smaller contracts for the sole purpose of avoiding the thresholds as defined in the "Signing Threshold" above.

2. The President or Director of Finance or delegate shall have the authority to execute and issue all contracts for goods and services, Professional Services, non-standard items, Consulting Services and construction services provided that proper authorization has been obtained as approved in the "Signing Threshold."

3. It will be the responsibility of all employees of the Corporation to ensure that all requirements of this policy are complied with.

4. The President shall have the authority to approve additional procedures to this policy, including forms and Finance Department templates.

5. No employee of the Corporation, or Member of the Board, or immediate family member of such persons, may bid on the Corporation's proposed purchase of goods and services.

6. No personal purchases shall be made by the corporation for Members of the Board or employees of the Corporation unless authorized by the President.

7. No employee or Member of the Board shall purchase or offer to purchase, on behalf of the Corporation, any goods or services except in accordance with this policy without authorization from the President.

8. Except in the case of an emergency, the requisitioning department should complete and obtain approval of a Procurement Requisition (Purchasing Form) and approval obtained **prior** to committing the Corporation.

9. All responses for Requests for Qualifications, Proposals and Tenders must be evaluated using a standard evaluation template to meet the specific requirements of the Request for Qualifications, Proposals or Tender process. The Evaluation Committee assigned to a procurement process must document the conclusions of the evaluation process.

10. The selection of a preferred or successful proponent must be based upon the evaluation criteria set out in the Prequalification Documents, the Request for Proposal or the Tender documents.

11. In determining whether a bid or proposal is compliant with the requirements of the quotation documents, the Corporation shall consider the terms and conditions of the Tender and the Request for Proposal documents.

12. In all cases, and irrespective of the type of procurement process that is carried out, care must be taken to ensure that the overall procurement objectives of the Corporation are met, that the transaction is documented in accordance with this policy, and that where appropriate the selected proponent accepts the Terms and Conditions as denoted in the Corporation's contract.

13. To ensure the Corporation's procurement process is fair, open and transparent to all proponents, there shall be no communication between Corporation and the proponents with the exception of the official representative(s) noted in the quotation document. This blackout is for the period of time immediately following the release of the quotation until the final award of the bid. All questions asked by proponents during the course of procurement must be submitted in writing to the official representative and the questions and responses must be circulated to all proponents. Lobbying during the procurement process will not be permitted and may result in the disqualification of the proponent.

14. The Corporation is not required to accept the lowest bid and may base its evaluation on both quality and price (as appropriate to the goods or services being purchased) and may adopt a "best value" approach to the evaluation of price.

15. Procurement and contract documents should include, where applicable, provisions that permit the re-scoping of a project in the event that prices submitted exceed amounts budgeted for the contract.

ADM 4.13.0 PROCEDURES AND PROCUREMENT METHODOLOGIES

ADM 4.13.1 Choice of Procedure

Before any procurement takes place, the issuing department must:

1. Identify the goods or services to be acquired.

2. Evaluate the value of the goods or services as defined by the scope of work. For the purposes of estimating, the value means the estimated total financial commitment including the value of renewal options.

3. Determine if the project is properly funded. Projects that do not have sufficient funds must be authorized by a member of the executive and CEO prior to proceeding with the procurement process.

ADM 4.13.2 Procurement Methodologies

For ease of reference, the most common procurement methodologies that the Corporation should use and the appropriate circumstances for use are as follows*:*

1. *Tender* – Used in circumstances where the Corporation has determined a clearly defined scope of the goods or services and the only remaining matter to be resolved is establishing a competitive price. Successful proponents are normally (but not exclusively) chosen based on the price submitted. The evaluation of price can include an evaluation of “best value” rather than simply the lowest price.

2. *Request for Proposals* (RFP) – Typically used when the Corporation wishes to carry out a quality assessment of a service provider or the product or service they provide. In most cases, price is a “weighted” factor but not the determining factor. Request for Proposals are also used where it is not practical to prepare precise specifications, or where alternatives to detailed specifications will be considered, which may be subject to further negotiation. This process allows vendors to propose solutions to arrive at the end product or desired result and allows for evaluation based on predetermined criteria in addition to price. The term “Request for Proposal” also includes the flexible RFP also known as the Best and Final Offer (BAFO) RFP.

3. *One Bid Received*- If only one proposal is received in response to the RFP, The Director of Regulatory and Finance and the President will determine whether or not to proceed with the opening. If in their opinion, using criteria based on the number of bids which might be reasonably expected on the proposal, additional proposals could be secured, the one proposal may be returned unopened, and the bidder advised that Lakefront may be recalling the RFP at a later date.

Further, upon receiving only one bid in response to the RFP, the Director of Regulatory and Finance and President may proceed with the opening. If after the evaluation, the proposal is found to be unacceptable, they may follow the procedures to cancel the RFP.

4. *Request for Quotation* – A formal or informal inquiry to determine the price of a specific good or service. Successful proponents are normally (but not exclusively) chosen based on the price submitted, although the evaluation can also allow for predetermined criteria in addition to price. The proponent's response should be submitted in writing.

5. *Prequalification Request* – Similar to a formal Request for Proposal but without factoring price. Its purpose is to develop a short list of qualified suppliers/service providers that will subsequently be invited to submit a proposal or tender at the next stage of the procurement process.

6. *Request for Expressions of Interest, Research and Market Sounding* – All market sounding (which may be referred to as a Request for Expression of Interest or RFEI) required to determine market interest and develop scope will be conducted to ensure an equitable process.

   Research and market sounding will not be used to:
   (a) pre-qualify potential suppliers;
   (b) provide an unfair advantage for any proponent;
   (c) and influence the chances of a vendor's success or failure in future procurement opportunities.

   Research and market sounding does not constitute the initiation of a procurement process, therefore, no conflict of interest is created between vendors participating in the market sounding and vendors participating in future procurement opportunities.

7. Procurements with an estimated value over $95,300 must be procured through an open, competitive process.

8. Construction procurements estimated to be over $253,400 require that the Director of Finance and the Manager determine a delivery and contracting methodology and fee structure. This procurement strategy will be reviewed with the Holdco Audit Committee and form part of the Capital Approval request package issued to the Board for approval.

In determining the methodology, consideration will be given to; health and safety, liabilities to Lakefront Utilities, risk transfer and the premiums associated with the transfer of risk. The following project delivery methods will be considered; general contracting, construction management, design-build and public-private-partnership. Furthermore, the following contract types and fee structures will be evaluated; unit cost, lump sum, percentage fee and guaranteed maximum price, or other possible incentive arrangements.

The preceding analysis will be documented and put-on file.

ADM 4.13.3 Vendor of Record ("VOR")

1. The purpose of a VOR is to provide the Corporation with a readily available list of qualified firms. VORs are established through a publicly issued Prequalification Request or Request for Proposals which defines the general parameters of the scope and the length of time the list will be valid. The list will generally (but not always) result in standing offers being established with the chosen vendors.

2. The VOR is not a replacement for a competitive quote; therefore, where possible, quotations for goods or services should be sent to multiple vendors within the list of qualified firms. The proposal with the best value to the Corporation will be issued a release to their standing offer detailing the scope and price.

ADM 4.13.4 Evaluation Process

All procurements where price is not the single deciding factor must have the criteria (and sub-criteria if necessary) developed for the evaluation process prior to the closing date of the procurement or before any submissions are opened. The criteria will expand the broad categories listed in the quotation document.
Furthermore:

(1) All meetings are to be coordinated through Finance.

(2) The Director of Finance or designate staff member will act as facilitator during all evaluations.

(3) The evaluation team should consist of at least three staff members (from the department accountable for the outcome of the procurement. For larger complex

procurements a member of the Executive team should be included. To further complement the evaluation team, additional members may be drawn from any department within the Corporation. There are to be no vendors on the evaluation team unless they are required to act in an advisory capacity to the team. The composition of the teams will be reviewed by Finance and any exceptions to any of the above conditions must be approved by the Director of Finance.

(4) The President may sit in on any Procurement evaluation as an ex-officio member of that review team. The President should not influence the proceedings but may ask questions to seek clarification.

(5) For large complex procurements, a Fairness Advisor may be retained to oversee the complete procurement process to ensure fairness to all proponents. At the end of the procurement the Fairness Advisor should issue a letter of opinion regarding the process which will be retained with the procurement documents. The retention of a Fairness Advisor must be approved by the President.

ADM 4.13.5 Bid Dispute Resolution and Tie Breaker

The bid dispute resolution process is intended to ensure that any dispute is handled in an ethical, fair, reasonable and timely fashion.

Where a vendor wishes to dispute the outcome of a bid, subsequent to a debriefing with the Finance department, the process outlined below is to be followed:

(1) The aggrieved party is to file its bid protest with the Department Manager within 15 business days of the debriefing meeting. The aggrieved party's filing should include:

• The name and address of the vendor;
• Identification of the contract or bid solicitation being protested;
• Detailed and factual statement of the grounds for protest;
• Supporting documentation; and
• Desired relief, action or ruling

(2) The Department Manager will respond to the aggrieved party within 10 business days of receiving the bid protest notice.

(3) If a resolution cannot be achieved, the aggrieved party must contact the Director of Finance and copy the Director of Finance within 10 business days of receiving the first response from the Department Manager.

(4) The Director of Finance will respond to the aggrieved party within 10 business days of receiving the bid protest notice.

(5) The final decision on the issue will be made by the Director of Finance and will be resolved within 10 business days of receiving the bid protest.

(6) In the event of a tie during the evaluation, the tied proponents will be invited to an interview in an effort to break the tie. The interview will have a set agenda and scored by the evaluation team.

ADM 4.14.0 NON-COMPETITIVE PROCUREMENT – GOODS AND SERVICES (INCLUDING PROFESSIONAL SERVICES)

Professional Services is defined as any licensed professional service provided by medical doctors, dentists, nurses, pharmacists, veterinarians, engineers, land surveyors, architects, chartered professional accountants, lawyers and notaries in their regulated capacities.

1. In the event of extraordinary circumstances, the Corporation reserves the right to offer a contract for the provision of goods or services to a sole supplier.

2. Single source procurements above $31,700 shall be permitted only where circumstances prevent competitive purchasing, including:

   (a) emergencies;
   (b) extreme urgency or time constraints;
   (c) economy or value in continuing prior work;
   (d) protection of copyrights or trade-marks;
   (e) a public and open competitive process has been undertaken but has failed to identify a viable supplier or service provider;
   (f) absence of competition for technical or commercial reasons, with no available substitutes;
   (g) circumstances where the nature of work is such that it would not be in the public interest to solicit bids or proposals;
   (h) exceptions in accordance with applicable trade agreements as referenced in the Directive; and
   (i) circumstances where a government body instructs Lakefront Utilities to contract with a specific vendor following that government body's selection of that vendor in

accordance with its procurement policy. A letter from the government body stating this request must be attached to the requisition.

Sole sourced procurements where only one supplier is able to meet the requirements shall be permitted under the following circumstances:

a. To ensure compatibility with existing products, to recognize exclusive rights, such as exclusive licences, copyright and patent rights, or to maintain specialized products that must be maintained by the manufacturer or its representative;
b. Where there is an absence of competition for technical reasons and the goods or services can be supplied only by a particular supplier and no alternative or substitute exists;
c. For the procurement of goods or services the supply of which is controlled by a supplier that is a statutory monopoly;
d. For the purchase of goods on a commodity market;
e. For work to be performed on property by a contractor according to provisions of a warranty of guarantee held in respect of the property or the original work;
f. For a contract to be awarded to winner of a design contest;
g. For the procurement of a prototype of a first good or service to be developed in the course of and for a particular contract for research, experiment, study or original development, but not for any subsequent purchases;
h. For the purchase of goods under exceptionally advantageous circumstances such as bankruptcy or receivership, but not for routing purchases; and
i. For the procurement of real property.

3. When under extreme emergencies and authorities are not available to authorize work in accordance with the Signing Threshold, a Supervisor/Manager responsible for a given project may authorize emergency work up to a value of $31,700, if in the employee's opinion that failure to do so could result in a hazardous situation which could cause personal injury or damage to the Corporation. The employee authorizing the emergency work shall notify the appropriate signing authorities in writing within 48 hours of the emergency, describing the nature of the emergency, the measures taken by the employee, and the estimated total cost of work.

4. In accordance with the "Signing Threshold", all non-competitive procurements for goods and services with a value of $57,000 or more will be authorized by the Board of Directors.

ADM 4.15.0 NON-COMPETITIVE PROCUREMENT – CONSULTING SERVICES

Consulting Services is defined as provision of expertise or strategic advice that is presented for consideration and decision-making. Consulting Services do not include any licensed Professional Services provided by medical doctors, dentists, nurses, pharmacists, veterinarians, engineers, land surveyors, architects, chartered professional accountants, lawyers and notaries in their regulated capacities.

(1) All consulting services must be acquired through a competitive procurement process. Where the estimated value is over $158,400, it must be publicly posted via a tendering network, such as MERX.

(2) The competitive procurement process for Consulting Services may be waived in the following circumstances:

(a) Due to an unforeseen situation of urgency, the Consulting Services cannot be obtained by means of a competitive procurement process;

(b) Matters of a confidential or privileged nature would have to be disclosed through a competitive procurement process, thereby compromising the Corporation confidentiality or the public interest or threatening economic disruption;

(c) The Corporation's ability to maintain security or order or to protect human, animal or plant life or health would be compromised by a competitive procurement process;

(d) No bids are received in response to a competitive procurement process;

(e) Only one supplier is able to meet the requirements of a procurement, due to compatibility issues with existing products or the fact that the supply of certain goods and services are controlled by a statutory monopoly; and

(f) Where a government body instructs the Corporation to contract with a specific vendor following that government body's selection of that vendor in accordance with its procurement policy.

In accordance with the "Signing Threshold", all exceptions in Section 14.15.0 (2) must be authorized by the President where the estimated value is less than $158,400. Exceptions with an estimated value of $158,400 or more will be authorized by the Board of Directors.

(3) The Corporation will not pay consultants for any hospitality, food or incidental expenses. Transportation and accommodation expenses are eligible for payment only if they are

directly related to the consultant's assignment at hand, and require prior authorization by the Lakefront Utilities staff overseeing the assignment.

ADM 4.16.0 LENGTH OF CONTRACTS

(1) Except as provided in Section 4.16.0 (2), contracts must be for a fixed term not to exceed five-years.

(2) The Corporation may enter into longer-term contracts under the following circumstances:
(a) contracts relating to:
(i) major design, build or construction initiatives where the project period is known to exceed five-years;
(ii) services that are less than $31,700 annually and any change in vendor would not create value for money.

(b) Consulting, Professional Services and/or services that:
(i) are specialized in nature;
(ii) are the result of a management decision to outsource functions;
(iii) would cause disruption to the Corporation's business activities if such services were re-procured or changed more frequently including such services as program management, legal services, Information Technology Services, insurance services, auditing services, financial services, urban planning services, subject to the Corporation being satisfied it is receiving value for money; and
All exceptions in Section 4.16.0(2) must be authorized by the President.

ADM 4.17.0 EXTENSIONS / RENEWALS

If a contract permits a renewal or extension beyond the original term, the Project Manager responsible for the contract shall assess the quality of the service provided and shall submit, if satisfied, an extension for approval in accordance with the "Signing Threshold".

ADM 4.18.0 CHANGE ORDERS

Change orders to established contracts must be entered into the Financial System as a requisition by the Project Manager. The requisition must be completed in detail identifying the reason for the change, change value, along with the appropriate backup, and must be approved through the Financial System prior to authorizing the change; with the exception of Construction Contracts where change orders, still within the approved contingencies may be authorized as per the Signing Threshold. In doing so, the Corporation shall apply the following principles:

(1) The change order process in contracts shall permit only changes still within the general scope of the project and/or for unforeseen issues arising out of the project, and should not be used for increases to the original scope. Any changes to the original scope should be procured through a competitive process;

(2) Change orders shall be approved only after an assessment of the additional cost and project schedule; and

(3) Change orders shall be approved in accordance with the "Signing Threshold". Any change order for a non-competitive contract that takes the total contract value over $31,700 must be preceded by an uncontested Advance Contract Award Notice (ACAN).

ADM 4.19.0 REPORTING

On an annual basis, the Director of Finance shall submit comprehensive reports to the Holdco Audit Committee covering**:**

(a) any exceptions to these policies;

(b) all contracts awarded in excess of $253,400

Appendix 4D 2026 Service Contract

This Services Contract is dated as of the ____ day of June 2026 (the ***Contract Date***) between **LAKEFRONT UTILITY SERVICES INC.** (the ***Service Provider***) and **LAKEFRONT UTILITES INC.** (the ***Utility***).

RECITALS:

A. The Service Provider is an Affiliate of the Utility.

B. The Service Provider is an unregulated entity and the Utility is a regulated utility bound by the OEB Act and the Code.

C. The Service Provider and the Utility have agreed to enter into this Agreement pursuant to which the Service Provider will provide the Services contemplated herein.

D. In addition to the Services provided by the Service Provider to the Utility, the Utility is providing a portion of its office space to the Services Provider, as more particularly set forth herein.

NOW THEREFORE, in consideration of the mutual agreements set forth herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound, the Parties agree as follows:

1 DEFINITIONS AND INTERPRETATION

1.1 Definitions

In addition to the terms defined elsewhere herein, the following capitalized terms shall have the meanings stated below when used in this Agreement:

Affiliate with respect to a corporation, has the same meaning as in the *Business Corporations Act* (Ontario).

Agreement means this Services Contract as it may be amended, restated or replaced from time to time.

Arbitration Act means the *Arbitration Act, 1991*, S.O. 1991, c. 17, as amended, supplemented or replaced from time to time.

Business Day means a day, other than a Saturday or Sunday or statutory holiday in the Province of Ontario.

Code means the Affiliate Relationships Code For Electricity Distributors and Transmitters originally issued by the Ontario Energy Board on April 1st, 1999, and revised on March 15, 2010, as amended or replaced from time to time.

Confidential Information has the meaning ascribed to that term in Section 5.1 and includes without limitation ***confidential information*** as defined in the Code.

Contract Date has the meaning ascribed to that term in the first paragraph of this Agreement.

Disclosing Party has the meaning ascribed to that term in Section 5.1.

Expiry Date means that date which is five (5) years following the Contract Date.

Fully-Allocated Cost has the meaning ascribed to that term in the Code.

Market Price has the meaning ascribed to that term in the Code.

Notice has the meaning ascribed to that term in Section 8.1.2.

OEB means the Ontario Energy Board, including any successors and permitted assigns.

OEB Act means the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Sch. B, as amended, supplemented or replaced from time to time.

Party means each of the Service Provider and the Utility, and the Service Provider and the Utility are collectively referred to as the ***Parties***.

Prudent Industry Practice means any of the practices, methods and acts which, in the exercise of reasonable judgement in the light of the facts known to the Service Provider, at the time that a decision was made, could reasonably have been expected to accomplish the desired result at a reasonable cost, consistent with applicable laws, licensing and regulatory considerations, environmental considerations, reliability, safety and expedition. Prudent Industry Practice is not intended to be limited to the optimum practice, method or act, to the exclusion of all others, but rather to be a spectrum of possible practices, methods or acts employed by owners and operators of businesses similar in size, type and operational characteristics to the Utility's business, and having due regard for applicable industry, safety and maintenance codes and standards, manufacturers' warranties, and applicable laws and shall, in any event, evidence the degree of care, diligence and skill that a reasonable or prudent advisor or manager having responsibility for the management of a similar business would exercise in comparable circumstances.

Receiving Party has the meaning ascribed to that term in Section 5.1.

Senior Conference has the meaning ascribed to that term in Section 7.1.

Services means all of the services described and/or contemplated pursuant to Section 2.2 and as more particularly described in Schedule A.

Shared Corporate Services has the meaning ascribed to that term in the Code.

Term means that period of time commencing on the Contract Date and ending on the Expiry Date, subject to an earlier termination in accordance with the provisions hereof.

Transfer Price or ***Transfer Prices*** shall have the meaning ascribed to that term in Section 3.1.

Utility's Directors has the meaning ascribed to that term in Section 2.2.

Utility's Management has the meaning ascribed to that term in Section 2.2.

1.2 **Schedules**

The following Schedules are attached to and form part of this Agreement:

Schedule A - Services

1.3 Code

1.3.1 The Parties acknowledge that this Agreement is subject to any rule or order applicable to the Utility made by OEB pursuant to the OEB Act, including without limitation, the Code. In the event of any conflict or inconsistency with the Code and the terms of this Agreement, the Code shall govern to the extent of such conflict or inconsistency.

1.3.2 The Service Provider agrees to do such things as a reasonably necessary to assist the Utility in complying with these rules, including without limitation, promptly complying with all requests either made or authorized by the OEB for information with respect to the Services and the cost of providing the Services.

1.3.3 Unless otherwise expressly stipulated, any reference in this Agreement to the Code or to a statute or to a regulation or rule promulgated under a statute or to any provision of a statute, regulation or rule shall be a reference to the Code, statute, regulation, rule or provision as amended, re-enacted or replaced from time to time.

1.4 Headings

The inclusion of headings in this Agreement are for convenience of reference only and shall not affect the construction or interpretation of this Agreement.

1.5 Gender and Number

In this Agreement, unless the context otherwise requires, words importing the singular include the plural and vice versa and words importing gender include all genders.

1.6 Currency

All amounts in this Agreement are stated, and shall be paid, in Canadian dollars and cents.

1.7 Severability

The invalidity or any particular provision of this Agreement does not affect any other provision of it, but the Agreement is to be construed as if the invalid provision has been omitted.

1.8 Entire Agreement

This Agreement constitutes the entire agreement between the Parties pertaining to the subject matter of this Agreement. There are no warranties, conditions, or representations (including any that may be implied by statute) and there are no agreements in connection with the subject matter of this Agreement except as specifically set forth or referred to in this Agreement. No reliance is placed on any warranty, representation, opinion, advice or assertion of fact made by a Party to this Agreement, or its directors, officers, employees or agents, to the other Party to this Agreement or its directors, officers, employees or agents, except to the extent that the same has been reduced to writing and included as a term of this Agreement.

1.9 Time

Where the time for performance of an obligation under this Agreement expires on a day which is not a Business Day, the deadline for performance of such obligation shall be the next day that is a Business Day.

2 SERVICE PROVIDER AND SERVICES

2.1 Appointment of the Service Provider

The Utility hereby appoints the Service Provider, and the Service Provider hereby accepts its responsibility for all aspects of the operation, maintenance, and management of the Utility's business in accordance with Prudent Industry Practice, and the terms of this Agreement throughout the Term, including, without limitation, providing all necessary staff to operate the Utility's business.

2.2 Services

The Service Provider shall have authority during the Term to manage, control, administer and operate the Utility's business in accordance with Prudent Industry Practice, subject to the overall responsibility for management of the Utility by its senior officers (the ***Utility's Management***) and the Utility's Board of Directors (the ***Utility's Directors***). Without limiting the generality of the foregoing, the Parties acknowledge and confirm that the Services contemplated in this Agreement include shared corporate services.

2.3 Covenants of the Service Provider

The Service Provider covenants and agrees that in the performance of its services under this Agreement, the Service Provider shall:

2.3.1 perform all services at all times in accordance with Prudent Industry Practice and in compliance with applicable laws and consistent with the principles of the Code;

2.3.2 comply with all instructions of Utility's Management and the Utility's Directors in relation to the performance of its services under this Agreement. The Directors will have the responsibility to provide governance for the Utility and will include but not be limited to the approval of policy, approval of budgets and approval of business plans;

2.3.3 observe and perform or cause to be observed and performed on behalf of the Utility in every material respect, the provisions of: (a) the agreements from time to time entered into connection with the business and operations of the Utility; and (b) all applicable laws, including the Code.

2.4 No Liability of Service Provider

Notwithstanding any provision of this Agreement, neither Party shall in any circumstances whatsoever be liable hereunder to the other Party for incidental or consequential or punitive damages including, without limitation, loss of profit, sustained or claimed by the other Party. The Service Provider shall have no liability as a result of this Agreement to make or arrange for payments on account of operating expenses of the Utility or any other expenses relating to this Agreement out of its own funds. The Utility accepts that any actions, legal or otherwise resulting from the performance of services by the Service Provider pursuant to this Agreement, shall be the liability of the Utility.

3 TRANSFER PRICING

3.1 The charges for the Services shall be the lower of: (a) the market price; and (b) the fully-allocated cost of the Service Provider (each a ***Transfer Price*** and collectively, the ***Transfer Prices***). The Transfer Prices do not include GST or any other taxes payable in respect of the Transfer Price, which the Utility shall also pay to the Service Provider.

3.2 In addition to the Services, the Transfer Price shall also be applicable to the use of the Utility's office space by the Service Provider, as set forth in Recital D.

3.3 The Parties hereby agree and acknowledge that they shall renegotiate the Services and Transfer Prices at such time as necessary in order to ensure that the Services and Transfer Prices remain consistent with the requirements of the Code and/or as may be directed by the OEB.

3.4 The Service Provider shall deliver to the Utility on a monthly basis or as may be otherwise agreed upon by the Parties, an invoice setting forth the total amount due to the Service Provider in respect of each of the Services provided during the previous calendar month and the amount of any taxes which the Utility has an obligation to pay.

3.5 The Utility shall, within a period of thirty (30) days after receipt of an invoice from the Service Provider, pay the Service Provider, by any acceptable method agreed to by the Parties, the amount due to the Service Provider as set forth in the invoice. This Section 3.5 shall survive any termination of this Agreement or the expiry of the Term for a period of twelve (12) months from the date on which the last invoice is rendered to the Utility pursuant to this Agreement.

4 FINANCIAL STATEMENTS, BUDGETS AND RECORDS

4.1 The Service Provider shall keep proper books, records and accounts in which full, true and correct entries in conformity with generally accepted accounting principles and all requirements of applicable laws will be made of all dealings and transactions in relation to the business of the Utility and the performance of the Services by the Service Provider under this Agreement.

4.2 At the request of the Utility, the Service Provider shall provide from time to time, as required to keep the information current, a detailed breakdown of the Service Provider's fully-allocated cost of providing the Services. In addition, without limiting the generality of the foregoing, the Service Provider shall maintain explicit, audit-ready time sheets or specific proportional allocation factors to verify how costs are allocated to the Utility.

4.3 The Service Provider shall make available to the Utility and its authorized representative at any time during normal business hours on a Business Day all records, documents or information related to the business and operations of the Utility, wherever maintained. The Service Provider shall permit the Utility and its authorized representatives at any time during normal business hours on a Business Day to examine the books, records, drawings, computer-stored data, correspondence, accounting procedures and practices, cost analyses and any other supporting financial data, including invoices, payments or claims and receipts pertaining to the Utility's business and operations maintained by he Service Provider. The Utility's examination of records shall be conduced in a manner which will not unduly interfere with the conduct of the Utility's business or the Service Provider's business in the ordinary course. The Service Provider shall furnish to the Utility such financial and operating data and other information with respect to the business and operations of the Utility as the Utility shall from time-to-time reasonably request.

4.4 Wherever in this Agreement reference is made to generally accepted accounting principles, such reference shall be deemed to be to the generally accepted accounting principles from time to time approved by the Canadian Institute of Chartered Accountants, or any successor institute, applicable as at the date on which such calculation is made or required to be made in accordance with generally accepted accounting principles. Where the charter or amount of any asset or liability or item of revenue or expense is required to be determined, or any consolidation or other accounting computation is required to be made for the purpose of this Agreement or any document, such determination or calculation shall, to the extent applicable and except as otherwise specified herein or as otherwise agreed in writing by the parties, be made in accordance with generally accepted accounting principles applied on a consistent basis.

5 CONFIDENTIALITY

5.1 Each of the Parties hereto agrees to keep all information provided by the other Party (the ***Disclosing Party***) to it (the ***Receiving Party***) that the Disclosing Party designates as confidential or which out to be considered as confidential from its nature or from the circumstances surrounding its disclosure (***Confidential Information***) confidential, and a Receiving Party shall not, without the prior consent of an authorized senior officer of the Disclosing Party, disclose any part of such Confidential Information which is not available in the public domain from public or published information or sources except:

5.1.1 to those of its employees who require access to the Confidential Information in connection with the performance of the Services hereunder;

5.1.2 as in the Receiving Party's judgement may be appropriate to be disclosed in connection with the provision by the Receiving Party of Services hereunder;

5.1.3 as the Receiving Party may be required to disclose in connection with the preparation by the Receiving Party or any of its direct or indirect holding companies, Affiliates or subsidiaries of reporting documents including, but not limited to, annual financial statements, annual reports and any filings or disclosure required by statute, regulation or order of a regulatory authority; and

5.1.4 to such legal and accounting advisors, valuators and other experts as in the Receiving Party's judgement may be appropriate or necessary in order to permit the Receiving Party to rely on the services of such persons in carrying out the Receiving Party's duties under this Agreement.

5.2 The covenants and agreements of the Parties relating to Confidential Information shall not apply to any information:

5.2.1 which is lawfully in the Receiving Party's possession or the possession of its professional advisors or its personnel, as the case may be, at the time of disclosure and which was not acquired directly or indirectly from the Disclosing Party;

5.2.2 which is at the time of disclosure in, or after disclosure falls into, the public domain through no fault of the Receiving Party or its personnel;

5.2.3 which, subsequent to disclosure by the Disclosing Party, is received by the Receiving Party from a third party who, insofar as is known to the Receiving Party, is lawfully in possession of such information and not in breach of any contractual, legal or fiduciary obligation to the Disclosing Party and who has not required the Receiving Party to refrain from disclosing such information to others; or

5.2.4 disclosure of which the Receiving Party reasonably deems necessary to comply any legal or regulatory obligation which the Receiving Party believes in good faith it has.

5.3 Each Party shall be entitled to periodically conduct reviews of the procedures implemented by the other Party in relation to the obligations described in this Section 5.

5.4 Upon the termination of this Agreement and written request by a Party, the other Party shall immediately return all Confidential Information and Personal Information provided by such Party, and all copies thereof in its possession or control (other than such Confidential Information or Personal Information which continues to be used or relevant to the provision of the Services), or destroy such information and copies and certify in writing to such Party that such destruction has been carried out; provided that, to the extent Confidential Information is electronically stored, the other Party shall destroy such electronically stored Confidential Information only to the extent that it is reasonably practical to do so and that doing so is consistent with appliable law. The confidentiality of any copies retained by any Party pursuant to this paragraph shall be maintained in accordance with the terms of this Agreement and access to any such copies shall be restricted to persons whose primary functions are legal, compliance or information technology services.

6 TERM AND TERMINATION

6.1 This Agreement shall be effective from the Contract Date to and until the end of the Term.

6.2 Notwithstanding Section 6.1, either Party, upon no less than sixty (60) days Notice to the other Party shall have the right to terminate this Agreement in advance of the Expiry Date; provided that in the event of default in performance of any material covenant in this Agreement, the non-defaulting Party shall be entitled to terminate this Agreement on no less than fourteen (14) days Notice to the defaulting Party. Any partial termination of this Agreement shall be evidenced by a written agreement as between the Parties specifying the specific Service to be terminated consistent with the Code.

7 DISPUTE RESOLUTION

7.1 Informal Dispute Resolution

If either Party considers that a dispute has arisen under or in connection with this Agreement that the Parties cannot resolve, then such Party may deliver a notice to the other Party describing the nature and the particulars of such dispute. Within ten (10) Business Days following delivery of such notice to the other Party, a senior executive or director from each Party shall meet, either in person or by telephone (the ***Senior Conference***), to attempt to resolve the dispute. The Parties shall use commercially reasonable efforts to cause their respective representatives attending a Senior Conference to be informed with all relevant background information in respect of the dispute and to be prepared to propose a resolution to the dispute. If, following the Senior Conference, the dispute is not resolved, the dispute may be settled by arbitration pursuant to Section 7.2, if agreed to by both Parties.

7.2 Arbitration

7.2.1 Except as otherwise specifically provided for in this Agreement, any matter in issue between the Parties as to their rights under this Agreement may be decided by arbitration provided, however, that the Parties have first completed a Senior Conference pursuant to Section 7.1.

7.2.2 Any dispute to be decided by arbitration will be decided by a single arbitrator appointed by the Parties or, if such Parties fail to appoint an arbitrator within fifteen (15) days following the agreement to refer the dispute to arbitration, upon the application of either of the Parties, the arbitrator shall be appointed by a Judge of the Superior Court of Justice (Ontario) sitting in the Judicial District of the Central East Region. The arbitrator shall not have any current or past business or financial relationships with any Party (except prior arbitration). The arbitrator shall provide each of the Parties an opportunity to be heard and shall conduct the arbitration hearing in accordance with the provisions of the Arbitration Act.

7.2.3 Unless otherwise agreed by the Parties, the arbitrator shall render a decision within ninety (90) days after the end of the arbitration hearing and shall notify the Parties in writing of such decision and the reasons therefor. The arbitrator shall be authorized only to interpret and apply the provisions of this Agreement and shall have no power to modify or change this Agreement in any manner. The decision of the arbitrator shall be conclusive, final and binding upon the Parties. The decision of the arbitrator may be appealed solely on the grounds that the conduct of the arbitrator, or the decision itself, violated the provisions of the Arbitration Act, or solely on a question of law as provided for in the Arbitration Act. The Arbitration Act shall govern the procedures to apply in the enforcement of any award made. If it is necessary to enforce such award, all costs of enforcement shall be payable and paid by the Party against whom such award is enforced. Unless otherwise provided in the arbitral award to the contrary, each Party shall bear (and be solely responsible for) its own costs incurred during the arbitration process, and each Party shall bear (and be solely responsible for) its equal share of the costs of the arbitrator. Each Party shall be otherwise responsible for its own costs incurred during the arbitration process.

8 GENERAL MATTERS

8.1 Notice

8.1.1 Unless otherwise specified, each notice to a Party shall be given in writing and delivered personally or by courier, sent by prepaid registered mail or e-mail or other electronic transmission contemplated by the Parties to the Party as follows:

If to the Utility:

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

Attention: Frederick Clifford
E-Mail: fredclifford@outlook.com

If to the Service Provider:

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

Attention: Dereck C. Paul
E-Mail: dpaul@lusi.on.ca

or to any other address, e-mail or Person that the Party designates.

8.1.2 All notices, requests, demands and other communications provided for in the Agreement (each a ***Notice***):

8.1.2.1 delivered personally or by courier on a Business Day will be deemed to have been given on that Business Day;

8.1.2.2 sent by prepaid registered mail will be deemed to have been given on the fifth Business Day after the date of mailing;

8.1.2.3 transmitted by e-mail will be deemed to have been given when sent, provided that such e-mail is kept on file by the sending Party and the sending Party does not receive an automatically generated message from the recipient's e-mail server that such e-mail could not be delivered to such recipient. A copy of the e-mail transmission containing the time, date and receipt e-mail address shall be rebuttable evidence of receipt by e-mail.

8.1.3 Any Notice delivered, sent, or transmitted not on a Business Day will be deemed to be given on the next Business Day.

8.1.4 If a Notice has been sent by prepaid registered mail and before the fifth (5^{th}) Business Day after the mailing there is a discontinuance or interruption of regular postal service so that the Notice cannot reasonably be expected to be delivered within five (5) Business Days after the mailing, the Notice will be deemed to have been given when it is actually received.

8.2 **Assignment and Enurement**

No Party may assign its rights or obligations under this Agreement without the prior written consent of the other Party, which consent may be unreasonably withheld or delayed. This Agreement enures to the benefit of and binds the Parties and their respective successors and permitted assigns.

8.3 **Governing Law**

This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

8.4 **Further Assurances**

Each of the Parties shall, from time to time on written request of the other Party, do all such further acts and execute and deliver or cause to be done, executed or delivered all such further acts, deeds, documents, assurances and things as may be required, acting reasonably, in order to fully perform and to more effectively implement and carry out the terms of this Agreement. The Parties agree to promptly execute and deliver any documentation required by any governmental authority in connection with any termination of this Agreement.

8.5 **Counterparts**

This Agreement may be executed in two or more counterparts, and all such counterparts shall together constitute one and the same Agreement. It shall not be necessary in making proof of the contents of this Agreement to produce or account for more than one such counterpart. This Agreement may be executed by printing, signing and scanning, or by electronic signature in a format approved by the Parties. Delivery by electronic mail or similar electronic transmission of an executed signature page to this Agreement shall be as effective as delivery of a manually executed copy of this Agreement by such Party.

[Remainder of Page Intentionally Blank]

IN WITNESS WHEREOF, and intending to be legally bound, the Parties have executed this Agreement by the undersigned duly authorized representatives as of the date first stated above.

LAKEFRONT UTILITY SERVICES INC.

By: ______________________________
Name: Dereck C. Paul
Title: Chief Executive Officer

I have authority to bind the corporation.

LAKEFRONT UTILITIES INC.

By: ______________________________
Name: Frederick Clifford
Title: Chair, Board Director

I have authority to bind corporation.

Schedule A – Services

The Service Provider shall be vested with the following powers which it shall exercise on behalf of the Utility: (a) to report to Utility's Management and the Utility's Directors with respect to the business and affairs of the Utility and as may be requested from time to time by the Utility's Management and the Utility's Directors; (b) to provide all administrative services for the Client including accounting and bookkeeping services; and (c) to negotiate, execute, amend, administer, perform and carry out the terms of all agreements and commitments, the performance of which by or on behalf of the Utility in respect of the Utility's business and operations.

Without limiting the generality of the foregoing, the Service Provider shall provide or arrange for all of the operations and maintenance services necessary to prudently and efficiently operate and maintain the Utility's business and operations, including but not limited to: (a) co-ordinate the purchase and sale of electricity under applicable contracts and pay on behalf of the Utility and collect all amounts payable and receivable thereunder; (b) operate and maintain the business and affairs of the Utility in accordance with Prudent Industry Practice, applicable laws and all Utility's agreements, to provide maintenance for the Utility's facilities in the most cost-effective manner to prevent deterioration beyond normal wear and tear; provided that such efforts shall be necessarily limited by the operating life, capacity and maintenance requirements of the Utility's facilities and by the requirements of all applicable laws; (c) use all reasonable care necessary to keep the Utility's facilities clean, orderly and free from debris, rubbish or waste to the extent consistent with the Utility's operations; (d) use all reasonable care not to generate, store, transport, accumulate, dispose, discharge or release any hazardous substance on, in or from any property in connection with the Utility's facilities, except in compliance with all applicable environmental laws and regulations; (e) assist Utility in obtaining and maintaining all necessary regulatory and operational approvals including those required from the Ontario Energy Board and the Independent Electricity System Operator and renewals therefore including preparing and submitting all associated applications and filings; (f) use its reasonable efforts to secure and maintain from vendors, suppliers and subcontractors the best indemnities, warranties and guarantees as may be commercially available in accordance with Prudent Industry Practice regarding supplies, equipment and services purchased for the business and operations of the Utility and assist the Utility in preserving and enforcing such indemnities, warranties or guarantees; (g) provide administrative services for the Business including: (i) arrange insurance for the Utility consistent with Prudent Industry Practice; (ii) maintain and preserve equipment maintenance, accounting, management of billing and receivables, banking and other necessary records, reports, documents, data and the like; (iii) perform cash management services; (iv) on a timely basis, prepare financial statements and deliver them to the Utility's Directors; (v) assist in the administration of all agreements to which the Utility is a party or by which it is bound, including negotiations and communications with third parties in connection therewith; and (vi) make all banking and financing agreements; (h) employ, and ensure adequate training and testing of all qualified personnel (duly licensed where required) required for the operation and maintenance of the Utility's facilities consistent with Prudent Industry Practice; (i) implement an inventory control system to identify, catalogue and disburse spare parts for the maintenance of the Utility's facilities and procure, as agent for the Utility, initial and replacement spare parts and refurbish, where practical or economical, spare parts to allow their reuse; (j) perform for the Utility such other services as may from time to time be reasonably requested or are reasonably necessary or appropriate in connection with the operation and maintenance of the Utility's facilities; and (k) promptly provide the Utility with such other information relative to the business and operations as the Utility may reasonably request.

Appendix 4E 2026 KPMG Letter

KPMG LLP
777 Dunsmuir Street
PO Box 10426
Vancouver BC V7Y 1K3

Tel 604-691-3000
Fax 604-691-3031
www.kpmg.ca

Private and Confidential

Dereck Paul
President & CEO
Lakefront Utility Services Inc.
207 Division Street, Box 577
Cobourg Ontario K9A 4L3
Canada

June 24, 2026

Cost Allocation Review – Preliminary Recommendations

Notice to Reader

This letter has been prepared by KPMG LLP ("KPMG") for Lakefront Utility Services Inc. ("Client") pursuant to the terms of our engagement agreement with Client dated 2026-05-21 (the "Engagement Agreement"). KPMG neither warrants nor represents that the information contained in this letter is accurate, complete, sufficient or appropriate for use by any person or entity other than Client or for any purpose other than set out in the Engagement Agreement. This letter may not be relied upon by any person or entity other than Client, and KPMG hereby expressly disclaims any and all responsibility or liability to any person or entity other than Client in connection with their use of this letter.

This letter is based on information and documentation that was made available to KPMG at the date of this letter. KPMG has not audited nor otherwise attempted to independently verify the information provided unless otherwise indicated. Should additional information be provided to KPMG after the issuance of this letter, KPMG reserves the right (but will be under no obligation) to review this information and adjust its comments accordingly.

Pursuant to the terms of our engagement, it is understood and agreed that all decisions in connection with the implementation of advice and recommendations as provided by KPMG during the course of this engagement shall be the responsibility of, and made by, the Client. KPMG has not and will not perform management functions or make management decisions for the Client.

Comments in this letter are not intended, nor should they be interpreted, to be legal advice or opinion.

This disclaimer outlines the limitations of KPMG's responsibilities and the intended use of the letter, emphasizing that it is solely for the client, Lakefront Utility Services Inc.

1 Introduction

KPMG LLP ("KPMG") has been engaged by Lakefront Utilities Services Inc. ("LUSI") to review the shared services arrangements between Lakefront Utilities Inc. ("LUI") and LUSI and to evaluate the methodology used to allocate costs between the affiliated entities.

The review is being conducted to assess the shared services arrangements and related cost allocation methodologies against the Ontario Energy Board's ("OEB") regulatory requirements, including the Affiliate Relationships Code for Electricity Distributors and Transmitters ("ARC").

The objective of this letter is to:
- Summarize KPMG's preliminary observations regarding LUSI's and LUI's shared services arrangements; and
- Outline a preliminary recommended cost allocation framework for consideration in LUI's OEB submission.

This letter reflects preliminary findings only and is subject to further validation and refinement as KPMG's work progresses.

2 Analysis Approach and Current Status

2.1 Approach

KPMG's review is being conducted in multiple phases, including:

Phase 1 – Discovery and Information Gathering

Activities include:
- Review of organizational structure and affiliate relationships;
- Review of existing service arrangements;
- Interviews with management and key functional leaders; and
- Collection of financial and operational information.

Phase 2 – Functional Review of Services

Activities include:
- Identification of services provided by LUSI to LUI;
- Assessment of service recipients; and

- Evaluation of whether services constitute operations and maintenance services, shared corporate services, or other service categories.

Phase 3 – Evaluation of Cost Allocation Methodology

Activities include:

- Review of cost pools and cost bases;
- Assessment of allocation drivers;
- Evaluation of assumptions supporting allocations; and
- Assessment of compliance with applicable OEB requirements.

Phase 4 – Market Benchmark Assessment

Activities include:

- Evaluation of whether comparable market transactions exist for the operations and maintenance services; and
- Assessment of whether market-based pricing benchmarks are available for the operations and maintenance services provided by LUSI.

KPMG notes that ARC Section 2.3.5.1 allows for fully-allocated cost-based pricing for shared corporate services. Therefore, no market benchmarking assessment is required for these services.

2.2 Current Status

KPMG has completed initial discovery activities and a preliminary review of LUSI's cost allocation methodology.

However, the following procedures remain outstanding:

- Completion of a detailed functional review of LUSI's shared services, which may affect the services that are considered overhead or shared corporate services for service-costing purposes;
- Detailed validation of LUSI's cost allocation methodology, including determination of the cost base, allocation drivers, and assumptions; and
- Detailed evaluation of whether market-based benchmarks exist for the operations and maintenance services provided by LUSI to LUI.

Accordingly, the recommendations contained in this letter should be considered preliminary.

KPMG

3 Summary of Shared Services Arrangements Between LUSI and LUI

LUSI provides a variety of services that support LUI's electricity distribution operations.

These services generally fall into two categories:

(i) Operations and Maintenance Services

LUSI employs operational personnel who provide services supporting LUI's electricity distribution activities, including:

- Engineering services;
- Electrical operations services;
- Maintenance activities;
- Operational planning and support; and
- Vendor management and procurement related to operations.

Costs associated with these activities are generally charged directly to LUI and recorded on LUI's financial statements.

(ii) Shared Corporate Services

LUSI also provides shared corporate services that support LUI's operations and governance.

Consistent with the terminology used in the ARC, shared corporate services include business functions that provide shared strategic management and policy support to the corporate group, including legal, regulatory, procurement, information technology (“IT”), finance, human resources, corporate administration, risk management, and related services.

Based on preliminary review, LUSI provides the following shared corporate services to LUI:

- Billing and customer service;
- Regulatory and financial reporting support;
- Finance, accounting, and treasury;
- Management and corporate oversight; and
- Human resources and administrative support.

These services support LUI’s operations but are not fully recorded on LUI’s financial statements, as certain costs are incurred centrally by LUSI.

4 LUSI's Other Shared Service Arrangements

In addition to services provided to LUI, LUSI provides operations, maintenance and shared corporate services to:

- Town of Cobourg Water Operations ("WaterWorks");
- Town of Cobourg Holdings Inc. ("HoldCo"); and
- Various third-party municipalities, townships, and joint ventures.

These arrangements are relevant because they affect the determination of appropriate cost allocation methodologies for shared corporate resources, personnel, technologies, and administrative functions provided by LUSI to multiple recipients.

5 Preliminary Recommended Cost Allocation Methodology

Based on the procedures completed to date, KPMG's preliminary recommendation is that LUSI recover the fully allocated costs of providing services to LUI, subject to the completion of the remaining phases of our review.

This recommendation is preliminary and reflects the current understanding that:

- Operations and maintenance services are provided through LUSI personnel supporting LUI's regulated operations; and
- Shared corporate services meet the definition of shared corporate services under the ARC, and therefore may be charged based on fully-allocated cost-based pricing.

Step 1 – Identify Relevant Service Departments

The first step is to identify the LUSI departments that provide services to LUI.

These departments include:

Engineering and Electrical Operations

The Engineering and Operations team supports LUI's electricity distribution business. The department is responsible for maintaining and operating electrical infrastructure, including substations, meters, communication towers, SCADA systems, and distribution assets.

Key activities include:

- Managing electrical operations, maintenance, safety, and regulatory compliance;
- Preparing and maintaining documentation required for regulators and system operators;
- Managing operating and capital budgets;
- Coordinating engineering design and construction projects;
- Managing outage response and system reliability initiatives;
- Supporting metering infrastructure and data collection activities;

- Supporting insurance claims and damage assessments; and
- Coordinating and overseeing third-party engineering, construction, vegetation management, asset inspection, cybersecurity, and environmental remediation services.

Office and General Functions

The Office and General functions provide centralized support services across LUI, LUSI, WaterWorks, Holdco, and township service contracts.

Billing and Customer Service

The Billing and Customer Service team performs the following activities:
- Managing utility billing activities for electricity, water, and stormwater operations;
- Supporting customer account administration, customer inquiries, service requests, and collections activities;
- Managing customer account setup, account closures, and billing-related inquiries; and
- Supporting township contract billing and customer service requirements.

Regulatory Services

The Regulatory Services function includes the following activities:
- Delivering regulatory and financial accounting support, including regulatory compliance, cost of service activities, and financial reporting;
- Supporting regulatory reporting requirements and compliance activities;
- Supporting Independent Electricity System Operator (“IESO”) settlement and reconciliation; and
- Coordinating with external consultants and legal counsel on regulatory matters.

Finance and Accounting

The Finance and Accounting team performs the following activities:
- Supporting monthly and annual financial reporting processes;
- Managing budgeting, treasury, banking, and cash management activities;
- Supporting accounts payable, accounts receivable, payroll review, and cost allocation activities; and
- Supporting insurance administration, audit activities, and tax-related matters.

Data Analytics

The Data Analytics function includes the following activities:
- Supporting regulatory reporting activities;

- Providing billing and customer service reporting support;
- Supporting settlement, meter data analysis, and operational reporting activities; and
- Assisting with financial and operational analysis as required.

IT

The IT function is entirely outsourced to external service providers. The external service providers are selected based on an external bidding process (through a Request for Proposal). This includes the following activities:

- IT leadership;
- IT systems and billing software licensing;
- Helpdesk;
- Hardware purchasing;
- Server maintenance; and
- Cybersecurity.

Management and Corporate Services

The Management and Corporate Services functions includes the following activities:

- Providing overall strategic direction and operational oversight;
- Supporting LUI governance activities, including corporate secretarial services for LUI's Board of Directors;
- Supporting enterprise risk management activities, including development and maintenance of the organization's risk register;
- Managing financial operations, including budgeting, forecasting, monthly financial reporting, and reconciliations;
- Overseeing treasury functions, including loans, investments, term deposits, and bank governance;
- Managing insurance programs, including liability, property, and claims-related matters;
- Supporting audit processes, including interim and year-end audits;
- Managing contractual arrangements, including agreement renewals and statements of work;
- Supporting IT and system-related initiatives, including billing system improvements and assessment of future finance system requirements; and
- Leading internal team management, mentorship, and staff development activities.

Human Resources

The Human Resources function performs the following activities:

- Providing human resources services, including recruitment, staffing, and payroll support;
- Health and safety activities;
- Supporting employee relations and workforce administration activities; and
- Coordinating external recruitment activities, particularly for management-level positions.

Step 2 – Determine the Full Cost Base for Each Department

The full cost of providing services should include:

Direct Costs
- Salaries and wages;
- Employee benefits; and
- Payroll burden.

Indirect Costs
- Office occupancy costs;
- Building maintenance costs;
- Office supplies;
- Shared administrative expenses;
- IT costs; and
- Other overhead costs.

Third-Party Costs (Passthrough Costs)
- Professional service fees;
- Vendor costs;
- Purchased services; and
- Materials and supplies.

Step 3 – Directly Charge Costs Incurred for the Benefit of LUI

Costs incurred specifically for the benefit of LUI should be charged directly to LUI.

These costs include:
- Fully burdened salaries of engineering and electrical operations personnel supporting LUI (e.g. the salaries and costs for linemen and/or electrical engineers);
- Third-party vendor costs incurred specifically for LUI operations (e.g. engineering consultants, outage management service providers, contractors for field work (infrared testing, pole inspections, vegetation management, etc.); and

- Other directly attributable operational expenditures.

The salaries of engineering and electrical operations personnel are benchmarked against market rates using a compensation study prepared by a third party.

Step 4 – Allocate Shared Corporate Service Costs

Shared corporate service costs should be allocated to LUI using allocation drivers such as time spent by staff (through timesheets) that reasonably reflect the benefit received by LUI. LUSI staff record their time spent in ADP timesheets.

These costs include:

- Shared personnel costs (e.g. costs of customer service representatives who conduct billing and collections activities for both LUI, WaterWorks, and third-party townships);
- Shared technologies and systems (e.g. IT systems and billing software used for conducting administrative functions that support LUI and other service recipients);
- Shared IT leadership and services (e.g. helpdesk, software licensing, hardware purchasing, server maintenance, etc.);
- Shared administrative resources (e.g. office supplies used for overhead functions that support all service recipients);
- Shared management functions (e.g. Board reporting and shareholder activities that may directly support LUI such as Cost of Service reporting); and
- Shared external service providers (e.g. IT, legal and other professional service providers who support the corporate function of LUSI that benefits LUI and other service recipients).

LUSI's cost allocation methodology should identify the applicable cost pools, allocation drivers, and supporting assumptions used to allocate these costs among service recipients.

The total cost incurred by LUI in 2025 for services rendered by LUSI was $3.6 million. Of this amount, $3.4 million was directly allocated to LUI, while $0.2 million represented indirect allocations.

6 Assumptions and Limitations

This letter reflects KPMG's preliminary observations and recommendations based on information available as of the date of this letter.

Accordingly, the observations and recommendations contained in this letter may change as additional procedures are completed.