LakelandPower

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December 18, 2008

VIA MAIL and E-MAIL

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

Dear Ms. Walli:

RE: Lakeland Power Distribution Ltd.
EB-2008-0234
2009 Electricity Distribution Rate Application
Responses to SEC Interrogatories

Please find enclosed the response to the interrogatories of the School Energy Coalition (SEC) in the above-noted proceeding.

Respectfully submitted,

Margaret Maw
CFO
Lakeland Holding Ltd.

EB-2008-0234

IN THE MATTER OF the Ontario Energy Board Act 1998, S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF an Application by Lakeland Power Distribution Ltd. for an Order or Orders approving or fixing just and reasonable rates and other charges for the distribution of electricity commencing May 1, 2009.

**INTERROGATORIES
OF THE
SCHOOL ENERGY COALITION**

**Responses to School Energy Coalition Interrogatories
By Lakeland Power Distribution Ltd.
December 18, 2008**

General: Transition to International Financial Reporting Standards (IFRS)

1. IFRS will replace Canadian GAAP for all publicly accountable enterprises effective January 1, 2011.

(a) Please describe any processes and procedures taken by LPD to date to facilitate the transition.

At this point in time, LPD has attended seminars with EDA and through CGA as well as attending the conferences held by the OEB to gain information. LPD was also a part of a group of utilities that met with KPMG to get a better understanding of what this process entails in both human and material resources.

(b) Please advise whether LPD has conducted or is planning to conduct any study to identify and assess the potential impact on its regulatory accounting and reporting systems upon transitioning to IFRS reporting standards. If yes, please specify.

LPD is looking to share a consultant resource with other like-minded groups to identify the impact on the business once the process of this rate application is completed due to limited human resources.

(c) Choice of Accounting Policy: Upon transition from Canadian GAAP to IFRS, the utility now has the one-time opportunity to evaluate its current general-purpose financial reporting and make accounting policy decisions that could have a material impact on its future financial reporting. It implies that the utility could start a new even if its currently applied account policy is deemed to be appropriate under IFRS. It also implies that the choice of accounting policy and presentation of financial statements in conformity with IFRS will require management to make judgments and justify certain assumptions. Please advise whether this applies to LPD.

All standards will be reviewed after more education is completed. LPD will also be looking at the OEB's preference of options in order to reduce the resulting differences between the regulatory and financial books.

(d) Cost of Conversion. Costs include both one-time upfront cost (for example, the establishment of multiple sets of books, integration of IFRS requirements into the utility's accounting and reporting systems for both internal and external reporting, IT costs etc) and on-going cost (for example, costs related to expanded disclosure requirements). Please advise of any such conversion costs that are anticipated.

Any costs related to this conversion will be assessed for lowest cost option and will be shared by all companies. LPD has not included any costs related to this conversion in this rate application as they were not known at the time of filing.

General: Revenue Requirement

2. Please provide LDP's revenue requirement for 2006, 2007 & 2008.

Base Revenue Requirement

		2009	2008	2007	2006
OM&A Expenses		2,865,018	2,713,232	2,322,717	2,502,306
Amortization Expenses		1,086,259	899,333	863,389	834,432
Total Distribution Expenses		**3,951,277**	**3,612,565**	**3,186,106**	**3,336,738**
Regulated Return On Capital		1,023,891	1,050,373	1,057,871	1,030,131
PILs		390,132	187,021	326,442	287,833
Service Revenue Requirement	**$**	**5,365,301**	**$ 4,849,959**	**$ 4,570,420**	**$ 4,654,702**
Less: Revenue Offsets	-$	407,336	-$ 400,906	-$ 508,618	-$ 418,980
Base Revenue Requirement	**$**	**4,957,965**	**$ 4,449,053**	**$ 4,061,801**	**$ 4,235,722**

Related Party Transactions

3. Ref a: Ex 1/1/13

Ref b: Ex 1/3/1/Appendix A – 2007 Audited Financial Statements

In Ref a, the company stated that it purchases management and administration services under a Service Agreement from its affiliate.

In Ref b, it states that the transactions between related parties are measured at the exchange value established and agreed to by the related parties.

(a) Please file a copy of the Service Agreement.

Attached at end of responses (Appendix A)

Rate Base

4. 2009 Rate Base

Ref a: Ex 2/1/2/pg2
Ref b: Ex 2/1/2/pg1/Table 1 – Rate Base Variance
Ref c: Ex 2/1/1/pg1

2009 rate base is shown as $15,499,710 in Ref c & Ref a, but $15,521,320 in Ref b. This also affects the year over year rate base variance analysis.

(a) Please reconcile.

A number of the tables in Exhibit 2 did not update with the corrected information when they were printed however the commentary is utilizing the correct data. Please see below for the correct tables. $15,499,710 is the correct value.

Exhibit 2/1/1 page 1

Table 1
Summary of Rate Base

Description	2006 OEB Approved	2006 Actual	2007 Actual Year	2008 Bridge Year	2009 Test Year
Gross Fixed Assets	16,296,006	17,934,442	18,778,725	19,753,513	21,438,673
Accumulated Depreciation	(3,313,079)	(5,449,494)	(6,453,045)	(7,498,107)	(8,608,320)
Net Book Value	12,982,926	12,484,947	12,325,680	12,255,406	12,830,353
Average Net Book Value	12,982,926	12,536,442	12,405,314	12,290,543	12,542,880
Working Capital	17,594,466	18,046,552	18,528,905	19,138,925	19,712,202
Working Capital Allowance	2,639,170	2,706,983	2,779,336	2,870,839	2,956,830
Rate Base	15,622,096	15,243,425	15,184,649	15,161,382	15,499,710

Exhibit 2/1/2 page 1

Table 1
Rate Base Variances

Rate Base:

Description	2006 OEB Approved*	2006 Actual	Variance from 2006 OEB Approved	2007 Actual Year	Variance from 2006 Actual	2008 Bridge Year	Variance from 2007 Actual Year	2009 Test Year	Variance from 2008 Bridge Year
Gross Fixed Assets	16,296,006	17,934,442	1,638,436	18,778,725	844,284	19,753,513	974,788	21,438,673	1,685,160
Accumulated Depreciation	(3,313,079)	(5,449,494)	(2,136,415)	(6,453,045)	(1,003,551)	(7,498,107)	(1,045,062)	(8,608,320)	(1,110,213)
Net Book Value	12,982,926	12,484,947	(497,979)	12,325,680	(159,268)	12,255,406	(70,274)	12,830,353	574,947
Average Net Book Value	12,982,926	12,536,442	(446,484)	12,405,314	(131,128)	12,290,543	(114,771)	$ 12,542,880	252,337
Working Capital	17,594,466	18,046,552	452,086	18,528,905	482,353	19,138,925	610,020	19,712,202	573,277
Working Capital Allowance	2,639,170	2,706,983	67,813	2,779,336	72,353	2,870,839	91,503	$ 2,956,830	85,992
Rate Base	15,622,096	15,243,425	(378,671)	15,184,649	(58,776)	15,161,382	(23,267)	$ 15,499,710	338,328

Exhibit 2/1/2 page 2

Table 2
Rate Base Materiality

Description	2006 OEB Approved	2006 Actual	2007 Actual Year	2008 Bridge Year	2009 Test Year
Gross Fixed Assets	$16,296,006	17,934,441.85	$18,778,725	$19,753,513	$21,438,673
Accumulated Depreciation	-$3,313,079	- 5,449,494.36	-$6,453,045	-$7,498,107	-$8,608,320
Net Book Value	$12,982,926	12,484,947.49	$12,325,680	$12,255,406	$12,830,353
Variance calc 1% NBV		$124,849	$123,257	$122,554	$128,304

OM&A Costs

5. Account # 5065 Meter Expense

Ref a: Ex 4/2/2/pg1 – OM&A Cost Table
Ref b: Ex 4/2/1/pg 15
Ref c: Ex 3/2/1/pg1 – Table "Customer / Connection Forecast"

(a) In Ref b, LPD states that its meter reading service is contracted out to a non-affiliated third party under an SLA.

(i) If the meter reading service is charged on a per hour basis, please provide the hourly rate charged by the third party meter reader and the estimated number of hours required to perform meter reading services for each of the year 2006 – 2009 as per the original SLA;

(ii) If the meter reading services is charged on a per meter basis, please provide the charge rate per meter for each of the year 2006 – 2009.

See below

(b) In Ref a, 2007 actual meter expense dropped by 11% compared to 2006 actual level. 2008 bridge year spending is budgeted to increase by 35% over 2007 actual. 2009 test year spending is forecasted to drop 10% compared to 2008 but still represents an increase of 22% over 2006 actual. The company has not provided any explanations with respect to the year over year variances for this account (the variance is below the materiality threshold defined by LPDL, which is $33,000 or 1% of its distribution expenses before PILs). It appears that the significant year over year variance is not driven by volume as LPDL's customer / connection growth is less than 1% each year from 2006 – 2009 (Ref c). Please provide detailed explanations.

Account 5065 is not related to meter reading (meter reading is in account 5310-Meter Reading expense). Account 5065 is for expenses relating to the maintenance of meters at customer locations such as replacing covers, voltage checks, final reads, communication issues, etc. This is a variable expense year to year depending on number of problems arising.

6. Ref : Ex 4/2/3/pg3: Account # 5085 – Misc. Distribution Expense

2006 actual spending increased by $176K or 503% over approved 2006 level. LPD has explained that the increase was due to significant amount of time spent on GPS mapping and layout designs for new and existing customers.

(a) Compared to 2006 approved spending, 2007 actual and 2008 – 2009 forecasted spending almost quadrupled. Please list the underlying cost drivers contributing to the increased spending level for each of the year 2007 – 2009.

Lakeland contracted a person to setup and implement operations policies and procedures in order to streamline work management, $16 K which is a one time purchage. Lakeland also procured distribution engineering standards from Enersource for $32 K, again, a one time expense. In addition, the amounts that are booked to this account in prior years were put into a holding account then spread over all operations/maintenance/capital accounts. In 2006, it was decided to house all of these costs into one account and dispense with the allocation, hence why the majority of the accounts in O&M range are lower than the 2006 approved spending. Lakeland also felt that charges to capital should be specific to the project so allocations were dispensed of from 2005 onwards. The types of expenses that are in this account are

- **layouts**
- **planning engineering jobs/ weekly engineering meetings**
- **GIS updates**

7. Account # 5095 – Overhead Distribution Lines and Feeders – Rental

Compared to 2006 actual level, spending in this category started to increase from 2007 by over 50%.

(a) Please advise whether the increase from 2007 and beyond is due to the adjustment in pole rental charges payable to Bell and Hydro One. If yes, please provide the unit charge before and after the adjustment.

The increase in expense is due to Hydro One poles in the annexed area of Bracebridge which were not charged until 2007, $14 K.

8. Account # 5130 – Maintenance of Overhead Services

Ref: Ex 4/2/3/pg4

LPD states that the increased 2006 spending was due to storm restoration costs. 2008 spending has been forecasted to increase by $51K, or 20% ,over 2007, and there is a further 15% increase forecasted for 2009.

(a) Please provide a detailed explanation by identifying the underlying cost drivers contributing to the year over year increases.

LPD is in an area of high storm activity. The storm costs identified specifically in 2006 were for a single incident that was exceptional. SEC was part of the hearing process. The other charges to this account are for time and materials to repair overhead lines. In addition, in 2009, two new line positions will be coming on board to assist with maintenance and capital projects in this and other areas. A portion of the costs is related to disconnecting and reconnecting service for customers. Lakeland allows one free service of this type per customer per year. Trouble calls are also on the rise. LPD has experienced ever increasing abnormal weather, snow conditions and rainfall. These conditions have created more than LPD's fair share of problems. In the spring, lightning storms knocked out the power on more occasions that expected. The forecast for 2008 included these repairs. Just in the last two weeks, the power to our customers has been out in the Bracebridge area more than 5 times due to heavy snowfall. As of Oct 2008, spending in this account has been $240K without the storms in the past few weeks. It is expected that spending in this account will be greater than that indicated in the 2008 Forecast of $290 K.

9. Account # 5135 – Overhead Distribution Lines and Feeders – Right of Way

Ref a: Ex 4/2/3/pg4
Ref b: 4/2/Appendix B – Maintenance Plan for Tree Trimming

LPD states that tree trimming is the single largest expense in this account.

(a) In Ref b, LPD has provided a tree trimming cost summary for 2008 & 2009. Tree trimming cost per plan is $114,795 for 2008 and $ 110,850 for 2009. In Ref a, $124,000 has been budgeted for 2008 and $130,000 in 2009. Please confirm the correct amount budgeted for 2008 & 2009 respectively.

The tree trimming plan is that performed by an outside contractor. The incremental amounts are for work performed by our line crews in spot areas as required or by customer request.

(b) The tree-trimming plan filed in the application was dated April 16, 2002. Please confirm whether this is the "new" tree-trimming plan identified in the evidence.

Typographical error, should be April 16, 2007

(c) LPDL is adopting a new tree-trimming plan based on a 7-year cycle. Compared to the company's previous practice prior to the adoption of its new 7-year cycle, is the new plan covering more work (for instance, by area or by hours) each year? If yes, what is the % increase of the work load?

Prior to 2008, tree trimming was sporadic at best and driven by trouble calls, reactive as opposed to preventative. The work load increase will be handled by expert contractors as we do not have the staffing levels for it. Although the ultimate end is to reduce trouble calls, the effect of the tree trimming will not have a material impact on reducing maintenance costs until most of the way through the program.

10. Account # 5155 – Maintenance of Underground Services

Ref a: Ex 4/2/3/pg5
Ref b: Ex 2/2/1/ -- Capital Additions, Account #1840 & 1845

Spending in this category has increased, year over year, by $15K or 48% in 2007, $9K or 19% in 2008, and a further $30K or 56% in 2009. LPD states that the cost increase is mainly due to numerous cable failures, underground locates and servicing of new subdivisions.

Capital additions on account # 1840 (Underground conduit) and #1845 (underground conductors and devices) amount to $71,190 in 2006, $149,023 in 2007, $180,366 in 2008, and $182,160 in 2009, representing a 156% increase within 3 years.

In general, increased capital spending (based on needs and priority) should lead to savings on assets maintenance expenses. Therefore:

(a) please explain why LPD requires increased spending on both capital expenditures and maintenance expenses related to its underground distribution assets.

The capital spending in 2007 Undergrounding was for new services (with offsetting capital contributions).

The rate at which LPD is replacing problem undergrounding is significantly smaller than the area of undergrounding that is in our service area. The only project that is related to undergrounding is the Liddard Street project. The maintenance will be on areas that are more than 30 years old and includes submarine cable that gets damaged by boat traffic

11. Account # 5320 – Collecting

Ref: Ex 4/2/2/pg2

2006 actual spending was $23K or 30% lower than 2006 approved. Spending was up again by 32% in 2007 and a further 37% in the following year.

Please identify underlying cost drivers and explain the year over year variances.

In 2004, an additional contract person was on board to assist with collections ($20K). With the reduction in distribution revenue due to movement in debt/equity ratio and use of actual debt rates, it was decided to remove this position. By the end of 2006, the bad debt expense was growing as was the number of accounts going to collections and more disconnect notices were being delivered to our remote communities. In mid 2007, a part time collections person was hired ($10 K for part year) and more accounts sent to collection agency ($2 K incremental commission). For 2008, aggressive collections and tightening of credit policy increased the amount of disconnect notices being hand delivered ($4 k in time & travel) and the collection clerk was in place for full year ($17 K incremental). For 2009 and the advent of Smart Meters, it is expected that the accounts will be in better, more timely shape reducing disconnects and remote disconnection may be possible saving travel time to northern municipalities.

12. Account # 5675 – Maintenance of General Plant

Ref a: Ex 4/2/3/pg8
Ref b: Ex 4/2/2/pg 3

2006 actual general plant maintenance expense was $104K or 270% higher than the 2006 approved level. LPD explains that $75K was due to the cost for the cleanup of the contamination at the Bracebridge operation building.

(i) Excluding the impact of the contamination which was only a one-time event, the remaining variance is $29K above 2006 approved level. Please provide an explanation.

2006 Approved is based on 2004 actuals where Operations was sharing a building with the District/Town of Bracebridge where they paid a nominal fee (Acct 5670 Rent) until their building was completed. Once they moved into the new LPD building, the expenses moved from Account 5670 to 5675. Utilities increased $10K, plus snowplowing $2K, and creation of an outside material storage area, $7K in addition to items such as anti slip carpet runners, and weekly cleaning, $6K.

Wages and Compensation

13. Ref: Ex 4/2/7/pg5

(i) In 2007, the average yearly base wages for management was 18% higher than 2006 (from $61K in 2006 to $72K in 2007). Please explain.

(ii) In 2007, the average yearly base wages for non-unionized staff was 24% greater than in 2006 (from $30K in 2006 to $37K in 2007). There is a further 13% increase in 2008. During the period, the number of non-unionized staff has not changed. Please explain the increases.

(iii) In 2007, the average yearly base wages for unionized staff has increased by 11% over 2006 (from $46K in 2006 to $51K in 2007). There is a further 21% increase in 2008. Please advise whether a collective agreement is in place, describe the provisions, and explain the double-digit increase over 2007& 2008.

Due to a clerical error in allocation of the costs to the different expense types and that the part time positions were not inputted as FTE, the table has been recalculated. Please find the corrected allocation below. Total compensation does not change.

The part time staff are not included in the Number of Employees (FTEs) section and should be added together with the Full time employees:

Total FTE – All	2006	2007	2008	2009
	15.1	15.25	16.4	17.6

Management base wages changes by 20% as the new complement of staff is of a higher competence level that previous staff. Of the three positions, two are new in 2008.

Non-unionized staff base wage increase is approximately 3% per year.

Union staff wages are under a collective agreement of 3.5% for 2007 and 4% for 2008. A new contract will be negotiated in 2009.

Table 3
Employee Complement And Compensation

Number of Employees (FTEs)	2006	2007	2008	2009
Executive	0	0	0	0
Management	2	3	3	3
Non-Union	3	3	3	3
Union	8.3	8	8.4	10
Total	13.3	14	14.4	16

Number of Part Time Employees (FTE)	2006	2007	2008	2009
Executive	0	0	0	0
Management	0	0	0	0
Non-Union	1.8	1.25	2.00	1.60
Union	0	0	0	0
Total	1.8	1.25	2	1.6

Total Compensation	2006	2007	2008	2009
Executive				
Management	164,667	231,040	281,226	288,029
Non-Union	217,577	197,803	245,865	236,563
Union	643,712	609,927	683,819	864,609
Total	1,025,956	1,038,769	1,210,910	1,389,201

Compensation - Average Yearly Base Wages	2006	2007	2008	2009
Executive				
Management	67,182	67,024	80,728	81,667
Non-Union	39,294	40,229	41,623	42,917
Union	54,649	56,990	59,504	61,301

Compensation - Average Yearly Overtime	2006	2007	2008	2009
Executive				
Management	3,152	774	-	-
Non-Union	825	529	600	652
Union	14,283	7,225	8,571	8,944

Compensation - Average Yearly Incentive	2006	2007	2008	2009
Executive				
Management	-	-	-	-
Non-Union	-	-	-	-
Union	-	-	-	-

Compensation - Average Yearly Benefits	2006	2007	2008	2009
Executive				
Management	11,999	9,215	13,014	14,343
Non-Union	5,210	5,784	6,950	7,857
Union	8,624	12,027	13,332	16,216

	2006	2007	2008	2009
Total Salary, Wages & Benefits Charged to OM&A	874,634	795,646	959,831	1,089,478

Cost Allocation

14. Ex. 8/1/2, pg. 4:

(a) Please expand Table 3 by providing the existing revenue shares (of the existing revenue requirement) of the various rate classes.

Customer Class	Cost Allocation	Rate Application Revenue Requirement %	Rate Application	2008 Revenue Requirement %	2008 Revenue Shares
Residential	55.97%	55.97%	$2,774,725	55.27%	$2,189,379
GS <50 kW	23.53%	23.53%	$1,166,609	22.30%	$883,234
GS>=50 kW	13.55%	16.93%	$839,135	21.13%	$836,905
Street Light	6.17%	3.00%	$148,739	1.01%	$40,099
Sentinel	0.14%	0.07%	$3,471	0.03%	$1,264
Unmetered Scattered Load	0.65%	0.51%	$25,286	0.26%	$10,467
TOTALS	**100.00%**	**100.00%**	**$4,957,965**	**100.00%**	**$3,961,348**

(b) Please confirm that the proposed revenue to cost ratios will mean that the GS>50kW rate class will be over-contributing to LPD's revenue requirement in the amount of $167,331 and the Streetlighting class will be under-contributing in the amount of $157,167.

Confirmed – see table below

FOR 2009	Outstanding Base Revenue Requirement %			Outstanding Base Revenue Requirement $				
Customer Class	Cost Allocation	Existing Rates	Rate Application	Cost Allocation	Existing Rates	Rate Application	Difference Existing vs Cost Allocation	Difference Rate App vs Cost Allocation
Residential	55.97%	55.59%	**55.97%**	$2,774,726	$2,756,141	$2,774,725	($18,585)	($1)
GS <50 kW	23.53%	22.40%	**23.53%**	$1,166,638	$1,110,783	$1,166,609	($55,855)	($29)
GS>=50 kW	13.55%	20.86%	**16.93%**	$671,848	$1,034,355	$839,135	$362,507	$167,288
Street Light	6.17%	0.87%	**3.00%**	$305,767	$43,138	$148,739	($262,629)	($157,028)
Sentinel	0.14%	0.03%	**0.07%**	$6,815	$1,410	$3,471	($5,404)	($3,344)
Unmetered Scattered Load	0.65%	0.24%	**0.51%**	$32,171	$12,137	$25,286	($20,033)	($6,885)
Back-up/Standby Power								
TOTALS	**100.00%**	**100.00%**	**100.00%**	**$4,957,965**	**$4,957,965**	**$4,957,965**	**$0**	**$0**

(c) At p. 5 of Ex. 8/1/2, the company states that "in light of uncertainty identified by OEB staff with respect to the analysis of cost allocation results for this class, LPDL submits that its approach to the implementation of the cost allocation study in respect of the Street Lighting class, as proposed in this Application, is appropriate for the 2009 Test Year…" However, the Board Report also stated, with respect to other rate classes, there may be problems with data, in particular accounting and load data, that make it undesirable to necessarily insist on a revenue to cost ratios of one for all rate classes. Please explain, therefore, why LPDL proposes to move the Residential and GS<50 rate classes to 100% revenue to cost ratio while leaving the GS>50 well above that level and the Streetlighting class well below that level.

LPDL's goal was to move all classes to 100% if they were marginally close, move Streetlighting, Sentinel, and USL to half the difference as per other OEB decisions then balance the resulting difference in GS>50 kW. This method increased the movement downwards on GS>50 kW, closer to 1.

15. Ex. 9: Rate Design

(a) Please provide the existing and proposed fixed/volumetric charge split for each rate class.

See Exhibit 9 Tab 1 Schedule 1 Page 3 – reproduced below

Customer Class	Current Fixed Charge Spilt Based on Existing Rates	Current Volumetric Charge Spilt Based on Existing Rates	Proposed Fixed Charge Spilt Based on Mitigation	Proposed Volumetric Charge Spilt Based on Mitigation
Residential	60.1%	39.9%	53.5%	46.5%
GS <50 kW	62.3%	37.7%	62.3%	37.7%
GS>=50 kW(incl. trsf adj)	70.2%	29.8%	70.2%	29.8%
Street Light	60.1%	39.9%	60.1%	39.9%
Sentinel	55.8%	44.2%	55.8%	44.2%
Unmetered Scattered Load	82.8%	17.2%	82.8%	17.2%

(b) Please provide the Lower Bound (avoided costs), upper bound (avoided costs plus allocated customer costs) and ceiling (120% of upper bound) for each rate class [Note: the Lower Bound, Upper Bound and Ceiling are defined in the Report of the Board, Application of Cost Allocation for Electricity Distributors, p. 12]

2008 Rates From OEB Approved Tariff	Minimum System with PLCC Adustment (Ceiling Fixed Charge From Cost Allocation Model)	Fixed Rate Threshold @ 120% of Ceiling Charge
14.86	15.72	18.86
30.05	24.47	29.36
499.50	98.28	117.94
0.84	9.81	11.77
1.25	10.22	12.26
14.89	30.10	36.12

As per Exhibit 9/Tab 1/Schedule 1/Page 4, Lakeland proposes to maintain the current fixed and variable proportions for the proposed 2009 rates for most classes. Lakeland has made a change in the fixed and variable proportions fo the residential class to address rates in excess of 10% bill impact on low volume residential consumers. Consistent with the position of Norfolk Power in it's 2008 Rate Application EB-2007-0753, it is Lakeland's understanding that a ceiling was not established by the Board's report *Application of Cost Allocation for Electricity Distributors*. In the case of Norfolk Power the Board agreed with this position in the Board's Decision for the Norfolk Power's 2008 rate application. In that Decision the Board stated:

"Board Findings

As noted above the Applicant does not propose to change the relationship between the fixed portion of the customer's bill and the portion that varies with load.

The Board has convened a consultation with the industry and stakeholders respecting many aspects of rate design, including the fixed/variable split. (EB-2007-0031). The relationship between the fixed and variable portions of the customer bill has important implications for ratemaking, and the magnitude of the fixed charge has benefits and drawbacks for various stakeholders.

In light of the consultation initiated by the Board on these subjects it would be inappropriate to attempt to predict its outcome and to impose a new structure on the Applicant. Accordingly the Board accepts the Applicant's proposal."

Appendix A

Services Agreement

THIS SERVICES AGREEMENT is made this 1st day of August, 2008

BETWEEN:

Lakeland Power Distribution Ltd., a corporation incorporated pursuant to the laws of the Province of Ontario and licensed by the Ontario Energy Board (hereinafter referred to as "LLP")

PARTY OF THE FIRST PART;

- and -

Lakeland Holding Ltd.
(hereinafter referred to as "Holding")

PARTY OF THE SECOND PART.

From time to time, LLP and Holding shall be individually referred to in this Agreement as a "Party" and collectively as "Parties".

WHEREAS:

A. Holding is a company who is to contract services out to LLP;

B. This Agreement acknowledges the regulatory oversight of the Ontario Energy Board of LLP and this Agreement must be governed by the following objectives:

a) protecting ratepayers from harm that may arise as a result of dealings between LLP and Holding;

b) preventing LLP from cross-subsidizing Holding activities;

c) protecting the confidentiality of information collected by LLP in the course of provision of LLP services;

d) ensuring there is no preferential access to LLP services;

e) preventing LLP from acting in a manner that provides an unfair business advantage to Holding; and

f) preventing customer confusion that may arise from the relationship between a LLP and Holding.

NOW THEREFORE in consideration of the mutual covenants, agreements, terms and conditions herein and other good and valuable consideration, the receipt and sufficiency of which is hereby irrevocably acknowledged, the parties agree as follows:

1. Definitions

(a) All terms that are defined in the Distribution System Code and the Retail Settlement Code which appear herein without definition shall have the meanings respectively ascribed thereto in the Distribution System Code and the Retail Settlement Code.

(b) Throughout this Agreement, unless there is something in the subject matter or context inconsistent therewith, the following words shall have the following meanings:

"Act" means the *Ontario Energy Board Act, 1998*, S.O. 1998 c. 15, Schedule B;

"Agreement" means this Services Agreement and attached Schedules

"Electricity Act, 1998" means the *Electricity Act, 1998,* S.O. 1998 c. 15, Schedule A;

"Formal Notice" means the written notices required or permitted to be given in Sections 3, 5.2, 7.1 and 7.5 hereof.

"Open Access" is the date that Section 26(1) of the Electricity Act, 1998 is proclaimed in force; and

"Representative" means (i) a person controlling or controlled by or under common control of a party and each of the respective directors, officers, employees and independent contractors of the party and such party's Representative, and (ii) any consultants, agents or legal, financial or professional advisors of a party.

2. Term

The term of this Agreement shall commence on the date first written above and shall remain in full force and effect for no longer than 5 years or until one party gives 10 days notice to cancel this agreement, whichever comes first.

For greater certainty, the Parties acknowledge and agree that:

(i) this Agreement does not abrogate, amend or modify in any way whatsoever any agreement, written or otherwise, that LLP may have with other customers.

3. Services

(i) Holding is contracted to provide President & CEO services for strategic direction and management to ensure that LLP's corporate goals are achieved.

(ii) Holding is contracted to provide Chief Financial Officer and Chief Operations Officer services for strategic direction and management to ensure that LLP's corporate goals are achieved.

(iii) Holding is contracted to supply the following services to LLP;

a. Services of Administration Assistant
b. Human resources/Payroll services
c. General Financial services including Accounts payable processing, miscellaneous accounts receivable processing, cheque administration, banking administration, and purchasing administration,
d. Telephone and internet services,
e. Insurance, audit, legal services, building rent
f. IT Support,
g. Training,
h. Office supplies/machines.

(iv) LLP shall not endorse or support marketing activities of Holding.

(v) Holding shall not use LLP's name, logo or other distinguishing characteristics in a manner which would mislead consumers as to the distinction between LLP and Holding.

(vi) LLP shall take reasonable steps to ensure that Holding does not imply in its marketing material favoured treatment or preferential access to LLP's system or services. If the LLP becomes aware of inappropriate marketing activity by Holding, it shall:

(a) immediately take reasonable steps to notify affected customers of the violation;
(b) take necessary steps to ensure Holding is aware of the concern; and
(c) inform the Ontario Holding Board in writing of such activity and the remedial measures that were undertaken by LLP.

(vii) LLP shall apply all Rate Orders and rate schedules to Holding in the same manner as would be applied to similarly situated non-affiliated parties.

(viii) Requests by Holding or its customers for access to a LLP's transmission or distribution network or for LLP services shall be processed and provided by LLP in the same manner as would be processed or provided for similarly situated non-affiliated parties.

4. Fees and Invoicing

Holding will issue regular invoices to LLP which are payable at the due date. Late payments are subject to a late payment charge as may be set out on the invoice, and which charges shall not exceed 1.5% per month, from the date of the due invoice.

6. Payables & Receivables

(i) Holding will invoice LLP for the provision of services at cost, based on the allocation methodology outlined in Appendix A.

7. Payment Conditions

Holding will accept bill payments made by LLP through the following payment method:

- Cheque to Lakeland Holding Ltd.;

8. Dispute Resolution

In the event of any dispute or claim respecting this Agreement, the parties agree to first use good faith efforts to resolve the dispute without resorting to the Courts. The parties agree to attempt a resolution by direct contact between the most senior people in each organization, prior to resorting to litigation.

In all matters related to this Agreement, on which the documents are silent or ambiguous, the parties adopt the following hierarchy of approaches to resolve any conflict between them: a) common sense, b) commercial reasonableness, c) conventional trade practices, and d) Ontario Energy Board Codes.

9. General

9.1 Force Majeure: LLP shall not be liable for, nor shall Holding be entitled to cancel its contract, because of any outage or downtime resulting from any failure of performance or equipment due to causes beyond Energy's control, including but not limited to: acts of God, fire, flood or other catastrophes; acts or omissions of third parties; any law, order, regulation, direction, action, or request of the any government, or of any department, agency commission, bureau, corporation or other instrumentality of any one or more of federal, provincial, or local governments; national emergencies; insurrections; riots; wars; unavailability of rights-of-way or materials; or strikes, lock-outs, work stoppages, or other labor difficulties.

9.2 Consideration: This Agreement is made for valuable consideration the receipt and sufficiency of which each party acknowledges by the signing of this Agreement.

9.3 Amendments: The terms of this Agreement shall only be amended by a document in writing signed or acknowledged by authourized representatives of both parties.

9.4 Assignment: Holding shall not assign this Agreement without the prior written consent of the LLP.

9.5 Non Waiver: No waiver of any term of this Agreement or of any breach or default shall be valid unless in writing and signed by the party giving the waiver. LLP will not be liable to Holding or other Third Party for any indirect , incidental, special or consequential damages, expenses or costs whatsoever, under any circumstances. LLP would not enter this Agreement unless Holding agreed to limit LLP's liability in this way. Energy acknowledges that the limitation of LLP's liability in this way is fair and reasonable under the circumstances of this Agreement.

10. Indemnity

Holding shall indemnify and save LLP harmless from all liability or damages arising from any and all claims by any third party, or LLP's failure to comply with terms of this Agreement. This indemnity shall survive termination of this Agreement.

11. Liability

Notwithstanding the foregoing, neither Party shall be liable under any circumstances whatsoever for any loss of profits or revenues, business interruption losses, loss of contract or loss of goodwill, or for any indirect, consequential or incidental damages, including but not limited to punitive or exemplary damages, whether any of the said liability, loss or damages arise in statute, contract, tort or otherwise.

12. Entire Agreement.

This Agreement, together with the schedules attached hereto, constitutes the entire agreement between the Parties and supersedes all prior oral or written representations and agreements of any kind whatsoever with respect to the matters dealt with herein.

13. Incorporation of Schedules

Set out below are the schedules and appendices that form a part of, and that are hereby incorporated by reference into, this Agreement:

Appendix "A"	-	Allocation Methodology
Schedule "A":	-	LLP Contact Information
Schedule "B"	-	Holding Contact Information
Attachment "C"	-	Confidentiality Agreement
Attachment "D"	-	Amended Affiliate Relationships Code For Electricity Distributors and Transmitters (2008)

14. Applicable Law.

This Agreement shall be construed and enforced in accordance with, and the rights of the Parties shall be governed by, the laws of the Province of Ontario and the laws of Canada applicable therein, and the courts of Ontario shall have exclusive jurisdiction to determine all disputes arising out of this Agreement.

(i) LLP ensures accounting and financial separation from Holding and shall maintain separate financial records and books of accounts.

(ii) LLP ensures that at least one-third of its Board of Directors is independent from Holding.

(iii) This Agreement may be executed in counterparts, including facsimile counterparts, each of which shall be deemed an original, but all of which shall together constitute one and the same agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by the signatures of their proper officers, as of the day and year first written above.

Lakeland Holding Ltd.

Name: Chris Litschko
Title: President and Chief Executive Officer
I have authority to bind the Corporation

Lakeland Power Distribution Ltd.

Name: Holly Chantler
Title: General Manager
I have authority to bind the Corporation

APPENDIX A

Description of cost allocators to corporate group of companies:

Type of Service	**Executive Services**
Cost Allocators	Percentage of time allocated or specific distribution
Explanation	Includes salaries, benefits and expenses for CEO and Board of Directors
Type of Service	**Senior Management Services**
Cost Allocators	Percentage of time allocated
Explanation	Includes salaries, benefits and expenses for CFO, COO, and Administration assistant
Type of Service	**Human Resources**

	To provide various human resources services including recruitment, collective bargaining and health and safety services
Cost Allocators	Percentage of time allocated
Type of Service	**General Financial Services** To provide accounts payables processing, miscellaneous accounts receivables processing, cheques administration, banking administration, purchasing administration
Cost Allocators	Percentage of time allocated
Type of Service	**Telephone/internet services** To provide and maintain telephone services and ISP charge for internet.
Cost Allocators	Number of employees
Type of Service	**Insurance** To provide insurance for assets, Director's and vehicle insurance
Cost Allocators	Net asset base
Type of Service	**IT Support** To provide and maintain standard information systems, network services and support.
Cost Allocators	Number of employees
Type of Service	**Audit fees** Third party audit fees for consolidated company
Cost Allocators	Revenue percentage
Type of Service	**Legal Services** To provide internal legal counsel and related legal services; e.g. corporate contract drafting, easement registrations
Cost Allocators	Direct disbursement
Type of Service	**Training** To provide training for all employees on general areas, teamwork, harassment, health & safety.
Cost Allocators	Number of employees
Type of Service	**Office supplies/Photocopying/Postage/Courier** General office expenses incurred in day to day operations
Cost Allocators	Percentage of time allocated
Type of Service	**Building Rent**

To provide and maintain physical office and operations space

Cost Allocators 5-45 Cairns Cres, Huntsville - based on actual square footage

TYPE OF SERVICE	COST ALLOCATORS	COST ALLOCATION PERCENTAGES [%]		
		Power	Energy	Generation
Executive & Director services	% of time spent	62.3	18.7	19
Management services	% of time spent	62.3	18.7	19
Human Resources	% of time spent	62.3	18.7	19
General Financial Services	% of time spent	62.3	18.7	19
Telephone services	# of employees	74	11	15
Insurance	Assets	60	4	36
IT support	# of employees	74	11	15
Audit fees	% of revenue	65.4	9	25.6
Legal services	Direct charge	1	1	1
Training services	# of employees	74	11	15
Office Supplies	# of employees	74	11	15
Building rent	Sq.ft. in Huntsville office	81	11	8

Schedule "A" – Lakeland Power Contact Information

Corporate Name: Lakeland Power Distribution Ltd.

1.0 Designated Contact for Contractual Matters and Formal Notice:

Name: Holly Chantler
Title: General Manager
Mailing Address: 5-45 Cairns Crescent
City: Huntsville
Province: ON
Postal Code: P1H 2M2
Email Address: hchantler@lakelandpower.on.ca
Phone: 705-789-5442
Fax: 705-789-3110

2.0 Designated Billing Contact:

Name:	Debbie Eccles
Title:	Accounting Associate
Mailing Address:	5-45 Cairns Crescent
City:	Huntsville
Province:	ON
Postal Code:	P1H 2M2
Email Address:	deccles@lakelandpower.on.ca
Phone:	705-789-5442
Fax:	705-789-3110

Schedule "B" – Lakeland Holding Contact Information

Corporate Name: Lakeland Holding Ltd.

1.0 Designated Contact for Contractual Matters and Formal Notice:

Name:	Chris Litschko
Title:	President & CEO
Mailing Address:	5-45 Cairns Cres
City:	Huntsville
Province:	ON
Postal Code:	P1H 2M2
Email	cjlitschko@lakelandholding.com
Phone:	705-789-5442
Fax:	705-789-3110

2.0 Designated Billing Contact:

Name:	_Janis Jenkins_
Title:	_Payroll & Benefits Administrator
Mailing Address:	_5-45 Cairns Cres
City:	_Huntsville
Province:	_ON_
Postal Code:	_P1H 2M2
Phone:	705-789-5442
Fax:	705-789-3110

CONFIDENTIALITY AGREEMENT

This Confidentiality Agreement (the "Agreement"), dated as of August 1st, 2008, is entered into by and between Lakeland Power Distribution Ltd. ("LLP") and Lakeland Holding Ltd. ("Holding") (each, a "Party", and collectively, the "Parties").

BACKGROUND:

A. Parties have entered into agreements related to the mapping services by Holding.

B. LLP will provide to Holding, data file information.

C. As a condition of such information being provided, the Parties covenant and agree to the terms and conditions herein contained.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is acknowledged, the Parties agree as follows:

1. Information. Subject to Section 6 of this Agreement, "Information" refers to all information relating to a Party or the Project that is provided by one Party (or its Representatives) (the "providing Party") to the other (the "receiving Party") which, irrespective of whether it is labelled "confidential", is confidential, a trade secret or otherwise proprietary to a Party including, without limitation, information with regard to current or projected assets, business strategies or projected financial information.

2. Provision of Information. The providing Party will supply at its discretion certain information to the receiving Party under reserve and condition that the stipulations herein contained shall be applied to that confidential information so disclosed. For more certainty, the present does not oblige either party to disclose to the other any details or information of any particular nature.

3. Ownership and Treatment of Information. All Information shall remain, at all times, the exclusive property of the providing Party. Except as expressly set out in this Section 3, neither the receiving Party nor any of its Representatives has any license or other right to use or disclose any Information received by it for any purpose whatsoever. The receiving Party may use the Information only in connection with this Project. Accordingly and specifically, the receiving Party will not use any Information either in its own business or to provide any consulting or other services to any other company or other entity. Before providing any Information to any of its Representatives, the receiving Party will first inform such Representative of the confidential nature of the Confidential Information and of the Party's obligations under this Agreement. The receiving Party will use the same means to protect the confidentiality of the Information that the receiving Party uses to protect its own confidential and proprietary information, and in any event the receiving Party will use not less than reasonable means.

4. Representatives. Each of the Parties may transmit the Information to its directors, officers, shareholders, employees and consultants (including, but not limited to, legal and financial advisors) ("Representatives") provided such Representatives (i) need to know the Information for the purpose of the Project and (ii) will preserve the confidentiality of the Information in accordance with the terms and provisions of this Agreement. Each Party shall remain liable for any breach of this Agreement by its Representatives.

5. Copies and Use of Information. Unless otherwise agreed to herein, neither Party shall, unless authorized by the other Party to do so, (i) copy, reproduce, distribute or disclose to any person, firm, entity, or corporation any of the Information, or any facts related thereto; (ii) permit any third party to have access to such Information; or (iii) use such Information for any purpose other than for the purpose of pursuing the activities as contemplated herein.

6. Required Disclosure. In the event that either Party or any of its Representatives, who has received Information from the other Party, is requested in any legal proceeding or regulatory process to disclose any Information, the receiving Party will and will cause its Representatives to give the providing Party prompt notice of such request so that the providing Party may seek an appropriate protective order or other remedy. If, in the absence of a protective order, the receiving Party is nonetheless advised in writing by internal or external counsel that disclosure of the Information is required (after exhausting any appeal requested by the providing Party at the providing Party's expense), the receiving Party may disclose only such Information as is required by law without liability hereunder. In any event, each Party agrees to use best efforts to ensure that all information is accorded confidential treatment.

7. Exclusions from Information. "Information" shall not include any information that the receiving Party can clearly demonstrate:

(a) was or becomes generally known to the public through no fault or action by the receiving Party or any of its Representatives;

(b) was readily and lawfully available to the receiving Party on a non-confidential basis prior to the disclosure hereunder to the receiving Party;

(c) was or becomes known to receiving Party on a non-confidential basis from a source other than the providing Party, so long as the source was not subject to any confidentiality obligation that the receiving Party was aware of; or

(d) as shown by written record, was independently developed by the receiving Party without reference to the Information.

8. Destruction of Information. At any time, at the providing Party's request, the receiving Party will deliver promptly to the providing Party all, or a specified portion of, the Information, together with all copies, extracts or other reproductions in whole or in part of such Information, provided however that the receiving Party's counsel may retain one copy subject to the condition that it keep the information confidential in accordance with the terms and conditions of this

Agreement. In addition, at any time, at the providing Party's request, the receiving Party will destroy, promptly and irrevocably:

(a) all such copies, extracts or other reproductions of Information, or a specified portion of Information, which cannot, because of the device on which such Information is stored, be removed from the possession of the receiving Party by delivery to the providing Party; and

(b) all analyses, compilations, studies, documents, memoranda, notes and other writings and information whatsoever (regardless of the form, medium or device on or in which such Information is written, recorded, stored or reproduced) prepared by the receiving Party or its Representatives and which is based on any of the Information.

Following such delivery and destruction, the receiving Party will promptly provide the providing Party with written confirmation of completion. In any event, the receiving Party will complete all such actions within ten (10) business days of receipt of the providing Party's initial request.

9. No Obligation. This Agreement does not obligate either Party to enter into any further agreements.

10. No Representations or Warranties. Neither Party makes any representation or warranty as to the accuracy or completeness of any of the Information and neither Party will have any liability to the other Party or any of its Representatives in respect of the use of the Information by the other Party or any of its Representatives.

11. Headings, etc. The division of this Agreement into sections and the insertion of headings are for convenience of reference only and are not to affect the construction or interpretation of this Agreement. Words importing the singular include the plural and vice versa. The term "including" means "including without limitation", and the term "includes" and "included" have similar meanings.

12. Severability. The Parties agree that if any provision of this Agreement is found to be unenforceable or unconstitutional, the remaining provisions shall remain in full force and effect.

13. Remedies. Each Party acknowledges that the other Party may not have an adequate remedy at law for money damages if each Party fails to fulfill any of its obligations under this Agreement. Accordingly, providing Party will be entitled to any injunction, specific performance or other remedy in law or equity (without being required to post a bond or other security), in respect of any breach or threatened breach of this Agreement. Receiving Party will indemnify providing Party from all damages, liabilities, costs and losses (including legal fees and expenses) suffered or incurred by providing Party and arising in respect of a breach or threatened breach of any term of this Agreement by receiving Party or any of its Representatives (even after any Representative ceases to be a Representative of receiving Party).

14. Amendments. Any amendment to this Agreement must be in writing and approved by Parties.

15. Governing Law. This Agreement shall be governed by the laws of Ontario and the laws of Canada applicable therein. The Parties irrevocably submit to the non-exclusive jurisdiction of the courts of Ontario.

16. Successors and Assigns. This Agreement shall be binding on all successors and permitted assigns of each of the Parties and shall inure to the benefit of the respective successors and permitted assigns of each Party. Nothing in this Agreement shall be deemed to create rights in or benefits for any third parties; however, no assignment, sale, or encumbrance of either Party's position with regard to this Agreement shall be made without the prior written approval of the other Party.

17. Nature of Relationship. This Agreement is not intended to create, and shall not be construed to create a relationship of partnership or joint venture between the Parties. This Agreement shall not constitute either Party as the legal representative or agent of the other, nor shall either Party have the right or authority to assume, create or incur any liability or obligation, express or implied, against, in the name of or on the behalf of the other Party.

18. Failure to Exercise Rights or Remedies. No failure to exercise and no delay in exercising, any right or remedy under this Agreement will be deemed to be a waiver of that right or remedy. No waiver of any breach of any term of this Agreement will be deemed to be a waiver of any subsequent breach of that term.

19. Notices. All notices with regard to this Agreement should be forwarded, if intended for Lakeland Power Distribution Ltd to:

Lakeland Power Distribution Ltd
Attention: Holly Chantler
5-45 Cairns Crescent
Huntsville, Ontario
P1H 2M2

Telephone: 888-282-7711
Fax: (705) 789-3110

If intended for Lakeland Holding Ltd, to:

Lakeland Holding Ltd.
Attention: Chris Litschko
President & CEO
5-45 Cairns Crescent
Huntsville, Ontario
P1H 2M2

Telephone: 888-282-7711
Fax: (705) 789-3110

18. Counterpart. This Agreement may be signed in counterpart, each of which when taken together shall constitute one and the same instrument.

19. Term of Agreement. The parties agree that the terms and conditions imposing an obligation to keep information confidential shall apply for five (5) years from the date the Parties agree to enter into this project, or decide that they shall not jointly pursue a Project, whichever is earlier.

20. Entire Agreement. This Agreement contains the entire agreement of the parties hereto with respect to its subject matter.

The parties have duly executed this Agreement.

Lakeland Power Distribution Ltd.

By: Holly Chantler

Name: HOLLY CHANTLER

Title: CUSTOMER ACCOUNT SUPERVISOR

I have authority to bind the Corporation.

Lakeland Holding Ltd.

By:

Name: Chris Litschko

Title: Chief Executive Officer

I have authority to bind the Corporation